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 Tuesday, September 1, 2015 at 10:00 a.m.

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 Al Krupski - District No. 1
George Nolan - Counsel to the Legislature
Jason Richberg - Chief Deputy Clerk
Robert Lipp - Director/Budget Review Office
Jill Moss - Budget Review Office
Bob Doering - Budget Review Office
Justin Littell - Aide to Legislator D'Amaro
Debbie Harris - Aide to Legislator Stern
Bill Shilling - Aide to Legislator Calarco
John Kennedy - Suffolk County Comptroller
Lou Necroto - Chief Deputy Comptroller
Brenda Sloan - Audit and Control
Rita Fraccalvieri - Assistant Director/Babylon Youth Project
All Other Interested Parties

Minutes Taken By:
Gabrielle Severs - Court Stenographer

Minutes Transcribed By:
Kim Castiglione - Legislative Secretary

(*The meeting was called to order at 10:13 a.m.*)

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

Salutation

Please be seated. Item two on the agenda is Correspondence. We did receive two e-mails, both from Joseph Pecorella. The first one is dated August 31, 2015, regarding the subject of Babylon Village Youth Project. That will be included in the record and all committee members should have a copy of that. A second e-mail was received for the committee's benefit, again, from Mr. Pecorella. That is dated August 31, 2015, regarding the Gerald Ryan Outreach, and that also will be included in our record for today.

The next section of the agenda calls for Public Comments. We did receive one card from Rita Fraccalvieri. However, I did have a discussion with her prior to commencing the meeting. They are going to come back at the next committee meeting and present with respect to the Babylon Youth Project, so we'll skip over that for now. Oh, did you want to come up? Please, by all means. I never discourage anyone from coming up and speaking. Good morning and welcome.

MS. FRACCALVIERI:
Good morning.

CHAIRMAN D'AMARO:
You'll have three minutes to address the committee. Please go ahead. Thank you.

MS. FRACCALVIERI:
I'm the Assistant Director of the Babylon Youth Project. My name is Rita Fraccalvieri. Our Director, Eric Price, is away on a business trip. He wasn't able to be here.

I just wanted to make note that we are aware that we had gone over the 20% of our administrative costs, and we are going to be working with the Comptroller's Office to try and redistribute some of our expenses and see if we can bring that down and become in compliance. We weren't aware of the 20% percent ruling at first. We are a very small youth center with a small budget, and it is really hard to keep all the costs down. We just want to make sure that it's aware that, you know, how much we really need our funding. Because of decrease in budget and increase in costs, we have actually had to start charging for some programming that in the past we provided for free because of this situation, and we just don't -- we're trying to keep our doors from closing and make sure we can provide services for all the kids in our Babylon Village. A lot of the kids need a place to go and we want to provide them with that. We really appreciate you working with us and giving us this time, and we're going to do all we can to work with everybody and try to resolve it and make everything the way it needs to be and make everyone happy.

CHAIRMAN D'AMARO:
Very good. What will happen procedurally is today the committee I believe will table the bill seeking an exemption from the 20% rule to give you and your organization an opportunity to go ahead and try and meet the threshold or at least get as close to it as you can. We've had many applications over the last two years seeking the exemption and we've found we've had a lot of success with organizations going back and working with the Comptroller's Office and trying to get the expenses to a position where we're close to that threshold.

MS. FRACCALVIERI:
We're more than happy to do that, do whatever we need to do. We had just been in touch with Legislator McCaffrey and he had suggested we come here this morning, but we're more than ready to do whatever we need to do.

CHAIRMAN D'AMARO:
Terrific. So good luck with that, and we'll see you back on the next committee meeting.

MS. FRACCALVIERI:
Okay. Thank you very much.

CHAIRMAN D'AMARO:
Thank you. Have a good day. I have no other cards for the Public Portion. To the Clerk, are there any other cards?

MR. RICHBERG:
No cards, Mr. Chair.

CHAIRMAN D'AMARO:
Thank you very much. Is there anyone present who would like to address the committee this morning? For the record, there is no further response. Moving on to the next section of the agenda, section four are Presentations. This morning we are joined by our Comptroller, John Kennedy. Welcome. And of course Dr. Lipp, Robert Lipp of the Budget review Office. And Dr. Lipp is going to present to us this morning the Joint Audit Committee Report for the first half of 2015. That report is dated June 29, 2015. Dr. Lipp, please go ahead.

MR. LIPP:
Thank you. So the Joint Audit Committee is made up of a Legislative representative, Director of BRO, that would be me; a County Executive representative; the Budget Director, Connie Corso, who is feverishly trying to put the budget together so that she couldn't make it; and the County Comptroller, elected official; and County Treasurer, the same. Barry Paul has an excused absence also. He's the current County Treasurer.

What's new about the Joint Audit Committee is last year a resolution was adopted to expand the workload that the Joint Audit Committee has, and the expansion basically requires us to meet quarterly to review the County fiscal condition and to discuss current or potential fiscal challenges and develop recommendations to meet those challenges. So that's really where our starting point is. Each year, on a rotating basis, each of the four members chair the Joint Audit Committee. This year it's me, so this is sort of our first foray into actually giving you the specifics of our meetings. Okay.

So what we're going to do here is we're going to talk about the, number one, the old stuff, which is what we've always been doing in the past, is to hire an independent certified public accountant, and the person that is spearheading that is under the Comptroller John Kennedy's shop. That's Frank Bayer, he's very good. He couldn't make it this week because, good for him, he's on vacation.

Anyhow, the RFP was advertised on August 20th and responses are due back on October 9th. Later in the year when we come and we discuss -- we'll be discussing this particular issue probably with our next meeting with you and internally ourselves. So that's a big thing that we're actually going to have to sift through different proposals and see who is -- who we choose as a certified public accountant to independently look at our books.

So the next two items are the body of work or questions we asked ourselves about our finances, number one, and then number two, we looked at, as the resolution requires us to, recommendations for corrective action. So we're going to talk about cash flow first. One thing to sort of note is with the cash flow the County Comptroller and the County Treasurer, the cash is their sort of domain or that's what they really need to keep their eyes on, whereas the Budget Director and the Director of Budget Review, Legislature and Executive, look more closely at the budget as opposed to cash. So we thought it would be a good idea to look at those differences between the two. You're faced with different resolutions, for instance, to borrow cash and it's always a bit of a puzzle as to how that relates to the budget. That being said, it's easier said than done to compare the two, so we really didn't have I'll say a full reconciliation of what the differences are, but you'll get to see what's going on.

In terms of cash flow, there are three tables to look at, for lack of a better term. The first one is -- I'm going to give you a little history lesson, if you will. So we have two kinds of cash flow. One is market borrowings, okay, for cash purposes, and that, as you could see up on the board hopefully, those are tax anticipation notes, revenue anticipation notes and delinquent tax anticipation notes. And if you notice up through 2007 I'll say, we were in and about the $300 million per year range in terms of borrowing for those three items. And then we -- starting in 2008 we started increasing our cash needs, and if you recall, that's what our finances started going south, because of the great recession. And over the last we'll say four years, we were close to the $600 million a year range in terms of borrowing. From my perspective, I always like to look at the history to see where we came from. The sort of semi-good news is, as you could see with the last two numbers on the bottom right, that the change in market borrowings has been down in the last two years. That is last year and expectation for this year. So we're still borrowing a lot, but we're moving somewhat in the right direction.

