

Experts: Suffolk budget gap needs drastic measures

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Tax hikes, deep spending cuts or both will be needed to close Suffolk's \$530 million budget gap, and even then it may take several more years to plug the hole, economists and outside experts say.

The total county deficit for 2012 and 2013, according to the administration of County Executive Steve Bellone, includes a \$30 million shortfall inherited from last year, and projected gaps of \$149 million this year and \$350 million next year.

In March, Bellone announced a \$162 million reduction plan, the first phase of a three-tiered plan. But interviews with experts about traditional remedies, from tax hikes to layoffs, highlight the tough slog ahead.

Raise county property taxes up to the new state cap, an idea being weighed by county officials, and Suffolk gets an extra \$10 million in revenue next year -- about a 2 percent dent in the total projected shortfall. Given the climate against tax increases, a raise would require county officials to warm up recession weary residents to the idea of a hike. Lay off 100 nonuniformed county employees, or 1 percent of the county workforce, and Suffolk saves \$8.25 million -- less than 2 percent of the deficit. Officials say that also would put Suffolk at risk of violating federal and state mandated staffing levels for certain departments.

"It's an enormous lift," said James Parrott, chief economist of the Manhattan-based Fiscal Policy Institute, a liberal think tank.

"You're speaking about reducing 20 percent of the county's [\$2.7 billion] budget. . . . I don't see how you can do that on a recurring basis over the next two years without dramatically changing the role of county government," Parrott said.

E.J. McMahon, a senior fellow at the Manhattan Institute's Empire Center for New York State Policy, a conservative think tank, said county leaders cannot afford to wait because doing so would continue adding to the county's growing tab.

"You will always get pushback from the public and unions, but if you actually have a crisis, you have to set firm deadlines, which might upset people, but [are] necessary if you're really looking to balance the budget," McMahon said.

With Suffolk facing its worst budget crisis since the early 1990s, when it had to close a \$200 million budget gap, Newsday asked outside experts and county officials about options for closing the massive deficit. Here's what they said about key areas of the budget:

Property taxes

Raising the county portion of the property tax to the 2-percent state cap would generate \$10.2 million in revenue next year, according to projections from the county legislature's nonpartisan Budget Review Office.

With the average Suffolk County homeowner paying \$9,200 in property taxes -- including county, police, town and school taxes -- the bump would equal an extra \$18.50 for those living outside the county's police district, and \$22.50 for those within it, according to Budget Review calculations.

The county could generate an additional \$5.9 million for every percent it goes over the state cap. But Deputy County Executive John Schneider said Bellone will not seek to break the cap, and Democratic and Republican leaders in the legislature also say they also won't ask for an override of the cap. An override would require a two-thirds vote of the 18-member county legislature.

Lawrence Levy, executive dean of Hofstra University's National Center for Suburban Studies, said raising taxes to the cap would not be enough to dig Suffolk out of its financial hole, and county officials should consider piercing the cap. "They're going to have to have courage and do some serious education among taxpayers about why it's necessary," Levy said.

But McMahan said Suffolk residents are already among the highest taxed in the state and the county should hold the line on property taxes.

"He [Bellone] shouldn't be looking to taxing; he should be looking for savings," McMahan said. "Anything that is not urgently important should be cut."

County workforce

Bellone is hoping the county's 10 public employee unions agree to at least \$32 million in concessions. The bulk of the savings would come from getting county employees to contribute to their health care.

Union leaders are balking. They say they've already given up \$15 million in benefits during previous bargaining sessions and are still reeling from the layoffs of more than 300 county employees that will occur June 30. While the layoffs will save the county a combined \$35 million through next year, they did nothing to narrow the deficit because they already were included in the 2012 budget.

Bellone has said he is trying to avoid future layoffs via the concessions. But even those savings would only slice about 6 percent from the deficit.

With the average nonuniformed employee costing the county \$82,500 a year in salary and benefits according to Budget Review, it would take layoffs of 388 employees to generate \$32 million in savings.

