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Watchdog Groups Urge Prudence Over State's \$5.1B Surplus

By Karen DeWitt

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New York State will begin 2015 with the largest one-time windfall budget surplus since the end of World War II, due to settlements with major banks after the financial crisis. Fiscal watchdog groups warned lawmakers not to go crazy with ideas for how to spend it.

The settlements from Bank of America, PriceWaterhouseCooper and other financial institutions have netted the state \$5.1 billion in settlements over alleged misconduct during the 2008 Wall Street meltdown.

EJ McMahon with the Empire Center compares the windfall to choices a household might have to make when it suddenly gets a small unexpected inheritance of \$3,000. He said everybody gets excited, with one family member wanting a kitchen rehab with granite counter tops, another wanting premium cable with more sports channels. However, the best course is to spend the money on what is really needed. "Use it to repair the roof to keep the rain from coming in," McMahon said.

McMahon said Governor Cuomo and lawmakers should also resist temptation and spend the money on necessary upkeep of infrastructure. He said the MTA is predicting a \$15 billion gap and Governor Cuomo has not detailed how he will finance a \$3.9 billion new Tappan Zee Bridge on the New York State Thruway over the Hudson River. He said there are also more mundane but necessary things that need to be done. "The non-glamorous part of the infrastructure budget is what constantly gets short shrift from politicians," McMahon said. "Nobody gets a standing ovation for replacing an old sewer line or for reconstructing an existing road."

The Empire Center is fiscally conservative. The Fiscal Policy Institute is known for its progressive outlook, but FPI's Fred Floss agreed with McMahon; when it comes to spending the windfall, boring is best. "Legislators aren't going to want to hear this," Floss said. "It needs to be a lot of small projects that give us a lot benefit, not very fancy projects that come due in a year or two, when re-election comes up so they have something to point to."



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Floss said the money could also be used to replenish reserve funds for local governments and school districts that have had to draw down their reserves in recent years to pay for operating expenses.

Betsy Lynam, with the non-partisan Citizens Budget Commission, said the state could pay off some of its large debt. "That reduces costs for taxpayers in the future," Lynam said.

Governor Cuomo has not spelled out how he would like to spend the surplus, but he has mentioned several ideas, including a central infrastructure "bank" to pay for road and bridge repair. He also said he might like to use some for economic development aid for some upstate cities, modeled after the Buffalo billion, where the state gave a billion dollars to the Buffalo area over a multi-year period to boost the region's economy. The governor also said he would use some for tax credits to local governments who consolidate their services with other municipalities.

Some in the state legislature suggested tax cuts and more money for schools. Watchdog groups said that would cause funding problems later on when the one-time windfall runs out. Lynam with Citizens Budget Commission admitted it will not be easy for politically driven lawmakers to be prudent. "It's going to be hard," Lynam said.

It might be January before the full details of how to spend the windfall are revealed in the governor's state budget plan.