Okay. So that's an incomplete picture in terms of the cash. A more complete picture would also have the interfund borrowings. Not only do we go out to market to borrow, which was the previous table you saw, but we also borrow internally. And as you could see here, since 2009 we started borrowing some significant amounts here, and that being the column called principal, and the amounts that's we're borrowing more or less are about $250 million range per year. So we're borrowing a little less than 600 million in terms of market borrowings, TANs, RANS and DTANs, and we're borrowing in the neighborhood of 250 million per year in terms of interfund transfers.

The next question that would come to mind, or a question that would come to mind is well, can we actually continue to borrow in terms of interfund transfers internally, which is a cheaper way of doing things, and the answer is as of now, yes, because if you look at this next chart --

LEG. CILMI:
Mr. Chairman, if I could just interrupt for one moment to specifically ask about the previous chart. Robert, I'm looking at the interest charges at the end, you know, in the last column of that chart. Just if you look real quick at 2012 we had a principal of 225,000; 2013 a principal of 251,000; 2011 we had a principal of 259,000. But look at the interest rate -- not the rate, the interest expense in 2011. With a .4% interest rate we have $711,000 of interest and -- and the interest, although it's gone down, do those numbers make sense?

MR. LIPP:
Well, I did not or none of us looked at it in terms of saying did you get the best rates.

LEG. CILMI:
I'm not taking about the rates. Do the numbers make sense from a mathematical point of view.

MR. LIPP:
So what we have -- yes. What we have here is --

LEG. CILMI:
Okay.

MR. LIPP:
What we have here is we in Budget Review Office have been getting from the County Treasurer the letters, which I believe you get them also, that says okay, we borrowed such and such from the following fund, and then they send us letters saying okay, we paid it back. Maybe it was like for a month they borrowed the funds and this is what the interest was.

Okay. So then the next item in terms of the interfund borrowings is should we be worried or concerned -- let me see if I can make this a little bit larger. I'll try it one more. There we go. Okay. So the answer to that is as of now we have sufficient funds. We have 395 million at the end of 2014 that we're in the various interfunds that we -- the various funds that we're allowed to do the interfund borrowing for. Those are by and large 400 level funds, which are reserve funds. So for instance, for the County's General Fund, three of the items that are worth noting are Tax Stabilization Reserve Fund, 403; the ASRF, Assessment Stabilization Reserve Fund; and 405, which is Southwest Sewer District's own Assessment Stabilization Reserve Fund. We've been borrowing the General Fund basically. We've been borrowing internally, which we have to, by the way, pay back by the end of the year each year. So the amount of reserves in those funds are more than sufficient to handle the amount of borrowing that we're doing internally. That being said, we are borrowing at elevated levels so that, you know, we don't want to have to, but if we have to dip in it's not an issue.

Going down the road, looking into the future, some of the items that we have to notice, for instance, are Fund 404, it's the ASRF or Assessment Stabilization Reserve Fund, at the end of 2014 had $143 million in it, and now with all the borrowings and stuff it's down to, I believe, 92 million at the end of this year is the estimate. Alternatively, Southwest's Assessment Stabilization Reserve Fund shows here that we had a balance that we could borrow internally from of 77 million. That's up this year to 117 million I believe.

So what's the point here? The point here is that we have to be careful. Those are the two major funds that we're borrowing from and we need to be careful down the line that if we start drawing down those balances then it would be more difficult to meet interfund borrowings in the future, but as of now that shouldn't be a problem.

Okay. So now what we're looking at is those three tables give us an historical background and then we ask the question what's the relationship between cash and budget. Why do we need to borrow so much. And the main answers are the Suffolk County Tax Act and pension, which is that line item there. And the Suffolk County Tax Act basically is the County's General Fund makes all other taxing jurisdictions whole. So if you look at what the property tax actual amount is, say in the Police District or the sewers or whatever, they are going to receive 100 cents on the dollar for what they budget for for property taxes. If you look at the General Fund, that's not the case, because the General Fund has to make all other taxing jurisdictions whole. And not only County districts, but also non-County districts, in particular the big one, as we all know, is school taxes. So they receive 100 cents on a dollar there. Town taxes, town special district taxes, everyone get -- all funds get 100 cents on a dollar and the General Fund has to make up the difference.

The County receives from the towns the tax rolls at the beginning of June, so the first half of the year basically is we have zero property taxes coming in with the exception of some delinquencies, yet we have lots of money that we have to spend, so there's a normal timing issue between cash flow and what's budgeted revenue when it comes in, and in June receive in the neighborhood of $500 million when the towns, the ten towns, give us their tax rolls and then we start collecting. So there's a disconnect there between the budget and cash flow simply because we don't get those property taxes. We do get over a half a billion dollars, but not until June, so that's problematic. That's always been the case. The big problem, though, over time though has been the increase in the tax warrant over time. Now it's up to about $5.5 billion -- it's over $5 billion for all taxing jurisdictions. That's grown over the last several years from I believe 2008 til now, it's grown by about a billion dollars.

What's my point? My point is there's a certain level of tax delinquencies and there are good times and bad times, so that it will be higher or lower, but let's assume a fixed percentage tax delinquency. As the size of the warrant grows, then that dollar fixed amount percentage is just going to continually increase. So the General Fund is saddled with lesser cash and also budgeting less money. So that's an important consideration.

The other major problem with cash flow is pension, okay, and there are two issues there. The first issue is the timing. It used to be back through 2006 I'll say that we were paying the pension in December, towards the end of the year, so we didn't need a lot of money, or I should say cash, in order to pay the pension bill, which was like 105 million in 2007. And by the way, for this year it's 187 million. We didn't need that much money cash during the year because we were paying that bill at the end of the year, by December first. Then what happened is we were given the option by the State Retirement System to move from a payment schedule of December first, which is what they refer to as prepaying the pension, to letting it lag and not having to pay it in December but rather in February, February first. We took that option up in 2007 and basically in 2007 we had no pension bill because we were paying that bill in February.

So what's the problem there. The problem is, number one, we skipped a year in the budget, and number two, now we have this larger cash flow need because by February first we have to pay what was 105 million, I believe, back in the beginning of 2008, to now 187 million and going higher. So cash flow is compromised because that bill is being paid now in February instead of December. Those are the two biggest items associated with what's going with the pension bill.

There are other items in terms of looking at the major factors, differences between cash and budget, that I could speak to, but I'm afraid that might bore you to tears, so I will skip that unless you want to go over specifics there. So a little pregnant pause and we'll go on to the next portion. I'm willing to field questions at any time if you'd like.

CHAIRMAN D'AMARO:
Before you go on to the next section, Legislator Cilmi and then Legislator Trotta has questions. And also, before you go, I just want to welcome Legislator Krupski to the committee this meeting. I failed to do so. Thank you for being here.

LEG. KRUPSKI:
Thank you.

LEG. CILMI:
At the risk of interrupting your report, and I really don't want to do that, but I just have these quick questions as they come up.

MR. LIPP:
It gets boring if you don't ask me questions.

LEG. CILMI:
With respect specifically to the pension obligations, the recent slide in the market, is that going to have a negative effect or is that going to have the effect of increasing our pension obligation again either next year or further into the future?

MR. LIPP:
Okay. Well, the first thing to note is one month a stock market does not make.

LEG. CILMI:
Correct.

MR. LIPP:
So that's hard to figure out from that perspective. Another thing is that the --

LEG. CILMI:
But if the pension fund lost a tremendous amount of value as a result of the reductions in the stock market in general, then --

MR. LIPP:
Yeah, so --

LEG. CILMI:
Then it could make --

MR. LIPP:
So the -- if there's a downward trend, hypothetically, in the stock market, the way that works in terms of impacting our pension costs, is it affects what the State determines is the contribution rate, that is the percent of the salaries that we have to pay to the retirement system. That happens to be -- there's a five year average I'll say, moving average, that affects it. So if we had, hypothetically, a bad year this year, it would impact only 20% of what the number is. So we have some very strong years the last few years in the stock market that will wallpaper over any problem that could occur this year, and if those problems continue, then eventually down the road, no doubt, yes.

