



OFFICE OF THE STATE COMPTROLLER

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Ending New York's Chronic Budget Crisis Strategy for Fiscal Reform

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Introduction

The need for fiscal reform in New York State could not be more compelling. Despite significant spending cuts and revenue increases proposed in the Executive Budget, New York State still faces major projected budget gaps in future years—a cumulative three-year General Fund budget deficit that could exceed \$30 billion through State Fiscal Year (SFY) 2013-14. This predicament is not new. The Executive Budget submitted in each of the past ten years has included out-year gaps, even in years when revenue grew at double-digit rates.

Chronic deficits occur because recurring spending grows faster than recurring revenue. By using a one-year focus on the budget, New York State “balances” its spending plan each year through measures that include a collection of unrealistic assumptions, fiscal gimmicks, raids on dedicated funds and borrowing. Many of these actions provide only short-term budget relief to finance long-term commitments. This creates projected budget gaps in future years, which are then temporarily avoided through similar quick-fix solutions that only worsen the State’s long-term problems.

The result has been a string of unaffordable and unsustainable budgets. New York State now faces significant projected deficits that require a realignment of spending and revenue, and fundamental changes in basic fiscal practices. These problems have compounded over decades and so will defy an instant solution. However, a series of immediate actions should be taken to move the State toward fiscal stability.

Comptroller’s Strategy for Fiscal Reform

Comptroller DiNapoli’s Strategy for Fiscal Reform proposes a new framework for how New York State budgets are proposed, negotiated and implemented. These reforms impose new requirements on revenue and spending estimates, require financial plans that address out-year deficits, end the practice of balancing each year’s budget with fiscal gimmicks and move the State toward addressing its structural budget imbalance.

The Comptroller's fiscal reform plan would put in place procedures that will ensure the State achieves and maintains budget balance and enhance transparency and public understanding of the budget. It accomplishes this through statutory changes and amendments to the State Constitution. The reform plan builds on recommendations previously advanced by Comptroller DiNapoli, such as changing the State fiscal year from April 1 to July 1 and adopting a two-year budget. It also builds on prior reform proposals that have been enacted into law, such as the Comptroller's review of public authority contracts included in the Public Authority Reform Act of 2009.

For too long, New Yorkers have been forced to cope with annual budget crises, late budgets, mid-year spending cuts, temporary tax hikes and the use of budget one-shots that stand as national examples of fiscal sleights of hand. Comptroller DiNapoli's Strategy for Fiscal Reform includes eight initiatives to address these long-standing deficiencies in the State's budget process.

These reforms can be accomplished through many methods, including statutory or constitutional amendments, and through controls contained in bond covenants.

Require the Governor to propose a three-year gap-closing plan

At present, New York is only required to enact a one-year, balanced budget. This allows the State to ignore the fiscal impact that current-year decisions have on future years' budgets. Postponing to the future the difficult decisions of how to pay for new programs and services results in chronic out-year gaps as programs expand and grow, non-recurring resources disappear and debt payments increase. The Executive's proposed budget may close the projected \$9.0 billion gap for SFYs 2009-10 and 2010-11, but it does little to address gaps after next year. The SFY 2010-11 Executive Budget projects a gap of at least \$6.3 billion in SFY 2011-12 that increases to at least \$12.2 billion in SFY 2013-14, with no indication as to how these gaps should or could be closed.

Comptroller DiNapoli's Strategy for Fiscal Reform requires the Governor to identify preliminary actions to close these out-year gaps, as part of the Financial Plan projections required under current law. Modeled after successful budget planning methods used by New York City, this provision would move the State toward more effective multi-year budget planning.

Strengthen the consensus forecasting process

Current State law requires the Executive and Legislature to agree on a revenue forecast by March 1 to provide a framework for the upcoming budget. Absent agreement, the Comptroller is directed to provide a forecast by March 5. However, this process covers only tax revenues, certain miscellaneous receipts and Lottery revenue, not *all* resources available to the State. In addition, the final revenue forecast in no way limits the level of spending in the Enacted Budget.

To close these loopholes, the Comptroller's plan requires the Legislature and Executive to reach a consensus on all revenues and other resources available for spending (including bond proceeds, spending re-estimates and close-out balances from the prior fiscal year). The State Comptroller would be required to review and comment on this forecast. If agreement is not reached by March 1, the State Comptroller would provide the forecast. The established forecast would be binding. Spending in the Enacted Budget could not exceed the level of forecasted resources. By limiting spending to available means, this reform would impose the overall budgetary discipline that has long been absent in New York State.

Increase reserves

Recent developments demonstrate that economic recessions and unforeseen events can force serious budget imbalances. Prudent fiscal management dictates that governments maintain reasonable budget reserves to cushion the effects of these revenue shortfalls. Currently, when the General Fund has a year-end surplus, New York is required to contribute to its Tax Stabilization Reserve Fund. However, these deposits are restricted to just 0.2 percent of annual General Fund spending with the maximum balance capped at 2.0 percent of General Fund spending. Other reserves, such as the Rainy Day Fund, have no required deposits.

Ten years ago, the State's reserves stood at \$5.1 billion but were largely depleted after the September 11th attacks. Despite rapid revenue growth from 2004 through 2007, due to a strong economy and record profits in the financial industry, these reserves were never fully replenished and now stand at approximately \$1.3 billion. As a result, New York is unable to effectively use reserves to help cope with the current fiscal crisis.

Comptroller DiNapoli's Strategy for Fiscal Reform requires increased reserves to cushion against budget shocks. Specifically, in any year in which the State incurs a surplus, 50 percent of this surplus, after the required 0.2 percent deposit to the Tax Stabilization Reserve Fund (TSRF), must be paid into the Rainy Day Fund. Deposits to the fund would end when it reaches a maximum level of 5.0 percent of State Operating Funds spending (\$4.5 billion based on current spending levels). When combined with the TSRF, reserves based on current spending levels would total nearly \$5.6 billion.

