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N.Y.'s DiNapoli Seeks New Budget Rules for Deficits (Update1)

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(Adds Comptroller's comments in the fourth paragraph.)

By Michael Quint

March 9 (Bloomberg) -- New York Comptroller Thomas DiNapoli proposed changes to the state's budget process that he said would help keep revenue and spending in balance and put new controls on bond sales.

The state "has been addicted to unaffordable borrowing and unsustainable spending," DiNapoli said in a statement today. It faces a deficit of \$9 billion or more over the next 13 months, with larger gaps in each of the following three years, budget documents show.

New York, with \$54.8 billion of debt, is the second-most indebted state after California, and plans to sell \$5.9 billion of bonds this year, according to budget documents. DiNapoli doesn't favor selling securities to close the deficit, and is waiting to see what conditions Lieutenant Governor Richard Ravitch would attach to restrict such financing.

"Borrowing our way out of the current problem is the least desirable alternative," DiNapoli said in a telephone interview. "Whether the kind of strings he would attach to it would make it worthy of consideration -- I haven't seen what those strings are."

The borrowing may be part of the four-year plan Ravitch is expected to announce this month, Governor David Paterson said yesterday. At the end of 2007, about \$11.5 billion, or 23 percent, of state-funded debt was incurred to finance deficits or current spending, according to a report by the comptroller.

Principal and Interest

The state expects to spend \$867.1 million in the year beginning April 1 for interest and principal on the two largest categories of bonds sold to finance deficits, budget documents show.

The Local Government Assistance Corp., which sold bonds backed by sales tax in the 1990s to finance accumulated deficits, will still have \$3.64 billion of outstanding debt as of March 31, 2010, the estimates show. The Tobacco Settlement Finance Corp, which helped close deficits in 2003 and 2004 by selling bonds backed by payments of tobacco companies to settle lawsuits, will have \$3.26 billion debt outstanding for the same period, the documents show.

New York, the nation's third-largest state by population, is battling a swelling deficit after tax revenue sank in the worst economic crisis since the 1930s. The \$135.2 billion budget proposed by Paterson for the year beginning April 1 is now before legislators, who balked at earlier proposals to cut spending.

Identify Steps

DiNapoli would require the governor to identify steps to close future gaps between revenue and spending for three years in advance, not just to balance the next year's budget. New York faces cumulative budget gaps of at least \$30 billion during the next three years, he said.

The plan would also increase reserves, prohibit the use of one-time revenue for operating expenses and require public budget negotiations. It would also require lawmakers and the governor to agree on a forecast for all revenue, not just taxes, as is now required.

New York's practice of selling state-backed bonds through five different authorities to avoid the constitutional requirement that voters approve them would be ended under DiNapoli's proposal. He would also create a new group to evaluate and set priorities in the state's capital plan.

Changes in state law, constitutional amendments and modification of bond covenants would be required to implement the plan, DiNapoli said.

The nonprofit Citizens Budget Commission today published a report that said that New York's debt burden is greater than all but three states: New Jersey, Hawaii and West Virginia.

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