That being said, we only will observe at most a half of one percent decline, I believe, in the contribution rate over the next several years, assuming that the rates are going down, let's say, by arguably let's say two percent. We would only see a half of one percent decline because we have taken up on amortizing the pension, and the State's rule is we can do that then you only could take a half a percent cut into your contribution rate of reduction and your pension bill and the rest has to be reserved for paying back all that you've amortized.

LEG. CILMI:
Right.

MR. LIPP:
Okay. So that's that about that. Okay. So in terms of corrective action --

LEG. TROTTA:
I have a quick question.

MR. LIPP:
Sure.

LEG. TROTTA:
Again about the TAN, the RAN, the DTAN. Where in this does the sale of the Dennison Building and other one-shots that we had. Is that above and beyond this?

MR. LIPP:
I guess one way to look at it is it would be implicit in the numbers. If we didn't have the sale of the Dennison Building, which was on paper $70 million, in terms of actual revenue that the General Fund received, I believe it was like $60.3 million. The reason why there was almost a $10 million difference is because -- well, the main thing was we had to pay off, or put in a sinking fund I should say, a fair amount of money. I'm not sure of the exact amount, maybe seven of the ten million, for paying off debt service on the sale leaseback agreement, because now it's not considered County debt so we have to pay that off.

That being said, clearly if we didn't have that one-shot, as you put it, revenue, although there are, you know, a few one-shots every year, then that would compromise further the budget and further compromise cash flow. That being said, if we didn't do the sale leaseback agreement we would have presumably had to do something else to balance the budget and that would be speculative as to what that something else is.

LEG. TROTTA:
So those numbers aren't in these, in the RAN, TAN, what we borrowed and whatever --

MR. LIPP:
No, no, no. Not at all. This is for cash flow purposes. The sale leaseback actually was money for the budget itself.

LEG. TROTTA:
Okay, but it's not shown in the increased debt, in the amount we borrowed, because we borrowed that money essentially.

MR. LIPP:
Well, what would have happened is our cash flow needs were improved when we issued the sale leaseback bond by that amount of money, by $60 million, and therefor the cash flow that you see there arguably would have been a higher amount of borrowing. It's exactly hard to say because we would have had to presumably do something else if we didn't do that.

COMPTROLLER KENNEDY:
Legislator Trotta, let me just add to what Dr. Lipp has spoken about. The sale leaseback is reflected each time we go out and we do any representation and we go back into the bond market again, just as we're going to do at the end of this month for the DTAN and our fall construction borrowing. It is a liability that we must go ahead and list and is disclosed in our offering statement. But to Dr. Lipp's point, it is not reflected in the typical recurring borrowings that you just referenced, similar to when we borrowed for the Cohalan Court Complex or construction associated with the Duck's Stadium, things along those lines. It was a one-time specific transaction. It's represented as a liability, and it is an obligation that's captured in our debt service payments on an annual basis, but it does not show up in that schedule of TAN, RAN, and DTAN.

LEG. TROTTA:
So the difference basically is with the Duck Stadium the money went to the Duck Stadium, for the Cohalan Court Complex it went there.

COMPTROLLER KENNEDY:
Pretty much.

LEG. TROTTA:
But for the sale of the Dennison Building, it just went into the General Fund.

COMPTROLLER KENNEDY:
It was, yes, it was taken in as a revenue into the General Fund.

MR. LIPP:
Okay. So the next two items, and that's it, you know, so you don't have to listen too much more, but we'll see how that works, are corrective actions, and we broke it down into two things. Number one, things that we've recently done already or not, you know, and things that we think can be done moving forward.

So the first item here in terms of corrective action that we've already made, we being the County, are for instance we're moving to the Federal Qualified Health Center Model with our health centers, and depending upon who you listen to, and I'll listen to what the analysis that was mainly done by Craig Freas in our office, it's in the neighborhood of five million a year we're saving, net. So that's a plus.

Next there are salary savings. We did several actions, I believe, since 2012, including layoffs, which I think amounted to like 450 layoffs. On top of that, there were early retirement incentives and attrition by not backfilling the high percentage of our workforce, and I believe we're down about 1100 employees from 2012, roughly speaking. So don't get me wrong here. That's not meant to be -- it's not meant to say that this is a good thing that we're down 1100 staff, because there are some areas of shortage. It's meant to be a good thing in the limited sense of our finances or expenditures would have been all the more higher if we didn't take those actions.

The Traffic Violations Bureau is another --

CHAIRMAN D'AMARO:
Excuse me, Rob. Did you put a number on that? A savings number?

MR. LIPP:
No, we didn't put a savings number on that.

COMPTROLLER KENNEDY:
Excuse me, just one second, Mr. Chair.

MR. LIPP:
This is called a sidebar, by the way. So we didn't actually put a number on it, but as Comptroller Kennedy, I almost said Legislator, as Comptroller Kennedy informed me, we did have a conversation about that and it's, you know, we would have to do some analysis for no other reason than the salary numbers are still going up, and that's because of salary increases. So we could do a calculation, we didn't do it for the Joint Audit Committee Report though, to date, but if you'd like a number on that I can get back to you.

CHAIRMAN D'AMARO:
Okay. Thank you.

MR. LIPP:
Sure. Okay. The next item is the Traffic Violations Bureau. We, let's see, where am I. Okay. Yes. So we receive recurring revenue of 23 million in 2013, and 37 million in 2014, from opening up the Bureau, and this includes the red light camera revenue as well as traffic tickets and those sorts of things. Remember that in this year's budget for the first time the Traffic Violations Bureau,

I'll say net surplus is now going to the Police District starting this year as opposed to it was going to the General Fund prior to that.

LEG. CILMI:
Mr. Chairman, just a technical question. I see you're referring to it as Traffic Violations Bureau. Did we somehow drop the Traffic and Parking Violations Agency moniker or?

MR. LIPP:
No, when I put my notes together here I was thinking of the three digit mnemonic for the department name.

LEG. CILMI:
I just wanted to make sure that we didn't change the name.

MR. LIPP:
Right. Like Health Services Department is referred to as HSV, the Traffic and Parking Violations Bureau is referred to as TVB.

CHAIRMAN D'AMARO:
Okay. Let's move on.

MR. LIPP:
Okay. Lag payroll. That's something that the County Executive at his discretion has the authority to enact through the end of 2016, which coincides with the end of the current AME contract. If we were to, well, if the County Executive were to, and I'm not saying that he will or not invoke that, it would be for a two week pay period, and depending on upon what numbers, it's a moving target, the number that we use in the Joint Audit Committee Report is about $10 million net. So why is it an action already taken even though we haven't done it yet, the answer is because that was already written into the most recent AME contract, which was a few years ago.

Health insurance incentives. There were a few of those. So as of the beginning of 2013 there's a requirement for new employees to contribute 15% towards health insurance, so that's basically we get some revenue, for lack of a better term, in the budget. And as the current existing employees leave and they're backfilled with new employees, then there will be more and more employees will be paying 15%.

