

***"You cannot take  
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## **THE REAL DEFICITS OF NASSAU COUNTY**

**How one of the**





**nation's wealthiest counties went broke** By Susan Berfield Photographs by Andrew Hetherington



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assau is among the nation's wealthiest counties—and the richest in New York—as measured by per capita income. It has 1.3 million residents and a median household income of nearly \$95,000. There are 37 private golf courses. It's the kind of place where a home might be listed for \$25 million and described as “inspired by Marie Antoinette's Le Petit Trianon.” Even the Garden City Water Works is housed in an elegant, medieval-looking brick building from the 1870s.

It is a generous place, too, and the salaries of its town and county workers reflect its good fortune. Two school superintendents are the best paid in the state, earning about \$380,000 each. Starting salaries for public librarians are as high as \$63,000. A county policeman with eight years of service earns a base salary of \$108,000. The 2011 budget for the Hempstead animal shelter includes \$3.25 million in salaries for 38 employees.

Not surprisingly, it is an expensive place to live. Property taxes are close to \$9,000 on average, the second highest in the U.S. after New York's Westchester County.

It is also broke.

On Jan. 26 the six members of the Nassau County Interim Finance Authority, or NIFA, a nonpartisan state-appointed commission, announced that, for the second time in a decade, it would take control of the county's finances.

Nassau's elected officials, led by County Executive Edward P. Mangano, had insisted that everything would be just fine. “The more he did that, the more he showed people he doesn't have a grip,” says E.J.

McMahon, a senior fellow at the Manhattan Institute's Empire Center, a fiscally conservative think tank. “There's been too much smoke and mirrors,” says George J. Marlin, a NIFA director. “The day of reckoning has finally arrived.”

Nassau has its peculiarities, including a confounding tax refund system that has left it more than a billion dollars in debt. But its real deficits are easy to understand. “Nassau is an extreme example of our national problem. We want to have things and we don't want to pay for them,” says Robert B. Ward, deputy director of the Rockefeller Institute of Government. Nassau isn't the first rich community to get into financial trouble, and it won't be the last. Which means that there could be other NIFAs, too—outside advisers brought in to help fix what local politicians can't or won't. “The message is: ‘Watch out, this is the way it works,’” says McMahon.

**In Nassau, the man elected to lead the county toward recovery** has argued for the past seven months that the only problem is NIFA. “The deficit is in their minds, not in reality,” he says.

That puts Mangano, 49, in the unusual position of having to figure out how to close a \$176 million gap he doesn't think exists. A native son, Mangano is accustomed to the contradictions of public life in Nassau. He graduated from Hofstra, a local university; owned a small printing business; and worked as an attorney for the firm Rivkin Radler, one of the largest on Long Island. He lives ten miles from where he was born.

After 14 years as the Republican legislator for the district that includes his hometown, Bethpage, he narrowly and unexpectedly won the election for county executive in November 2009. His campaign centered on one promise: He wouldn't raise taxes. That earned him the backing of Nassau County's small but energetic Tea Party and helped him unseat two-term incumbent Democrat Tom Suozzi.

Mangano's office is on the second floor of the “Suoz-

zoleum,” which is what Republicans call the Theodore Roosevelt Executive and Legislative Building in Mineola, after Suozzi, who authorized and oversaw its \$63 million, six-year renovation. It's a quiet, almost sterile place. Visited on a Friday afternoon in late February, just after control of the county's money was wrested from him, Mangano wears a sweat jacket and jeans. He's graying, burly, and didn't seem entirely at ease seated behind his large wooden desk. A copy of George Washington's *Rules of Civility & Decent Behavior in Company and Conversation* was perched on one corner. “I shouldn't have been so cooperative,” he says of his dealings with NIFA. “It's a power grab intended to discredit and embarrass the administration, the Tea Party, and the Republican Party.”

Mangano spent his first day in office cutting taxes, as he had promised. He repealed a \$38 million home energy tax during his inaugural address and later revoked a planned 3.9 percent increase in the property tax, which would have generated about \$32 million for the county. His actions worried NIFA directors enough that they sent him a certified letter on Jan. 5 asking how he was going to replace the money.

In September 2010, Mangano presented a \$2.6 billion budget for the county. He called it not only balanced but the best budget Nassau had seen in years. When it passed the legislature at the end of October, he stated: “I am proud to say we have begun to fix the fiscal damage left behind by the prior administration and the collapsed economy. We have held the line on property taxes and will continue implementing common sense solutions to fix our county's finances for years to come.”