But as public hearings held in May during the most recent round of layoffs illustrated, most county department heads say they already are struggling to provide the same level of service as in years past with fewer employees. The county currently has 10,000 employees, down 10 percent from eight years ago, according to county figures.

"Regrettably, counties like Suffolk are being forced to decimate the structure of county governments, dramatically altering service levels," said Parrott.

McMahon said "layoffs should be only be a last resort" if unions do not make concessions.

Sales taxes

Bellone administration officials have studied the idea of a quarter-cent tax increase in the sales tax; that would bring in an extra \$68 million a year, according to the Budget Review office. Any sales-tax hike would require approval from the state legislature, which shot down similar requests from Rockland and St. Lawrence counties this year because majority Republicans in the State Senate would not approve new taxes.

Schneider said without the appetite among state lawmakers for a sales-tax increase this session, the county will not ask for an increase.

"Our primary focus in Albany has been 'Let's get things done methodically that we can get done,' " Schneider said. "When the Senate majority says we're not going to approve a sales-tax increase this session, if it's not going to get done, we're not going to ask."

Levy cautioned that even if Suffolk could get state approval, the county has become too reliant on sales-tax revenue, which accounts for 47 percent -- about \$1.3 billion -- of county revenues.

"In good times it brings a tidal wave of revenues, but in bad times, the county gets clobbered," Levy said.

But Thomas Conoscenti, an economist who has served as a paid consultant to Bellone on sales-tax issues, called a sales tax hike "just one solution that could go toward resolving a larger problem."

Borrowing

Suffolk is borrowing from the state as a way to spread out the rising costs of its state pension contributions, which have added to the widening gap. The borrowing would reduce the county budget deficit by 12 percent over two years.

This year, the state comptroller's office awarded Suffolk a \$66.8 million low-interest loan that will allow the county to spread its contribution to the state pension plan over five years. The move is meant to alleviate some of the strain caused by a 59 percent increase in the county's contribution -- from \$121 million this year to \$192 million next year.

Some economic experts say borrowing only postpones the problem. But former Lt. Gov. Richard Ravitch, a Democrat who leads a national task force on state budget issues, said Suffolk isn't alone in needing to borrow to make up for the dramatic stock market losses that pension plans experienced during the financial downturn of 2008 and 2009.

Ravitch called it "appropriate" for Suffolk to borrow, as long as the county does it selectively and strictly to transition from the current budget crisis to a sound financial footing.

In March, the county legislature also approved \$90 million in emergency borrowing against state and federal aid to avoid running out of cash. But the money was earmarked solely to make payroll through April and did nothing to whittle the budget gap.

One-shot revenues

Republican county legislators have pitched a series of proposals they say can bring millions of dollars into the county's coffers. All involve one-time revenue sources, as opposed to recurring revenues that would help balance the budget year after year.

Minority Leader John Kennedy (R-Nesconset) said the county could receive \$50 million through a sale-leaseback of the H. Lee Dennison Building, where the county would agree to lease back the space in return for the upfront cash infusion. Bellone already is moving forward with plans to fill empty offices in the building by moving employees from rented space throughout the county and cutting down on leases, for estimated savings of \$15 million.

Republicans and Democrats also are eyeing the county sewer authority for possible savings.

The authority runs 24 separate sewer districts, and a proposal by Legis. Wayne Horsley (D-Babylon) calls for establishing a special panel to examine whether a single district would be cost-effective. Horsley said creation of a mega-district would take a year to study and would likely not narrow the current budget gap. But such a district would allow Suffolk to expand its sewage infrastructure, potentially boosting business in the county long-term, Horsley said.

Legis. Edward Romaine (R-Center Moriches), supports Horsley's proposal, but said the county also should consider merging the Suffolk County Water Authority with the current sewer authority. That would allow Suffolk to transfer \$1.5 billion in sewer debt to the new, separate authority, reducing debt service.

Bellone has balked at most of the one-shot ideas because they do not tackle recurring expenses, but Romaine said all options should be weighed.

"This is money that can be used to rebuild the reserve fund or for a plethora of reasons," Romaine said. "We need to consider every option on the table before discounting them."