Next is EGWP. I love the acronym. It just stands for Employee Group Waiver Plan, and that has to do with Medicare eligible, that is Medicare for the elderly as opposed to Medicaid, aid for the poor is the way I think of it. So what we are doing is we're transitioning Medicare eligible retirees to Medicare Part D, which is the prescription coverage. There was no incentive for them to do it. Now what we're saying is saying look, we'll pay your premium for Medicare Part D so that we can get out from under, we the County, having to be primary on your prescriptions. That saves money.

Next is health care cost savings. So there was a negotiated agreement between the I believe ten labor unions and the County to save from the Employee Medical Health Plan, we're self-insured, 17 million a year, first year being 2013. This year there's a look back at 2013 and 2014 to see if that 17 million actually materialized per year. Obviously 17 times two is 34 million. I feel a little bit uncomfortable talking about that because my understanding from secondhand information is there was a meeting and a presentation I believe by the EMHP's consultant, which is Lockton, to inform the I guess Labor Relations/County Executive and the unions what their findings were in terms of whether or not we met those savings, and what they would have to do in terms of moving forward to meet that if they haven't. So I don't know where that stands. My understanding is it's a Labor Relations negotiation that we at the Legislature would not be part of.

CHAIRMAN D'AMARO:
Let's just talk about that for a moment. For two years, 2013 and 2014, our budget included anticipated revenue in the form of reduced, or as a supplement to our health plan, 17 million in each year. Is that correct?

MR. LIPP:
I'm not sure.

CHAIRMAN D'AMARO:
How did the budget address that issue?

MR. LIPP:
The budget basically -- what we in-house looked at seemed like they didn't have -- it didn't materialize.

CHAIRMAN D'AMARO:
No, no, but what I'm saying is so that requirement came from the collective bargaining agreements --

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
-- negotiated and approved by the County. So part of that collective bargaining agreement was that there was going to be a $17 million cost savings in the health plan for the County.

MR. LIPP:
Correct.

LEG. D'AMARO:
And it was incumbent upon the signatories to that agreement, namely the union, to have -- to make those savings materialize.

MR. LIPP:
Yes. And the way we went about it, we the County, my understanding was basically we took what I guess was referred to as like the low hanging fruit, maybe that's not the right term, but what was done was to require mail order for maintenance drugs and it was thought that that would be able to bring in sufficient funds.

CHAIRMAN D'AMARO:
Right. So I understand that then there were various initiatives undertaken to try and make up to that $17 million savings, but my question is when we enacted the budget in 2013 and again in 2014, did those respective budgets anticipate that savings or revenue.

MR. LIPP:
Yes, I understand your question and it's an excellent question. I don't think that the savings were anticipated completely in the budget, and I think it was sort of common knowledge that 2013 wasn't working out too good. We had fits and starts, we had trouble, we as the County, enacting those requirements. So it's not clear to me -- see, part of the problem is, you know, you've got normal growth in prescription drugs as well as other parts of the Employee Mental Health Plan, and you don't know to what extent that the expenditures would have been even more if not for the 17 or not.

CHAIRMAN D'AMARO:
Right. How do you measure the savings.

MR. LIPP:
Right.

CHAIRMAN D'AMARO:
Let me ask you this then. In your opinion -- or do you know if those savings materialized.

MR. LIPP:
I don't know because -- we did some internal calculations, but there are different ways to interpret --

CHAIRMAN D'AMARO:
Is there anyone who's responsible for making that happen that's claiming that the savings were achieved?

MR. LIPP:
I don't know what the result of the presentation that I think was provided at a subcommittee maybe a week or so ago.

CHAIRMAN D'AMARO:
Is there any requirement that this issue be brought back to the Legislature in any form?

MR. LIPP:
Not to my knowledge, other than you would want to be proactive and have Labor Relations or the head of EMHP perhaps preferably to do a presentation on it.

CHAIRMAN D'AMARO:
And then my last question is --

MR. LIPP:
That should be just, if you don't mind one last point. That should be implicit in the recommended budget that will come out the third Friday of September.

CHAIRMAN D'AMARO:
Right, I agree. We'll look at how that's addressed in the budget submitted by the County Executive. My last question is under the bargaining agreement, the collective bargaining agreement, what are the ramifications of failure to meet the $17 million per year savings?

MR. LIPP:
That's another excellent question.

LEG. TROTTA:
I have the answer to that one.

CHAIRMAN D'AMARO:
Okay. Just before I get to you, Legislator Trotta, do you know the answer to that question?

MR. LIPP:
I could give you my view, but I don't know if it will prove to be accurate.

CHAIRMAN D'AMARO:
Well, what's your view?

MR. LIPP:
My view is they will wind up observing that we didn't have 17 million times two years, or 34 million, in actual savings. And I don't know how large a loss there, I'll call it, is. Lockton was responsible for making the calculation, that is our consultant for the Employee Medical Health Plan. But I believe that what will be determined is that moving forward the savings will exceed the 17 million and that perhaps a negotiated settlement will be made that those savings will have to be made up over the next few years. If that was true we wouldn't really see much relief in 2016, in the 2016 budget, but that's my unsubstantiated view. We have to wait until the recommended budget is presented to us and whether or not either Labor Relations, County Executive, Budget Office or EMHP is willing to speak to that, because I've not heard yet what their findings were.

CHAIRMAN D'AMARO:
Legislator Trotta, did you want to add something?

LEG. TROTTA:
I read the -- it's subject to arbitration. It goes to an arbitrator.

CHAIRMAN D'AMARO:
Right.

LEG. TROTTA:
Which could take years.

CHAIRMAN D'AMARO.
Well, it seems to me just basic contract law says if there's an obligation on a party under a contract and it is not met, then there's a dispute with respect to that, so arbitration would make sense if they contest the fact that it's not met, but we haven't yet determined whether or not it's even been met.

MR. LIPP:
My understanding is, and I could be wrong, that they'll negotiate, and maybe they have already, and they'll make a determination without having to go to arbitration.

CHAIRMAN D'AMARO:
Right. That's fine. Legislator Cilmi, go ahead.

LEG. CILMI:
The $17 million of committed savings, was that in perpetuity or for the length of the contracts or?

MR. LIPP:
So it's an annual amount, so basically if you have like an expenditure curve it would drop by 17 million and stay at that level into perpetuity, for lack of a better term. So every year that, even if it's let's say 10% growth, that 17 million let's say adds another 1%, that's not an actual number, it's an estimate --

LEG. CILMI:
Right, right, right. So if we account for a $17 million savings in one year and then we book that savings, then the subsequent year's budget should not be reduced by an additional $17 million. It would be flat with respect to that particular item; correct?

MR. LIPP:
Yeah, there will always be that number, that 17 less, every year. Just the growth rate will stay the same, just the curve, expenditure curve --

LEG. CILMI:
Right, but it's 17 less from one starting point, not from a moving target.

MR. LIPP:
Correct.

LEG. CILMI:
Right. And so going forward, if there's some sort of an agreement with respect to, you know, savings that were supposed to inure to the County in '13 and '14 which didn't happen, the agreement would presumably have to take into account the fact that, you know, that savings was deficient and therefore owed to the County plus going forward savings needs to continue to occur.

MR. LIPP:
Correct, and there's another piece to the settlement also, I mean, the agreement, between the unions and the County. The other piece is the 17 million, number one, is for drugs, okay, which is only a portion of the overall cost of our medical plan, Employee Medical Health Plan, and the remainder of it is -- they look at it then globally, all costs, and they look at how much it's grown and implicit in that is drugs as well as hospitalization blah, blah, blah and --

LEG. CILMI:
There's a cap of some sort.