Restrict the use of one-shots

The State frequently pays for recurring spending commitments with "one shots" (one-time or temporary resources) that contribute to the State's long-term structural budget imbalance. In the last eight enacted budgets, New York used an average of \$3.0 billion in non-recurring resources to balance each year's spending plan. The SFY 2009-10 Enacted Budget used non-recurring actions, federal stimulus funds and temporary tax increases to close more than 60 percent of the projected budget gap. For SFY 2010-

11, the Executive's plan uses \$11.3 billion in non-recurring actions, federal stimulus funding, and temporary tax increases and other measures that together make up nearly 21 percent of projected General Fund spending.

The Comptroller's proposal prohibits using non-recurring revenues to pay for ongoing expenses. One-time resources or resources with a duration of three years or less could be used only to pay down debt or finance non-recurring expenses, such as emergency spending or capital projects. The enhanced consensus resource forecast would identify all non-recurring resources and the Enacted Budget would be required to show the use of these resources for non-recurring spending. This measure would help the State realign its long-term spending commitments to fit within available and recurring revenues.

Require negotiation of budget publicly through conference committees

Current law requires the Legislature to establish procedures for joint budget conference committees and promulgate a meeting schedule within ten days of submission of the Executive Budget. However, as was the case during the SFY 2009-10 budget process, the budget conference committees often do not meet, and there is no requirement for public budget deliberations and discussion.

This initiative requires the joint committees to meet publicly to negotiate the budget, allowing enhanced public discussion and oversight. These conference committee meetings would provide the needed structure for open budget deliberations, give a greater voice to individual legislators and improve public awareness of fiscal decisions that affect New Yorkers.

Strengthen capital planning

The State currently prepares a five-year Capital Program and Financing Plan presenting information regarding planned appropriations, spending and financing sources for all capital programs. Each State agency has its own capital planning process, but the plans rarely extend beyond five years. There is little coordination or consistency among the plans and there is no mechanism that comprehensively identifies current infrastructure needs or assists the State in setting capital investment priorities.

Comptroller DiNapoli's proposal establishes a Capital Asset/Infrastructure Council to strengthen New York's capital planning process. The Council would create and regularly update a comprehensive inventory and needs assessment of the State's capital assets and infrastructure. The needs assessment would look out 20 years to identify the State's most critical construction and reconstruction needs and would be the basis for the State's five-year Capital Plan. This initiative would provide a much-needed, long-term capital planning mechanism to allow policymakers to prioritize capital project investments, identify critical

infrastructure needs and ensure that the State's limited debt capacity is used effectively.

Enact true debt reform

New York is a national example of the imprudent use of borrowing. The State's debt burden ranks close to the top among all the states. More than 94 percent of all debt currently funded by State revenue was not approved by the voters but was instead issued by various public authorities with limited transparency or accountability. And although the State enacted legislation in 2000 to end borrowing for inappropriate fiscal gimmicks and cap debt, since then \$17 billion in State-funded debt has been authorized that is excluded from the cap with some \$7.6 billion issued for deficit financing or budget relief.

Comptroller DiNapoli proposes a constitutional amendment to reform the way New York borrows. This includes banning backdoor borrowing by authorities, restoring voter control over debt and requiring that all State debt be issued by the Comptroller, imposing a binding cap on the amount of State debt and prohibiting the issuance of debt for noncapital purposes. The Comptroller's debt reforms would help New York regain control over its borrowing habits and return to voters control over important financial decisions.

Enhance transparency in budget documents

Volumes of detailed information accompany the Executive's proposed budget each year. Additionally, a considerable amount of detail is provided with the Enacted Budget and with each quarterly update. Despite this information, the budget is nearly impenetrable to New Yorkers who attempt to have a meaningful understanding of the budget and participate in the process. Examples include:

- There is a disconnect between the budget bills and the Financial Plan, because appropriations in budget bills are not tied to disbursements shown in the Financial Plan.
- The Budget authorizes the transfer of monies among funds without any identification of the amounts or the affected funds ("blanket sweeps").
- The Budget typically fails to disclose the future year costs of new spending proposals.

The Comptroller's Strategy for Fiscal Reform requires the Executive to report three years of expected cash disbursements, by agency, for each major program appropriation. It also would require spending detail for any proposals, including new programs or major program changes that have significant increases or reductions in spending. In addition, more detailed cash flow projections would be required in Financial Plan Updates—by specific funds, taxes and programs. This reform would highlight the future

budget impact of current year actions and facilitate a crosswalk between budget bills and the Financial Plan. Finally, this Strategy would prohibit the use of “blanket sweeps” and for all sweeps, require the Executive to specify the fund and amount, report basic financial information on affected funds and assess the impact of the transfer on the affected program or activity.

Conclusion

As New York State continues to deal with the effects of persistent economic weakness, it is more critical than ever that the Executive and Legislature enact a fiscally responsible budget for SFY 2010-11. Only through a prudently balanced budget can New York meet the funding commitments it makes to local governments, school districts, service providers, students, employees and, most importantly, to the taxpayers.

The inability of the State to meet scheduled payments in December 2009 is only the latest manifestation of New York’s long history of budgetary dysfunction and the consequence of entrenched resistance to comprehensive fiscal reform. Ensuring New York’s long-term financial and economic sustainability requires the immediate enactment of fundamental reforms. Only with true fiscal reform will New York attain multi-year budget balance, return to affordable levels of spending and debt, and achieve the transparency necessary to discourage irresponsible budget practices and fiscal gimmickry.