“I said, ‘Mineola, we have a problem,’” says Ronald A. Stack, the chairman of NIFA. “The budget was not balanced. It was way out of whack.”

The members of NIFA all have day jobs, and none are paid for their work with the commission. Of the six now on the board, four live in Nassau County and a fifth runs a law firm there. Stack has been part of NIFA since it was created in 2000—when the county almost went bankrupt and received a \$100 million bailout from New York State. He was deputy chief of staff for New York Governor Hugh L. Carey when the state took over New York City's finances in the 1970s. After that he managed the public

Tending the flowers at the Americana Manhasset mall





"We're never going to raise taxes," says Mangano. "Too bad, too sad if they don't like it"



heavily taxed, and financially unhinged all at the same time.

"NIFA is looking ahead and saying to Mangano, 'You're headed irreversibly down the wrong path, and you won't admit you're going there,'" says McMahon of the Empire Center. "Nassau is not bankrupt. But NIFA is saying that they will be if they keep this up."

"I kept giving NIFA solution after solution," Mangano says in his office, pounding the desk with his fist. "And your final solutions aren't as good as your first ones. When you get to the last thing it's like, 'I'm going to sell the carpet.' We gave them a list—many of those things we don't intend to do because we don't have to. And we're never going to raise taxes. Too bad, too sad if they don't like it"

The county sued NIFA in New York State Supreme Court to regain control. On Mar. 14 a judge ruled in favor of the watchdog. Mangano had been in office for 15 months.

**The solution seems clear: Someone** must give up a lot or everyone must give up a little. But in Nassau County no one will budge.

The Patrolmen's Benevolent Assn., the most powerful union in Nassau County, was supposed to provide Mangano with one of his solutions. He expected to extract \$61 million from their contracts, a doubtful assumption.

"We say no," says James Carver, the president of the 1,700-member union. "We've already done our fair share." (Union members agreed to a small pay cut and some layoffs.) On an afternoon in early March, he's sitting at a conference table in a dimly lit, chilly room in the PBA's offices in Mineola. Carver, a forceful, quick-talking former cop, has invited two off-duty police officers (and precinct delegates) to join him. Lately their six-figure salaries and generous benefits have come in for criticism. Officers here make more than police anywhere else in the country, and word had just gotten out that a few long-serving captains took early retirement offers and walked away with packages of more than \$500,000.

"We provide a high level of service. If someone calls 911 because they have a bee in their kitchen, we will respond," says Mike Schmitt, a 15-year veteran who started out as a cop in New York City.

"People pay more for their cable bill than they do for police

finance department at Lehman Brothers, and today he is a managing director at Wells Fargo.

George J. Marlin is the other public face of NIFA. In 1994 he was appointed executive director of the Port Authority of New York & New Jersey. Now he's chairman of Philadelphia Trust, a private bank. Marlin was co-chairman of Conservatives for Mangano during the election and joined NIFA five months after Mangano took office. He described the budget as being "built on a foundation of sand."

The budget contained a number of lines that appalled the board. First, it relied on borrowing to cover \$100 million worth of property tax refunds. (In Nassau County, almost one-third of homeowners and nearly every business routinely challenge their tax bill.) It included optimistic estimates of sales tax revenue and aid from the state. It counted on improbable and controversial deals. Mangano wanted to cash in long-term leases. He said he'd bring in a minor league baseball team. He ex-

pected to win a new Shinnecock Indian Nation casino, which he thought could be built near Hofstra University.

"My hope had always been that the county executive would see that he had an intractable problem and call us in," says Stack. "He could have been the leader."

Marlin says he told Mangano that he could either be like New York City Mayor Abe Beame or Mayor Ed Koch, who both ran the city when its financial situation was dire. "Koch chose to work with the control board and became a national hero," says Marlin. "Mayor Beame didn't. He is a forgotten man who was thrown out of office after one term."

Under the decade-old rules, once NIFA determines there is a likely and imminent budget deficit greater than 1 percent—or about \$27 million in this case—it has to take over. After months of back and forth, NIFA still didn't think the budget was any closer to being balanced. The members' vote on Jan. 26 was unanimous. With that, Nassau County gained a new notoriety for its ability to be rich,

taxes,” says Carver. “There’s something wrong here.”