MR. LIPP:
Well, what happens is we'll observe the growth rate in expenditures and we will see whether or not that growth rate is above or below the Kaiser medical health inflation rate, and it's not clear what that will be, so there will be a difference which could make the need for corrective actions lesser or more depending upon what the difference is.

LEG. CILMI:
Right, right. So if the Kaiser factor is less than normal or less than it has been, then that could put additional pressure on the parties that are, you know, in this agreement to reduce costs even further.

MR. LIPP:
Correct.

LEG. CILMI:
Right. One last question. Your EGWP up there, was that something that was a negotiated agreement with the unions or were we just able to do that.

MR. LIPP:
I'm not sure.

LEG. CILMI:
Okay.

COMPTROLLER KENNEDY:
Legislator Cilmi, let me just add. Dr. Lipp, I think, has answered the questions, you know, excellently as he always does, but I will also share with you now for the very first time we've had,

myself and my Chief Deputy, have had some window into what goes on with the EMHP process, because the Comptroller has a seat on the EMHP Board. We are nonvoting. We, in essence, basically are observers. One of the things actually we will do is invite Lockton to come in to share with us as well. We are not part of the collective bargaining process. Much of what I think you're talking about with Dr. Lipp actually gets down to what the nine union presidents or heads will agree that they'll have as the bundle of benefits for the membership, be it co-pays, be it increases in durable medical goods, be it reimbursements for chiropractic care, be it the whole range of what's been spoken about. The prescription drug benefit is one piece there.

I'll just throw out for the committee one other element that the both of us have been involved with, actually since February, is the oncoming additional responsibility for the County with the Affordable Care Act and the very real prospect that we could become subject to Cadillac Tax. We actually have somebody working with us right now in that for 2016 we will have the reporting requirement that's incumbent on all employers of over 50 employees; it's the 1095-C's. We are working through that process right now. That will have impacts associated with how our workforce is characterized, especially those employees who are less than full-time employees with us. We've always been governed by the IRS standards, but lo and behold now we have another metric to meet associated with the Affordable Care Act. So not that it wasn't a cloudy picture before, but it's going to get even murkier going forward as we, you know, try to juggle the health care benefit package.

CHAIRMAN D'AMARO:
Just more good news. Thank you.

COMPTROLLER KENNEDY:
Well, there you go.

CHAIRMAN D'AMARO:
Thank you, Comptroller. We appreciate that. It's now 11:00. I'd like to just move this along so we can get to our agenda. So, Dr. Lipp, if you would continue with your presentation and keep in mind that we'd like to get this concluded as soon as possible.

MR. LIPP:
Okay. The next one would be property taxes, which are -- if we increase them it's a recurring revenue. Over the last few years Police District taxes has been increased by about an average of $12 million. The one I'll say negative there that you should be aware of is because of the decline in the rate of inflation, I believe that the two percent cap on property taxes will allow us to raise the property tax in the Police District not by 12 million, but about seven million and change.

CHAIRMAN D'AMARO:
Legislator Stern.

LEG. STERN:
Thank you, Mr. Chairman. Then how do you view -- is it viewed as an offset, as a negative, as a positive, with TVB money now coming out of being directed to the General Fund and over to the Police District.

MR. LIPP:
Okay. Just to make sure I understand, how do I view or how does Budget Review Office view the budgetary move to bring the extra revenue from the Traffic Violations Bureau over --

LEG. STERN:
In other words, to follow up on your comment, there's less money, less revenue, that's going to go to the Police District from Police District, but there's additional money that was going to General

Fund, which is now going to go to the TVB money to the Police District.

MR. LIPP:
I would say short-term it really doesn't matter. The money is fungible at the end of the day. The safety valve there in the budget is the sales tax. The sales tax is I want to say like 69 million, I'm not quite sure this year, but we could do as much as -- close to 120 million, I'll say 117 million if we wanted to, in terms of the maximum sales tax -- yeah sales tax, that could go to the Police District. So (A), there's wiggle room there. The money could be increased or decreased to the Police District from the General Fund, so even though there's this other source, the money is sort of fungible between the General Fund and the Police District, at least for a while.

Next, out of County tuition. If you remember a few years ago, I believe it was in 2012 if my memory serves me correct, we started to charge back the towns. So it's over $13 million is the bill, and instead of us paying it now we put it under tax warrant, the towns pay it, so that's corrective action in terms of the County's finances, not in terms of the towns, though.

The Park Police initiative allowed the County to have a reduced sized class I'll say, so it saved some money there. And then there were recent consolidations that I'll not speak too much about if -- unless you ask me questions. That's it for that.

There is one other piece, then, to the puzzle, before I finish recommended corrective actions. This was in the report that we were requesting the State Comptroller to allow payment of County's pension bill not just once a year at the beginning of February, but on a quarterly basis. Comptroller Kennedy had spoken to the State Comptroller and asked him about this and requested it, and it didn't meet with a good reception. Would you like to elaborate?

COMPTROLLER KENNEDY:
It was pretty simple. We, Dr. Lipp, you know, identified -- I was amazed when I saw that in February we, the County, was writing a check for 186 million to the State to the pension fund, at a time when we literally are very much cash starved. So logic would say that, you know, it's a finite amount. We asked for the ability to go ahead and go quarterly or even biannually, and the response was simply just that it was not within the authority of the State Comptroller to be able to offer that incremental accommodation without having to incur a substantial amount of interest associated with it, somewhere in the neighborhood of 7 or 7 1/2%. So the response I would get there is perhaps we can inquire maybe in '16 there'll be an opportunity. We could go to the State Legislature and ask for the accommodation in part of the, you know, County's Legislative request or Legislative package. But as a stands right now, they lack the authority.

LEG. CILMI:
Mr. Chairman, quickly? Did you ask the Comptroller if it would be possible for us to pay the full amount but change the recurring date deadline at which we have to pay. So in other words, if we're less cash starved in, you know, October, maybe we can pay the bill on an annualized basis then in October.

COMPTROLLER KENNEDY:
I can hand you up a copy of my correspondence, Legislator Cilmi, from May 28th, but it was very simple in that I simply asked for the ability to go ahead and allow for incremental payments mindful of the cash flow restrictions associated with Suffolk County Tax Act, and I sought either biannual or quarterly ability. Nothing about trying to slide the annual date for payment but --

LEG. CILMI:
That might be an option. You know, if I know the credit card companies now give individuals the opportunity to change the time of the month that they pay their credit card bill based on, you know,

the times of the month that they have to pay other bills, and sometimes it's beneficial from a cash flow point of view to do that, it sounds like since the County is cash starved at the beginning of the year because of the Suffolk County Tax Act, if we could push back the payment to, you know, closer to the end of the year or after the spring, maybe after the second half of our taxes come in, maybe at that point it's easier for us to pay and better for our cash flow.

COMPTROLLER KENNEDY:
As it stands now, we would get charged 7 1/2% on whatever we would go beyond February first. But I'll be happy to follow up with another inquiry from them and I'll share a copy of this correspondence with you.

MR. LIPP:
Okay. So I did leave one item out, and that's consider ways to improve revenue collections. The County Comptroller, who is sitting to my right, would like to institute the Sales Tax Enforcement Unit that we had many years ago. I believe for a year or two we got a grant from the State to do that, and that dried up so we hadn't done it since perhaps the mid-90's. I'm not sure exactly when. I think we did it for maybe two years. Do you have anything to say on that or no? You always have something to say, right?

