

# CITIZENS BUDGET COMMISSION

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## **CBC Statement on Lieutenant Governor Ravitch's Financial Plan Proposal**

**New York, NY – March 16, 2010** – The Citizens Budget Commission (CBC) today issued the following statement by CBC President Carol Kellermann:

While the Citizens Budget Commission would ordinarily oppose any borrowing for operating expenses the Lieutenant Governor's proposal has the potential to impose much needed long-term fiscal discipline and achieve structural reform. The plan, if adopted as a package as he has outlined, could have substantial benefits which may be worth the price in additional borrowing and debt service.

### **1. Require budgets balanced according to strict standards.**

The proposal would require the State to balance its budget according to Generally Accepted Accounting Principles (GAAP). This is the accounting basis required for the City of New York, and it is the standard long recommended by the Citizens Budget Commission for the State as well. The GAAP standard for balance would be applied in fiscal year 2015-16 with adequate progress toward that goal required in each preceding year.

The cash basis now used for New York State budgeting is manipulated too easily and too often. By allowing the State to postpone the recognition of expenses while accelerating the recognition of revenue it has created the appearance of balanced budgets, when reality is repeated deficits and persistent structural imbalance.

To deal with the mismatch of revenues and expenses created by its accounting policies, the State repeatedly resorts to involuntary loans such as deferring tax refunds to taxpayers, postponing payments of Medicaid claims and other bills to vendors, and lagged payment of wages and benefits to employees. By shedding light on budget gimmicks and hidden borrowing, the use of GAAP accounting is the essential first step to transforming the fiscal culture of Albany.

### **2. Achieve and sustain balanced budgets through better financial planning**

The proposal would require the State to develop a five-year plan for achieving a balanced budget and to sustain that balance on a recurring basis through an ongoing process of rolling five-year plans. Each quarter the plan would be updated to reflect changing conditions and be subject to review and approval by the Financial Review Board.

It will be difficult, if not impossible, to eliminate structural deficits without dramatic reductions in spending. A clear standard of “adequate progress” towards a balanced budget that requires significant and recurring expenditure reductions should be set for the Financial Review Board that will monitor the plan.

**3. Allow limited, transparent transitional borrowing through well-secured bonds.**

The proposal would eliminate the current involuntary loans and other gimmicks that now help the State meet its cash needs and replace them with a limited amount of borrowing in the first three years through bonds secured by personal income tax revenues. The conditions placed on such borrowing should be iron-clad and tough enough to ensure that transitional borrowing is just that—a transition to a point in the future that leaves New York in better financial condition.

Questions remain about how the amount and repayment schedule of this borrowing would be determined and structured. The CBC continues to believe that borrowing for operating purposes should be avoided. The State is already overburdened with debt, and has considerable future capital needs. However, if the new planning process demonstrates that concerted efforts to reduce spending cannot yield enough savings to completely close short-term budget gaps and temporary deficit financing becomes necessary, then the amounts permitted should be strictly limited and repaid as rapidly as possible. In fact, a short and firmly fixed repayment schedule is one of the only reasons to support such borrowing.

While the Lt. Governor’s plan has merit, it is an outline and the details of the implementing legislation will be of tremendous importance. Without detail on how these new controls would work there is a risk that the plan becomes a license to avoid the tough fiscal decisions that are urgently needed. Moreover, while the plan sets forth a process to achieve long term structural balance, it is not a budget establishing revenue and expenditure levels for the fiscal year that begins in a few weeks. State leaders should move expeditiously to adopt a responsible budget for the coming fiscal year and to implement these reforms in conjunction with it.

*Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.*

