Nassau, Suffolk Short Term Debt
As originally reported by Newsday April 5, 2014

Short-term borrowing by Nassau and Suffolk counties to meet payroll and other immediate expenses has more than doubled since 2007, a sign of the persistent financial stress plaguing both county governments, budget experts said.

Suffolk County issued $625 million in 2013 in short-term bonds, a 123 percent increase from the $280 million it borrowed in 2007 before the recession began.

Nassau borrowed $434 million in 2013 for cash flow purposes, an increase of 117 percent from $200 million in 2007.

"The increases we've been seeing highlight the financial struggles both counties have faced over the past couple of years," said Robert Weber, assistant vice president of Moody's Investors Service, a Wall Street agency that rates both counties' debt. "It's something we are monitoring."

Bond rating agencies and fiscal experts consider short-term borrowing, used to pay employees, contractors and other daily expenses, a key indicator of municipalities' fiscal health.

The experts concede that most governments have to borrow for cash purposes at one point or another, to cover expenses such as unexpected lawsuit settlements.

But they said the large amounts borrowed by Nassau and Suffolk may highlight significant fiscal problems, including "structural" deficits between recurring revenues and expenses. Heavy short-term borrowing also indicates that reserves are tapped out, experts said.

A sign of larger issues

Such debt "is a tool local officials have at their disposal," said Brian Butry, spokesman for state Comptroller Thomas DiNapoli. "Relying on borrowing year after year, however, is likely a sign of larger budget issues."

Increased short-term borrowing "can be a sign of deteriorating financial positions for local governments. In Nassau's and Suffolk's cases, that's what we're seeing," Weber said. "Over the last couple of years, we have seen structurally imbalanced budgets from both of the counties."

From 2007 to 2011, short-term borrowing by local governments in New York State more than doubled, from $589 million to $1.2 billion, according to a June 2013 state comptroller report. Suffolk and Nassau accounted for more than 80 percent of the increase.

Nassau and Suffolk officials blamed the increase in short-term borrowing on factors including the national recession and superstorm Sandy. They said that with the current low interest rates the expense is minimal, but that they are moving to reduce the borrowing and repair their finances.

Raising taxes or making significant cuts to recurring expenses could reduce the need for short-term borrowing. But both Nassau Executive Edward Mangano, a Republican, and Democratic Suffolk County Executive Steve Bellone have promised to hold the line on general fund taxes.

Both also tout cuts to county expenses, including job reductions, they have made since taking office.

Local county officials blame the increase in short-term borrowing since 2007 on the lingering effects of the recession, and said they expect borrowing to decrease in 2014.

Nassau's short-term borrowing was $200 million in 2007; $237 million in 2008; $340 million in 2009; $480 million in 2010; $460 million in 2011; $476 million in 2012 and $434 million last year. The borrowing included $307 million in 2013 for superstorm Sandy repairs.

Nassau faces a projected $122 million deficit in 2014, according to the Nassau Interim Finance Authority, a state monitoring board that controls the county's finances.

Officials: Worst is over

Tim Sullivan, Nassau's deputy county executive for finance, noted that the borrowing peaked in 2010.

"The stress many counties experienced put strains on cash after the recession," he said. "We're moving in the right direction."

NIFA chairman Jon Kaiman did not respond to requests for comment.

Suffolk's cash flow borrowing was $280 million in 2007; $385 million in 2008; $423 million in 2009; $470 million in 2010; $510 million in 2011; $590 million in 2012 and $625 million in 2013.

Justin Meyers, spokesman for Suffolk County Executive Steve Bellone, attributed the increase in short-term borrowing to higher pension costs caused by the national fiscal crisis, costs to the county from superstorm Sandy and an increase in delinquent property taxes.

"The county continues to make progress in its structural rebalancing efforts," Meyers said.

Suffolk faces an estimated $100 million structural deficit next year, officials have said.

Short-term borrowing consists of bonds secured by revenue arriving in the near future from property taxes or state and federal grants. The bonds typically are repaid within 12 months, while long-term debt for major capital projects including new buildings and highway projects can be paid back over 20 or 30 years.

Less than 10 percent of New York local governments issue short-term debt in any given year, according to DiNapoli's office.

"It's the amount and the frequency that separates these two counties from most local governments we see," Weber said of Nassau and Suffolk.

Moody's cited Suffolk's "reliance on short-term cash flow borrowing" in downgrading the county's long-term debt last month.

In a report on Nassau in November, Moody's said that while borrowing to cover cash flow has declined in recent years, "the county's liquidity remains very weak."

Nassau County Comptroller George Maragos attributed Nassau's increased short-term borrowing to low interest rates.

"I think it's a reflection of the cheap money that's out there," Maragos said.

Suffolk paid $3.36 million last year in interest on short-term debt while Nassau paid about $1.6 million.

The Suffolk County Legislature has authorized County Comptroller Joseph Sawicki Jr. to borrow up to $100 million against state and federal aid the county is slated to receive later this year.

"If we do not have the money available through borrowing, by late May and early June we'll literally be out of cash to pay our bills," Sawicki told a legislative committee on March 11. The borrowing passed the legislature unanimously on March 18.

Robert Lipp, the director of Suffolk County's Budget Review Office, said, "It appears we'll be borrowing a little less this year than the year before."

But "it's still very problematic," Lipp said.

Lipp noted that in 1991 and 1992, Suffolk was able to end its budget troubles only through sales tax increases.

"No one is talking about that now, and this is a worse recession than that was," Lipp said.