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Broad Plan Urged to Battle New York's Fiscal Crisis

By DANNY HAKIM

ALBANY — New York could borrow billions of dollars to address its urgent [budget shortfall](#) and a financial review board would be established to impose new discipline on future spending under a five-year financial rescue plan that Lt. Gov. [Richard Ravitch](#) will present Wednesday.

The plan would also require significant spending cuts and abolish some of Albany's much-criticized budgeting practices, forcing lawmakers and the governor to account for how they will pay for spending expansions when they are approved.

Mr. Ravitch, who was asked by Gov. [David A. Paterson](#) to draw up the blueprint, is seeking to curb the runaway spending that has helped plunge New York into fiscal crisis. Despite the recession and talk of fiscal austerity, state spending this year soared by 10 percent over the previous year's budget.

The state faces a \$9 billion shortfall for the fiscal year that begins April 1 and a \$15 billion gap for the following year.

The plan, which requires legislative approval, seeks to address New York's immediate cash needs by permitting the state to sell bonds to help cover operating expenses. But those bonds would be contingent on the state's producing a balanced budget, and the newly established board would have the authority to determine whether the budget meets that requirement.

In addition, the plan would limit how much could be borrowed — probably 1 percent or 2 percent of the total budget, so lawmakers do not rely on borrowing to shirk difficult decisions on spending cuts, though any increase in borrowing will be controversial.

It would represent drastic change to how Albany has operated for decades. But the severity of the fiscal problems, and Mr. Ravitch's stature as one of the leading figures in the rescue of New York City in the 1970s, have legislative leaders and other top state officials examining the proposal seriously.

Even though the plan would take away some authority from lawmakers, [Sheldon Silver](#), the most powerful Democrat in the Legislature, said it would be carefully considered by his colleagues.

"It's not D.O.A.," said Mr. Silver, the Assembly speaker. "I think there's too much respect for Dick Ravitch in that regard, and he's worked hard to come up with a plan that works."

Mr. Ravitch declined to provide details on his proposal on Tuesday, but the plan was described by a number of people who had been briefed on it.

Currently, New York generally borrows money for capital expenses but not for continuing operating costs. Under Mr. Ravitch's proposal, if the control board declared the budget to be out of balance, lawmakers and the governor would have an opportunity to revise it and address the imbalance. If they failed to, the bonds issued to address the operating budget shortfall would go into default, giving the board considerable leverage, because of the dire consequences of default.

Elizabeth Lynam, deputy research director at the [Citizens Budget Commission](#), which advocates for lower spending, said it might be difficult for lawmakers to swallow such a change.

"The Ravitch plan can't be used as an excuse to avoid cutting spending," Ms. Lynam said. "So it really does have to come with considerable strings attached, and those are going to be tough strings for the Legislature to tie onto themselves. The last thing we want right now is for them to see a giant exit sign in the form of deficit financing and they run for it."

The five members of the review board proposed by Mr. Ravitch would be appointed by the governor, the legislative leaders and the state comptroller.

Mr. Ravitch's plan would also require the state to adopt "generally accepted accounting principles" for its budget process, a step many budget watchdogs say is long overdue. And he is proposing to move the end of the state's fiscal year from the end of March to the end of June, putting New York in line with other states and allowing budget planners to gain a better picture of tax collections when drafting a

spending blueprint.

With the governor mired in investigations and scandal, lawmakers are increasingly looking to Mr. Ravitch to fill a power vacuum, or at least help chart a way out of budget negotiations that barely seem to have started, even though there are only three weeks left in the fiscal year.

On Monday, Mr. Paterson raised concerns about the borrowing permitted in the Ravitch plan, while acknowledging that he had not been briefed on the details. By Tuesday morning, after he met with Mr. Ravitch, his stance had softened somewhat.

“No governor should be signing off on borrowing by itself right now, because borrowing is what got us into this mess,” the governor said at an appearance in Albany on Tuesday. “But if we were able to constrain our spending, then obviously bond holders and credit rating agencies would look more favorably on us.”

Switching to generally accepted accounting principles, or GAAP, would also mark a significant shift. While the principles are used by public corporations and in New York City’s budgeting, New York and most other states prefer what is known as cash budgeting.

The change would make it much more difficult for the state to defer budget problems into future years by holding off on paying bills.

Austin Shafran, a spokesman for the Democratic majority in the Senate, said the Senate leader, [John L. Sampson](#), believed “it should be viewed in sum, not in parts, and he wants to discuss it with his conference before moving forward.”

The board proposed by Mr. Ravitch will inevitably be likened to the panel that oversaw New York City’s finances beginning in 1975. It would lack that board’s sweeping authority to reject financial plans or labor contracts, powers that led former Mayor [Edward I. Koch](#) to once complain that the city had been reduced to an “indentured servant.”

The state has the power to impose such severe measures on municipalities; Mr. Ravitch, by contrast, will try to persuade the governor and lawmakers to agree to more moderate restraints on their powers.

Certainly, the state is in tough fiscal shape. The governor and officials in the Budget Division are warning that there could be another cash crunch in late May and early June, when the state has to pay a number of large bills, including \$2.6 billion in school aid and \$3.5 billion in [Medicaid](#). That could lead the state to delay making some of those payments.

And some of the revenues the state was depending on are in serious doubt. The state hoped to generate \$300 million from its recent move to award video gambling machines at the Aqueduct racetrack in Queens, a deal now mired in a federal investigation. New York City officials have balked at a state plan to raid \$200 million from the [Battery Park City Authority](#). And Mr. Paterson’s plan to raise \$465 million from a new tax on sodas is facing stiff opposition in the Legislature.