

Special Report: A Long Island tax cut backfires on the Tea Party



By Edith Honan and Kristina Cooke

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(Reuters) - At his January 2010 inauguration, Tea Party-backed Republican Edward Mangano marched up to the podium, pen in hand. Even before being officially declared Nassau County Executive, he signed a repeal of an unpopular home energy tax.

The move elicited chants of "Eddie, Eddie, Eddie" from supporters assembled in the auditorium of Mangano's alma mater, Bethpage High School, 30 miles east of New York City.

"This is very cool and quite an honor," Mangano said as he gave his admirers a thumbs-up.

The fiscal consequences, however, were anything but cool. The repeal set Mangano on an immediate collision course with the state-appointed fiscal overseer, the Nassau County Interim Financial Authority, or NIFA. It culminated in NIFA seizing control of the wealthy New York county's finances on Wednesday.

Nassau's ills exemplify the growing tension across the country as dozens of freshly-elected Tea Party lawmakers, many of whom promised to cut taxes, must find ways to slash record budget gaps as revenues dwindle.

"A lot of people who got elected on this type of anti-tax platform are running into the brick wall of fiscal reality," said Matthew Gardner, executive director of the non-partisan Institute on Taxation and Economic Policy in Washington.

Besides being a cautionary tale, the setback in Nassau County is a black eye for the Tea Party, the grassroots movement built around the core principles of constitutionally limited government, free-market ideology and low taxes.

Indeed, a close examination reveals that the affluent area's woes were exacerbated by missteps and miscalculations. Among other things, a Reuters review of dozens of public and private documents showed vague, circular answers to oversight panel queries and basic math errors in budget documents.

In a sense, Nassau County's predicament remains highly unusual. The oversight board created by New York State more than a decade earlier following a financial crisis gave Mangano little margin for error.

But in other ways, Nassau County is not unlike many places in the United States today. A June 2010 survey by the National Association of Counties found 65 percent of the 800 counties polled reported budget shortfalls of between \$100,000 and \$50 million.

"It's a metaphor for what is happening in the Western world," said Richard Ravitch, who advised New York City during its fiscal crisis in the 1970s. "People don't want to tax but there is a point below which they don't want to cut."

TAX REVOLT

Mangano's victory over two-term Democratic incumbent Thomas Suozzi in 2009 was one of the first major upsets that can be chalked up to the Tea Party. His campaign posters avoided the word "Republican" and instead stressed his "tax revolt" message.

On that score, his opponent was an easy target. To help close a yawning budget gap, Suozzi had instated the \$45 million home energy tax and indicated he would raise property taxes.

The home energy tax cost households on average \$7.27 each month -- a fraction of most tax bills. But in an area already paying some of the highest taxes in the country, it took on symbolic importance.

Mangano defeated Suozzi by fewer than 400 votes, stunning the political establishment.

With his Long Island accent and a heavy frame, Mangano is often described as genial. He has made much of his blue-collar roots, including his time spent working as a janitor while a high school student.

His struggle began almost the minute he repealed the energy tax. "I'm not sure that (Mangano) understood the magnitude of the fiscal problems that he faced and he had promises from the

campaign that he had to keep," said Lawrence Levy, a dean at Hofstra University and a former member of the editorial board at Long Island daily Newsday.

Eliminating the energy tax "blew a bigger hole in his budget and added to the problem with really no plan to replace the revenue," he said

Within two working days of Mangano's inauguration, a letter from NIFA landed on his desk -- the opening salvo of what would fast become a testy relationship.

In a two-page letter, NIFA's chairman Ronald Stack requested a revised multi-year plan and asked Mangano how he planned to make up for the lost revenue.

He never did provide an answer that satisfied them. On Wednesday, NIFA said the county's \$2.6 billion budget was out of balance by \$176 million, meaning it could take control of its finances. Mangano said he would sue NIFA.

HEAVEN FOR REPUBLICANS

To be sure, Nassau County's fiscal woes long predate the Tea Party.

Known as the "Gold Coast" and dotted with sprawling mansions in America's Roaring Twenties, the North Shore of Nassau County was the setting for F. Scott Fitzgerald's "The Great Gatsby." Following World War Two, the entire county transformed into the quintessential American suburb. Its proximity to New York City, its beaches, good schools and low crime rate led to a rapid population increase.

In liberal New York, it was also a rare conservative stronghold. "When a Republican dies and goes to heaven it looks a lot like Nassau County," former President Ronald Reagan famously said.

But by the 1990s, both its economic and population growth had plateaued. At the same time, police salaries had ballooned. By 2000, a Nassau County cop could expect to earn over \$100,000, including overtime.

In 1999, with bankruptcy a real possibility, the state bailed out Nassau County to the tune of \$100 million. NIFA was created the following year to oversee Nassau's finances and to issue bonds and notes on the county's behalf. Even a one percent budget gap can prompt a takeover.

The county's financial crisis helped usher in an era of Democratic rule. Suozzi was elected in 2001 and served two terms as county executive before his defeat to Mangano, a 14-year veteran of the Nassau County Legislature.

Despite its troubles, the county of 1.4 million people remains one of America's wealthiest. It has the highest concentration of affluent neighborhoods in the United States, according to Forbes.

It also has a median household income of \$94,856 almost twice the U.S. median -- though it is also one of the country's most expensive places to live.