“There is a vocal minority who don’t think we deserve what we get,” acknowledges Carlos Rivera, who left a job at a pharmaceutical company to join the force six years ago.

“The vocal minority are those who aren’t doing well,” adds Schmitt. “When they were doing well, they didn’t give a crap about our salaries.”

“They bail out Wall Street, they bail out the auto industry. Then they come to us and say we’re the problem,” Carver says of government officials around the country. “We’re not the problem. What’s happened is that people in the private sector are pissed off, and they turn to the public sector and say, ‘The government didn’t protect me. It shouldn’t protect you.’ That’s the wrong attitude.”

The PBA, Carver says, will not compromise.

It is not just the cops who have done well in Nassau. Pretty much everyone on the public payroll has. For decades—until its last financial crisis in 1999—Nassau’s Republican leadership operated a political machine so powerful that it rivaled Mayor Richard J. Daley’s in Chicago. One result is layers and layers of bureaucracy. Patrick Nicolosi, a resident of Elmont who lost the race for a seat in the state assembly in 2010, has been agitating about this for years. “It’s small government,” he says, “but a lot of small governments make it a massive government.” Nassau has a county executive and 19 legislators, two cities, three towns, and 64 incorporated villages that all have their own officials and budgets. (There are also more than 100 unincorporated areas.)

“Most people who moved out here in the 1960s and ’70s made their money in the city. Nobody paid attention to the government while

these thieves were creating jobs for themselves,” says Nicolosi. “Now the political establishment points to the salaries of teachers and cops. Those dirty dogs: I need the cop. I need the teacher. I don’t need as many of the guys on top. They blame the workers for our problems, but it’s the system of patronage.”

Patronage has defeated Mangano, too, it seems. In March 2010, he told *Newsday*: “A cornerstone of our administration is cutting patronage.” In March of this year, the paper reported that when Mangano’s brother, a longtime county employee, wanted a job with more responsibility, the Nassau town of Oyster Bay hired him as a deputy public works commissioner. He took a leave of absence from the county and now earns \$100,881, about \$15,000 more than before. In response, Mangano issued a statement: “My brother enjoyed ... years of service with the county until I arrived as his boss. I am thrilled to reduce my relationship with him to simply brothers.” Mangano also says that he’s cut \$10 million in “patronage expenses.”

Then there is a tax system so crazy and broken that the government is more than a billion dollars in debt from assessment adjustments. Here Mangano’s efforts at reform have been foiled, too. In his first year in office, *Newsday* reported that his Bethpage home had been under-assessed. Mangano replied that he thought he was overtaxed. “It’s an error-ridden system,” he told *Newsday*. In October, Mangano fired the head of the assessment department; a veteran of the department temporarily holds the position.

Some 50 independent consultants, who work on contingency, encourage homeowners in Nassau County to “grieve” their taxes in a special small claims court. Legislators offer free sessions to help their constituents file tax appeals.

Real estate agents advertise when a tax

protest is under way on homes for sale. One hundred thousand of Nassau’s 360,000 homeowners challenge their taxes every year. About half of them win some kind of reduction.

The really peculiar part is what comes next. The county itself only keeps about 17 percent of everyone’s tax bill. Sixty-five percent of the property taxes go to the public schools, which operate independently, setting their own tax rates, budgets, and salaries.

When a home or business owner wins a refund, though, Nassau County has to pay it in full. In other words, the school collects the money, but the county pays it back. This “county guarantee” has been in place since 1948. It leaves the county in the hole for money it never laid claim to or intended to spend. No other county in New York has this burden.

For years, Nassau has been issuing bonds to finance its tax refunds, about 80 percent of which goes to commercial property owners. The interest it pays on this now \$1.3 billion debt is about \$146 million a year. Mangano wanted to consider the borrowing, in its entirety, as revenue.

NIFA calls it a very expensive way of doing business. “Doom is the logical consequence of this borrowing,” said attorney Christopher Gunther, arguing NIFA’s case in court on Feb. 18.

Fred Perry is a lawyer who specializes in tax challenges. “Yes, we encourage people to file protests, but the problem is the assessments,” says Perry. He’s been urging the government to sort out the system so that there are fewer refunds. “They should put me out of business,” he says. “It’s such an absurdity that I can make a living helping homeowners reduce their property taxes. And it’s a pretty good living. No one is claiming poverty in my field.”