COMPTROLLER KENNEDY:
We had spoken about this earlier in the year. It's a theme that I brought up to a couple of visits up in Albany. We'll look to revisit it again in '16. It's a conundrum that we all look at and face. Flat sales tax, underperforming sales tax, and yet if any of us have had the opportunity to be out on the East End, we see that restaurants are mobbed. We see that there's folks out there, that there's consumers all over the place. Back to school, if you listen to News 12 today, they're talking about Staples and everyplace else with long lines of folks with purchase.

My sense is that we need to at a local level here be able to do more as far as ascertaining what's going on, particularly in the subsets of consumption that Taxation and Finance tracks. It's broken into 22 subcategories. One of the multiple advantages with the merge that we do in January is that the County Treasurer is the one that routinely receives that sales tax report, and it comes -- what is it, monthly or quarter from Taxation and Finance, that indicates what the activity is in all of the various areas.

So we will be looking to try to again establish that collaboration and partnership with State Taxation and Finance to work on pre-audit activities giving Taxation and Finance likely candidates. And actually it was a five year pilot that went through 2003 in which in the last year we were credited with 2.3 million in additional sales tax collected as a result of the pre-audit activities that had been done by the Comptroller's Office.

Just anecdotally I will share with you that hotel/motel is going up as we speak. We have commenced vigorous enforcement. Just yesterday we sent out an enforcement agreement to a facility down on Fire Island. We have established compliance with a facility out on Fishers Island. We're in collaboration with Southold Town and actually have identified ten B and B's that were not remitting or complying. We're in collaboration with Bellport, the Village of Bellport, as they amend their code regarding routine stays. So I am a strong believer in enforcement and the fact that I think there's an opportunity for us to be a bigger presence out there.

MR. LIPP:
Okay. Another improved revenue collection idea, this one was actually by Barry Paul, who couldn't make it, he's the Acting Treasurer, that we should require monthly or quarterly reports perhaps from department heads on their revenue collections. The problem is departments naturally are interested in, you know, monitoring their expenditures and doing whatever they do, the

expenditures are what counts. They don't seem to be too concerned with revenue, and I know as a rule the County is very good at figuring out what the expenditures are, but not too good at figuring out what the revenue is.

So to use some of the language that Barry had mentioned, if you were a private business you really need to look at your receivables. If you don't, you know, that's totally unacceptable. We should be doing the same thing here. Look to see if we're on track with revenues or not, look to see what sort of corrective actions we can take remains to be seen, what sort of money that might result in, but we need to reinvent ourselves and this would be a way.

The last improving revenue collection item is repealing the Suffolk County Tax Act. I don't know what that would take exactly to do. I know that it would make the lower levels of government very sad with us if we did do that, but as you can see from the dialogue that we had earlier, that creates a cash flow problem, the Suffolk County Tax Act, and it increases as the tax warrant increases too.

Next, eliminate the County's mandated and discretionary cap laws. It's very difficult to manage the budget with the cap laws because you have to be careful moving money from one item to the next, because you're not allowed to move mandated dollars to the discretionary side of the budget, and it creates all sorts of problems in managing the budget, number one. Number two, it forces us to look at the budget in a way that really does not help us do anything, and given today's world where it is now with two percent State tax cap, there's probably -- it's superfluous our caps. We should, to make more transparent presentation, get rid of the caps.

Next is address the issue of underperforming sales tax revenue. Well, not sure exactly how we would do that other than to have some sort of an in-depth analysis, because what we observed is a reduction in expected sales tax last year and it continues to be that way, beyond what the numbers seem to look like. I will say that some data on mortgage tax revenue, that being an indicator for what's going on in the real estate market, Joe Muncey from my office looked at those numbers just yesterday, and we observed that after a couple of years of going up, the real estate marking would be improving then, we observed last year the real estate market was in a decline based upon mortgage revenues received that --

CHAIRMAN D'AMARO:
The bottom was so low there it could only go up at that point. The rate of growth is going to level off given the economy and --

MR. LIPP:
Well --

CHAIRMAN D'AMARO:
Let me ask you this. The sales tax is obviously a large factor in all of this. You have there address the issue of underperforming sales tax. Well, I think we do that on a minute by minute basis here in the County. But how much of the decrease do you think is attributable to the decline in gasoline prices?

MR. LIPP:
There is some decrease related to that.

CHAIRMAN D'AMARO:
Is consumption maybe going up as the prices are declining?

MR. LIPP:
Here's the problem. I haven't really looked at it --

CHAIRMAN D'AMARO:
Do we break that down by sector?

MR. LIPP:
I'm sorry?

CHAIRMAN D'AMARO:
Do we break the sales tax revenue down by sector?

MR. LIPP:
Okay. So there is an analysis that the State does on taxable sales, as opposed to sales tax revenue, and they break that down by sector. The major sector, I'll say, we don't see, the Treasurer can see it, though, the detail. But the problem with that is it's about a year and a half old, number one. And number two, if look at actual motor fuel sales tax revenue, one of the problems that we have is the State reports it quarterly to us, but only for the prepaid portion. So it looked like to us back in October I'll say when we're doing the analysis, that it was going up, sales tax revenue from motor fuels, and that didn't make any sense. But then when we had it figured out, that it was only the prepaid portion and the prepaid portion they actually increased the number of cents or dollars per gallon that manufacturers had to prepay, so it looked like it was increasing.

CHAIRMAN D'AMARO:
That's an artificial increase.

MR. LIPP:
Right. The point I'm trying to make here, though, is that we're trying to now to get the total amount of sales tax for motor fuels because the State is giving us a number that just doesn't work, and we didn't know that a while back. Now we do, so it's like you've got to give us the data. We don't have that real time data, unfortunately.

CHAIRMAN D'AMARO:
You know, we do read headlines about declining sales tax revenue. I certainly get the reports on a weekly basis from your office and we look at them and we see a declining, which as the Comptroller points out -- you know, the economy is very difficult, consumer dollars are probably very tight, but it's just shocking to see the sales tax decreasing the way it is. It's hard for me to understand -- I want to understand why that is, but I think in order for us to do so we'd have to start with looking at different sectors of the economy and figure out what is being impacted and why. We put a lot of effort in this County into economic development, and we get the sales tax reports and we don't see much improvement. Now, that's not our fault, you know, this is part of a global economy and we're intertwined with all of that and we're doing what we can. But I think, Rob, I think we need a much more informed analysis than just, you know, a weekly or monthly report telling us it's going up or down. I think we need to really start to focus on what sectors and what areas in the economy are being impacted the most and how come. You know, we need to understand this before we go ahead and try and address it on a local level.

MR. LIPP:
Right. One of the dilemmas we have is that the sales tax is highly volatile based upon economic conditions, and we rely more heavily on it. It was adopted at 1.383 billion this year, so we are very reliant on sales tax and we don't seem to have a good handle right at this moment.

CHAIRMAN D'AMARO:
Yeah, and we've had discussions about it, you know, previously in this committee and certainly during our Legislative meetings. As the Comptroller points out, I think enforcement is a part of that issue as well.

COMPTROLLER KENNEDY:
No doubt, Mr. Chair, and I'll just share one other element with you and I'll be somewhat circumspect in my comments here. One of the first things that I focused on when I took office in January was an ability to look for external confirmations, particularly again in the hospitality area and the hotel/motel. And so interestingly one of the 22 subsets of categories for collection with State tax sales tax is hospitality, lodging. So through some diligent effort on the part of my staff and quite an extensive amount of back and forth, we were able to execute a Memorandum of Understanding with State Taxation and Finance that now allows my office to receive biannually a data dump, if you will, of those entities that are remitting sales tax. It is completely confidential. We had to affirm that we would not release, utilize, divulge or publicize in any, way, shape or form, but nevertheless, it's an outstanding opportunity to take our registration category, if you will, of lodging entities and then bang it against what we have as far as sales tax remitters.