A shopping strip in Manhasset, known as the Miracle Mile, is a blur of Tiffany's and Prada and is popular with celebrities including Gwyneth Paltrow and Jennifer Lopez.

Although Mangano insists that politics is behind the state's takeover, the six-member NIFA board is hardly on the same page ideologically, at least according to their voter registration. Three are registered Democrats, one is a Republican, one is a Conservative and one an Independent.

The Republican, Thomas Stokes, served as Suozzi's deputy for finance, while conservative George Marlin publicly backed Mangano during the election campaign.

Lately, though, Marlin has become one of Mangano's most outspoken critics.

TALE OF TWO DEFICITS

Marlin told a NIFA meeting late last year that Nassau County faced a "tale of two deficits."

"A serious and critical budget deficit that the Mangano administration inherited" and "then there's the credibility deficit. A lack of candor has been coming from the county. Promises have been made but not kept," he said.

Some problems stemmed from sheer sloppiness. The documents reviewed by Reuters included a number of simple errors. For example, in his review of the county executive's budget, Comptroller George Maragos, a fellow Republican, incorrectly calculated a gain as a loss in the other revenues column -- a \$600,000 gain was instead posted as a \$500,000 loss.

The comptroller's office said the error was due to a typo.

And then there was the chasm between words and actions. Despite his stated mission to slash spending, Mangano did not immediately institute a formal hiring freeze.

By far the biggest savings he touted for the 2011 budget were \$61 million worth of union concessions. Those never came, and by most accounts were never a serious possibility.

The offending home energy tax was part of a three-year deferred-pay deal struck by Suozzi with the unions. Suozzi said the deal would give the county time to get its finances in order as the economy picked up. The thinking was that the home energy tax alongside a promised property tax increase would set up a recurring revenue stream for the county.

Among other things, taking on the energy tax hampered Mangano's ability to negotiate with the unions. "Everybody was supposed to share a little bit of the pain," said police union President James Carver. "Now the county executive is taking away one of those legs of the three-part plan."

At the end of April, Mangano met with labor leaders at Ruth's Chris Steak House in Garden City to inform them he would put \$61 million in union concessions into his 2011 budget.

Union leaders say they remember the dinner as not very substantive, quipping that the main decision of the evening revolved around what to order as a side dish.

Carver said Mangano told him the budget item was a mere "place holder" while he pursued a possible Long Island casino project and his revamp of the county's costly property tax refund system.

"He gave me the impression that this was never going to happen," said Carver, who pointed out that the \$61 million reduction would be the equivalent of an 11 percent cut in police salaries.

"NO PROPERTY TAX BUDGET"

In September, Mangano presented his 2011 budget, which he called a "no property tax budget." He said it would eliminate 400 county jobs and cut more than \$100 million in spending.

Both Comptroller George Maragos as well as the county legislature's Republican majority leader Peter Schmitt deemed the budget was sound. But by NIFA's calculation, it was off by at least \$26 million -- the one percent that would spur a control period.

"A budget is a plan, it's a dynamic plan," the comptroller told Reuters in an interview in his Mineola office. "For NIFA to argue that a one-percent anticipated deficit in a \$2.6 billion budget is cause for alarm I think is ludicrous."

But NIFA were not the only one concerned with the 2011 budget. In November, Moody's Investors Service downgraded the county and put its finances on outlook negative, citing weak liquidity and an over-reliance on nonrecurring revenues. The rating agency singled out the energy tax repeal as problematic.

For the next two months, there was constant wrangling between the two sides -- with NIFA saying the county had cut taxes without making up the difference and Mangano and Maragos accusing the authority of playing politics. "I thought they were very antagonistic, very assertive ... as if they're in control, they're running the county," the comptroller said.

Indeed, NIFA sent multiple requests to county officials beginning as early as the summer, asking for back-up for their cost savings as well as a battery of additional contingency plans.

When they had questions for the comptroller that August, he was out of the country. Maragos spent nearly six weeks in his native [Greece](#), although he had remote access to email and spoke with his office daily.

PERMITTED TO GOVERN

As 2010 drew to a close, handling NIFA inquiries had become a full-time job for the county executive and his staff.

NIFA called a public meeting at the Long Island Marriott Hotel in Uniondale for December 30. Mangano had not been expected to attend, but in the end he did come -- armed with several new contingencies.

"There may come a time when I may ask for your help. That time is not now," Mangano said ahead of the meeting. "We ask that we be permitted to govern."

Following a lengthy closed-door meeting, NIFA decided to hold off declaring a control period, and gave the county three additional weeks to provide further substantiation for the new contingencies.

"In an abundance of caution, we're giving the county one final opportunity to present its case that this budget is balanced," Stack said, adding this would be its "last chance."

Despite the extra time, a review of all letters sent to NIFA during that period showed few concrete details.

When answering questions about labor savings, the county circled back to its extra contingencies, including a land lease deal that had yet to be formally approved. When answering questions about that same land deal, the county looped back to the promised union concessions that have not materialized. Many of the other ideas required some sort of legislative action.

In the end, he ran out of time. On Wednesday, NIFA took over.

"As is the case elsewhere in New York State and the nation, this is the convergence of anti-tax fervor and a lack of political will to make the expense cuts necessary to balance the budget," Stokes, the NIFA board member, told Reuters.

(Editing by Jim Impoco and [Claudia Parsons](#))