

# **Bond Case Briefs**

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## **Hamptons' Home County Turns to False-Alarm Fees After Downgrade.**

For the billionaires with homes in Long Island's Hamptons, a \$50 fee for false security alarms won't mean much. For Suffolk County, it would mean \$7.3 million to help close a deficit that's triggered a cut to its credit rating.

The fee is part of County Executive Steve Bellone's \$2.9 billion proposed budget that local lawmakers will vote on next month. If it's adopted, the county would join a long-term push by local governments from Los Angeles to Cincinnati to claw back the more than \$1.8 billion spent annually when police respond to phantom burglaries.

Suffolk's government, despite the wealth of its beachfront communities, has been struggling with budget shortfalls since the end of the recession more than six years ago. Facing a \$49 million deficit after already cutting the county's payrolls by more than 10 percent, Bellone is searching for revenue to keep his promise not to raise property taxes by more than 2 percent a year.

"They're really going to nickel and dime their people just to try to avoid whatever semantics they have on tax increases," said Howard Cure, managing director for research in New York for Evercore Wealth Management, which holds some of the county's debt among its \$6 billion of investments. "You have to wonder whenever the next recession is, how prepared a county like Suffolk will be."

### **Credit Impact**

The persistent strains in the county of 1.5 million have tarnished its standing on Wall Street. On Oct. 8, Standard & Poor's downgraded Suffolk County for the second time since 2012 by reducing the rating to A, the fifth-lowest investment grade. When it sold bonds this month, investors demanded yields of 2.9 percent on securities due in 2028, about a full percentage point more than benchmark debt, according to data compiled by Bloomberg.

With the false-alarm fee, Suffolk County is borrowing a tactic that's long been used elsewhere. Los Angeles started billing alarm owners in 2004 because only about 5 percent of the calls police were responding to were actually burglaries. Cincinnati imposes a similar charge.

Such unnecessary dispatches are legion. Between 91 percent and 99 percent of security-alarm calls to police are false, said Simon Hakim, an economist at Temple University in Philadelphia. Fees like those being considered by Suffolk County — which will be \$100 for businesses — still aren't high enough to cover the cost, he said.

"Police should stop responding to false alarms," Hakim said. "If they choose to maintain the service, they have to charge the full cost and some profit above it."

In Suffolk County, about 14 percent of calls from security systems are false, which amounted to about 90,000 unnecessary ones in 2014 alone, said Vanessa Baird-Streeter, a county spokeswoman. Under the proposal, residents and businesses would also have to register their alarms, and the first

two false calls would result in only warnings, she said.

## **Seeking Revenue**

The alarm cash is part of a wider plan by Bellone to add an additional \$42.2 million in revenue from new fees and increases to existing ones, including one aimed at the cost of billing residents for unpaid traffic and parking violations, according to an Oct. 16 report by the county's Budget Review Office.

As the county legislature considers Bellone's proposed spending plan ahead of next month's vote, the Budget Review Office said it will have to find additional ways to cut spending or raise revenue after sales-tax collections fell short of expectations in the third quarter of this year. The drop indicates the county may miss Bellone's sales-tax targets for 2015 and 2016 by a combined \$48.6 million, the Oct. 16 report said.

Standard & Poor's said that while the county has made progress since 2012 to balance the budget, further steps are still needed to bolster its reserves and make up for the slow pace of revenue growth. Fitch Ratings ranks Suffolk County at the same level as S&P, citing the persistent deficits and its high dependence on sales taxes.

The financial pressure has led investors to demand extra yields to hold its bonds instead of other securities, said Charles Grande, head of municipal research in New York at UBS Global Asset Management, which has \$13 billion under management. That includes \$13 million of Suffolk bonds.

"You take into account that you're talking about a noteworthy credit in the muni market, and you're fighting headline risk in terms of negative news on the county's fiscal situation," Grande said.

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by Freeman Klopott

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