CHAIRMAN D'AMARO:
Sure. That's a good way to identify.

COMPTROLLER KENNEDY:
Absolutely. We utilize the Health Department. We work with the towns, as a matter of fact, where we have town and village lodging registration, so we're always looking for external confirmations. And towards your point I'm eager and hopeful once we get in that position come January, with the Treasurer's designation as well, that we're going to get an opportunity to kind of enhance or perfect some of that information sharing with State Taxation and Finance. Now as Dr. Lipp says, it's somewhat troubling that we're looking at data that's 18 months old.

CHAIRMAN D'AMARO:
Yeah, it's just worthless.

COMPTROLLER KENNEDY:
Absolutely. You know, the world's changed 100 times over.

CHAIRMAN D'AMARO:
You send out a weekly report on sales tax revenue, we're looking at data that's 18 months old or more is just not helpful. You know, it would seem to me that accompanying those reports should be, again, by sector, you know, automobile sales, food, consumer consumption, gas tax or fuel. There should be all of these subcategories and those should be monitored and we should start to get an idea of what sectors of the economy are underperforming and why.

COMPTROLLER KENNEDY:
When you're out there talking to businesses, as we all always are, interestingly when you talk to independent gasoline retail operators, as you know, they are remitting sales tax electronically before the tanker actually drops. And because of the conundrum, again, or the steep decline with the price, that's where you're seeing the reverse remittance. They were set at what a price would be for 8,000, 7,000 gallons of fuel product, and yet as the price has changed over the course of time, we're actually in a position where Taxation and Finance is wiring money back.

CHAIRMAN D'AMARO:
Right. I believe that, because they prepaid.

COMPTROLLER KENNEDY:
Yes. But -- so if that data can be captured real time to Taxation and Finance, why then aren't we able to go ahead and see it a month, 14 days, you know, give us a little bit of time, but we should be able to get it pretty contemporaneous.

CHAIRMAN D'AMARO:
The other thing I wonder is all sales tax when it's collected initially goes up to the State as revenue.

COMPTROLLER KENNEDY:
Yes.

CHAIRMAN D'AMARO:
And then it's sent back to the County and, you know, we open up the mail one day or every quarter and we get a check. Well, how do we know that check is accurate? Is that something that your office would follow up on? I mean, how do we know what's happening up in Albany, because lots of things happen up in Albany that people question these days.

COMPTROLLER KENNEDY:
Right. So like you, I've had the benefit of relying upon Dr. Lipp for ten years being the inherent Suffolk County expert on sales tax, and he could give us a tutelage for about another hour about the way it comes in quarters, the incremental adjustments, the last check that trues up for inadvertent remittances. So far my office does not do independent verification and we simply characterize it as a revenue. Again, as we move into '16, there may be a little bit more independent verification.

CHAIRMAN D'AMARO:
I just don't see how you could because, I mean, you don't collect the data. We rely completely on Albany to tell us what the collection is, what our allocate share of that.

COMPTROLLER KENNEDY:
Absolutely.

CHAIRMAN D'AMARO:
They I would assume do the end of year reconciliation. I mean, it's all dependent upon what's happening up in Albany. No that I have any information that we're not getting what we should be getting, but let's just say that it doesn't hurt to have someone explain to us and insure that the County is not getting shortchanged in any way. Not that I know that we are, but I would want to check that as well, because these numbers that are coming out with respect to sales tax are just inexplicable. I don't understand -- at least I feel that there's not enough information available to us to at least understand what areas we're having a problem with and then we can divert our local resources and economic development dollars in those directions. Legislator Stern. And I'm sorry, Legislator Cilmi had a question first.

LEG. STERN:
Quick question on that to follow up your comment, Mr. Chairman, and I bring it up because it's a comment here in the report, and that is the impact of internet sales. So I'm wondering if there has been an analysis as to what the real impact is on our finances due to, you know --

COMPTROLLER KENNEDY:
I know that there's been discussion, Legislator Stern, probably over the last three to four years. Each session, I believe, that there's a bill that's introduced up in Albany, you know, on the Senate and Assembly side. I know that there has been discussion, extensive discussion, down in Washington. To date I don't think there's been any kind of legislation that's been adopted that actually addresses the internet function. The percentage of the market, again, I'll go to the Chairman's comments. My own opinion is we are at somewhat of a disadvantage as we begin to try to capture, quantify or identify it, because again, you're now asking a particular merchant. If I'm in the business of selling widgets and 100% of my widgets were all, you know, wall in retail subject to tax, and now over 24 or 36 months 20% of my widgets are going mail order through Fed Ex, I don't necessarily divulge that, you know, to a great extent. But nevertheless we collectively bear a

significant burden with that because we're now down 20%.

And by the way, as you know, what happens is that sales tax caption now becomes state by state based, so if it's a transaction that we have with a California supplier who has no sales tax in, you know, their local domain, we can pretty much the consumption. Had we done it locally, it would have been subject to the 8.625. So, yes, it is a very real phenomena.

CHAIRMAN D'AMARO:
Yeah. I'll defer to -- I'm sorry, were you finished? I recently had a conversation with someone in my district who owns a shopping center, and had owned the shopping center for many years. He informed me recently, like a week ago when I ran into him, he told me that they're selling the shopping center. I said that's a shame, since I was a little kid I remember you and your family, your father before you owned this. And he looked at me and he said I have no choice. He said we can't even fill the stores anymore and it's a great location, but we cannot fill the stores and get the rents to keep up with the cost because internet sales are just killing us. And then I think about, you know, so that's the impact on the brick and mortar stores where you -- I think traditionally we do get more sales tax from that. You shift those sales over the internet, Legislator Stern makes a great point. I can't imagine or quantify what we're losing, but I'm sure it's an enormous amount of revenue that the County loses because of that. Legislator Cilmi.

LEG. CILMI:
Sure, and add to that any number of industries that have changed as a result of technology advances. I used to be in the printing business and the printing business, at least from a local perspective, has all but dried up as a result of a variety of different factors, not the least of which is internet based companies that do business, but also as a result of the economy, as a result of the fact that we have, you know, e-mail now as opposed to people sending letters all the time and so there's any number of factors. But I was wondering, you know, one of the things that has concerned me for a long time is the fact that we have an organization like an IDA, for example, giving out tax breaks to companies that threaten to leave or that want to come here. And as part of that menu of tax break options that folks can ask for, that applicants can ask for and that the IDA can grant, is sales tax breaks on, you know, goods and services that they purchase to do whatever it is they're going to do. So I'm wondering if you -- I don't suspect that that's a significant drain on our sales tax revenue, but I know that the IDA has been more aggressive in recent years than they had been in previous years with the inducements that they offer. So that may be something that you want to take a look at if you haven't already.

COMPTROLLER KENNEDY:
I know that the State Comptroller recently came out with a report about the operations of IDA's throughout the state. I know that the Legislature, I believe, in this last session did do some adoption compelling IDA's to do some additional reporting, some additional representation regarding those employment inducements that typically are the driver. But again, you're right. We have six IDA's that are operating here in Suffolk County, each of them with the ability to go ahead and give an entity -- and as you well know, Legislator Cilmi, that ability to go ahead and offer that waiver, if you will, on the procurement from sales tax goes to the fact that the IDA being an authority oftentimes will take ownership, and the going entity actually becomes a preferred tenant. So the acquisition goes and gets the benefit of a tax exempt ID, basically through the particular IDA. Yes, it is another element that undermines what otherwise would have been a taxable purchase.