Do homeowners know Nassau is borrowing to pay their refunds? “Most taxpayers have no idea what to make of what’s going on,” Perry says. “All they know is that they have to pay their bill. They just say, ‘Please work it out for me.’”

In November the Nassau legislature voted to repeal the county guarantee as of 2013. “The system is not working,” says Mangano. “You cannot take in 17¢ and pay out a dollar. That’s insane!”

The vote is a hopeful turn, if it stands. The schools’ message to Mangano, though, was: “Don’t use the school-

**“We’re going to fight tooth and nail,” says one union president. “Pushback is going to be severe”**



We can be unpopular, says Stack. "We're not running for office"



house to fix your house." Forty-one school districts are suing to repeal the repeal, claiming the county doesn't have the right to shift this financial obligation onto them. Earlier challenges to the guarantee didn't get far. "School boards have an obligation to bring this litigation," Nassau-Suffolk School Boards Assn. President Jay L.T. Breakstone said in a statement. "Having failed in New York's court system ... the County of Nassau has decided to simply do what it wants to do anyway."

Mangano delivered his new budget to NIFA on Mar. 22, as required. It proposed, among other things, about 200 layoffs, 13 days of furlough for all county workers (including himself), the closing of a police precinct, and the elimination of more than half the county's bus routes. He proudly announced that he did not consider raising taxes.

Two days later, and at Mangano's urging, NIFA declared a fiscal emergency. This gave them the authority to do something that Mangano could not:

go back on a contract that would have raised the pay for Nassau's 9,200 full-time and part-time employees, an agreement that would have cost the county about \$10 million. "In current circumstances, labor costs—a category totaling nearly half of the county's expenditures—can hardly remain untouched, much less increased," NIFA stated. The wage freeze went into effect on Apr. 1.

Union leaders immediately attacked the freeze, the furloughs, and the very suggestion that they should give up anything. "You cannot leave footprints on the backs of our heads," says Jerry Laricchiuta, president of Nassau's Civil Service Employees Assn. "We're going to fight tooth and nail. Pushback is going to be severe. What he's asking for is unattainable, unrealistic. It cannot happen." Within a week the police unions had sued the county over the wage freeze. They're planning to go to court if the furloughs are implemented, too.

Laricchiuta is adamant, though not unsympathetic. "You almost feel sorry

for Mangano," he says. "He seems to be in a situation he never put in for."

Indeed, for all the attention a few unbending governors across the country have earned, it may be that Mangano is the more typical leader, denial the more typical response.

"Elected officials don't want to make tough choices anymore, and they are flat-out refusing to do so," says Ward of the Rockefeller Institute of Government. "We're more and more going to turn to these unelected and arguably less accountable authorities to make the tough decisions."

"We have to solve Nassau County," says Stack. "It is not suffering economic malaise. It's not suffering massive poverty. It should be able to solve its problems. But it requires political will." Is NIFA a substitute for political will? "No, but we can provide support for the elected officials," he says. "NIFA can be unpopular. We don't care. We're not running for office."

On Apr. 11, Mangano gave his State of the County address at the Gold Coast Studios in Bethpage, where *Man on a Ledge* had been filmed recently. He began: "After a decade of higher taxes, lavish spending, and little reform, Nassau is now on the road to recovery because of the tough decisions made to take on the status quo." He said nothing about NIFA. He made no mention of the lawsuits. (Nor did he talk about the ongoing police search for a possible serial killer.) Instead, he finished with, "Together we are building a better Nassau."

NIFA still isn't satisfied that Mangano has made up for the \$176 million deficit, though, and has expressed doubts about his plans to raise money. NIFA cannot increase taxes. And Mangano says he won't. Which means the really hard decisions still loom. "A lot of people got elected on the strength of anti-tax promises," says Matthew Gardner, the executive director of the Institute on Taxation and Economic Policy. "But they can't live up to their rhetoric. People won't accept the cuts that would be necessary."

When NIFA's directors look ahead, they are even more worried. In 2012, Mangano is counting on privatizing the sewer system, which NIFA considers a dubious proposition. He still wants to borrow to pay for the tax refunds. And pension costs will increase.

"2011 is bad," says Marlin. "2012 will be even worse." **B**