LEG. CILMI:
So I just want to clarify what you said because maybe this goes beyond what I even envisioned it happening here. My understanding was that when an IDA offers us an inducement that includes a sales tax benefit, that that inducement ends with the procurement associated with the growth that the applicant commits to as part of the agreement with the IDA. But if I just heard you correctly,

you indicated that associated with that agreement is a tax exempt status potentially that would relieve the applicant of paying sales tax into the future?

COMPTROLLER KENNEDY:
My understanding, and I would have to go ahead and clarify it with Mr. Catapano, our Executive Director, but I believe it is when -- so in other words, if we have an entity that's coming into the Hauppauge Industrial Park, typically I believe it's to fit that entity out, the building out, and so it's the first instance acquisitions. I don't think it goes on and extends for a ten year, 20 year life of the concerned. But if there's 200, $300,000 worth of furniture in order for a pharma manufacturer to come in, that's where the exemption goes.

LEG. CILMI:
That's what I thought, but you had mentioned something in your response to my last question about creating some sort of a tax exempt status as a result of the relationship, and that may then trigger a sales tax and the second part of my phrase is I'm applying it. That may trigger then a sales tax exemption.

COMPTROLLER KENNEDY:
I don't think --

LEG. CILMI:
I don't think that's the case, but I just wanted to clarify. Thank you.

CHAIRMAN D'AMARO:
All right. Dr. Lipp, you have about four or five more recommendations. If you can go very quickly. The next committee needs to start and we need to get through our agenda.

MR. LIPP:
Okay. So we've had some trouble with epic storms in the last few years which has put a burden, additional burden on the budget. One way actually since the Joint Audit Committee Report was written, we, the County through the County Executive, received State permission to increase our motor vehicle registration surcharge, which depending upon who you believe, the additional revenue, should we enact that into law, would be ten to $20 million. I gave you a wide range on purpose there because there seems to be some disagreement as to what it would be. That being said, we have not enacted the law yet. We have to do it locally. We've been given permission, and perhaps we will implicitly see that in the recommended budget which comes out, once again, the third Friday of September.

CHAIRMAN D'AMARO:
Okay.

MR. LIPP:
Next, what are we doing with the Foley facility. The current budget implicitly includes eleven and a quarter million dollars in it for sale that has not materialized, and there seems to be, you know, uncertainty as to do we want to sell it, can we sell it, if we don't sell it, what should we do with it. I don't want to go into specifics, but that is an issue that you should keep on your radar screen and we as a Legislature should try to come to some sort of agreement as to what we want to do there.

Another thing is what's the appropriate level of cash flow borrowing. I guess this would be sort of a measure of fiscal stress, if you will, to try to define what it should be given the factors that we spoke about. I won't go any further unless you ask me. And a plan to create increasing reserves. The way I would like to look at that one is we need to try to budget I'll say surpluses. Here's the problem. The problem is what we'd be doing there to budget the surpluses in particular, the moneys really wouldn't be a surplus. You're adopting the budget at zero balance, but rather you'd be doing those extra expenditures into reserve funds. Okay. So from a pure financial point of view you should be doing that. However, there are other polls on us in terms of providing services and whether or not you think there are certain areas that are more important than the financial areas. It's a matter of what your priorities are. That's it.

CHAIRMAN D'AMARO:
Very good. Okay. So that is the conclusion. I want to thank the Comptroller.

LEG. TROTTA:
Can I just ask them one quick question?

CHAIRMAN D'AMARO:
Just make it quick, Rob. Come on.

LEG. TROTTA:
It was about home sales. You were about to say you spoke to someone last week on home sales and -- you never finished what you were going to say, Dr. Lipp. You were saying you talked to someone who worked for you about the home sales.

MR. LIPP:
Oh, yes. Okay. So Joe Muncey looks at the mortgage tax revenue.

LEG. TROTTA:
That's what it was.

MR. LIPP:
Okay. So I'm going to give you a positive spin. I'm usually not a very positive person I guess. Sales tax is going to -- you're going to do wonderful short-term moving forward. Why? Okay, number onem after a down year in terms of mortgage taxes, the measure of real estate market, the first two quarters are up this year, so that's an improvement. You figure with a lag it will translate into more sales tax revenue. That's number one. Number two, we only have a portion of one check from the first month of the third quarter that relates to the third quarter, July. And that portion, if you tease the numbers out, which I did, is up 5.4%. It's only one -- a part of one check, you know, but it's a positive sign. That's as positive as I can get.

COMPTROLLER KENNEDY:
Mr. Chair, and I'll leave you with one last item, too. Hopefully it's an element of good news after hearing about this work. And I want to commend Dr. Lipp and the other folks on the committee. We will be going out for a somewhat unprecedented second bond refunding this year. We have been presented with yet another opportunity to go ahead and refund three issues, an issue from '05, an issue from '07 and an issue from '08. It will be approximately 107 million in existing debt we will retire. All that is at an average of four point three quarters to five percent. We've been advised by Capital Markets that we can come in somewhere between 2.1 and 2.3% realizing about 700,000 in relief next year to the debt service, at about a five million cumulative savings over the course of the year. So we're going to save some money.

CHAIRMAN D'AMARO:
Okay. Very good. That's good news. Any other questions from the committee? Again, I'd like to thank you, Mr. Comptroller, for coming down. And Dr. Lipp, as always, thank you for your presentation and for presenting the report to us today. We're going to move on now in our agenda to the next section, which are Tabled Resolutions and I am going to call the first.

Tabled Resolutions

The first is ***1265-2015 - Approving County funding for a contract agency (Gerald Ryan Outreach)(Pres. Off.).***

At the sponsor's request, I'll offer a motion to table. Second by Legislator Martinez. All in favor? Opposed? Abstentions? The motion carries. ***(Vote: 5-0-0-0)***

The next is ***1347-2015 - Amending the 2015 Operating Budget to provide funding for membership in the Interstate Chemicals Clearinghouse (Hahn).***

At the sponsor's request, I'll offer a motion to table. Second by Legislator Martinez. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 5-0-0-0)***

Introductory Resolutions

Resolution ***1573-2015 - To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer By: County Legislature (Control No. 431)(Co. Exec.).***

I'll offer a motion to approve and place on the Consent Calendar. Second by Legislator Martinez. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 5-0-0-0)***

1579-2015 - To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1010-2015)(Co. Exec.). Same motion, same second, and without objection, same vote. ***(Vote: 5-0-0-0)***

1590-2015 - To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1011-2015)(Co. Exec.). Same motion, same second, and same vote. ***(Vote: 5-0-0-0)***

Resolution ***1591-2015 - To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer By: County Legislature No. 432 (Co. Exec.).*** Same motion, same second, same vote. ***(Vote: 5-0-0-0)***

And Resolution ***1604-2015 - To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer by: County Legislature (Control No. 433)(Co. Exec.).*** Same motion, same second, same vote. ***(Vote: 5-0-0-0)***

Resolution ***1621-2015 - Approving 2015 Funding for a Contract Agency (Babylon Village Youth)(McCaffrey).***

As we discussed earlier, I'll offer a motion to table. Second by Legislator Martinez. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 5-0-0-0)***

And last is Resolution ***1640-2015 - To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer By: County Legislature No. 434 (Co. Exec.).***

I'll offer a motion to approve and place on the Consent Calendar, which is seconded by Legislator Martinez. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 5-0-0-0)***

That concludes the agenda. We are adjourned. Thank you.

(*The meeting was adjourned at 11:41 a.m.*)