



# CITIZENS BUDGET COMMISSION

11 Penn Plaza Suite 900 New York, NY 10001

Dear Legislator,

The Citizens Budget Commission urges you to vote against A.1 and A.2, slated for the Assembly calendar today. These budget reform proposals should be re-vamped before you adopt them. Although fixing the budget process requires amending the constitution, the amendment before you is not the right one to put before the people in November. The statement released by the CBC released last May (below) lays out our fundamental concerns with the reforms as proposed.

Sincerely,

Diana Fortuna  
President

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## STATEMENT BY THE CITIZENS BUDGET COMMISSION ON THE NEED TO REVAMP BUDGET REFORM PROPOSALS

May 25, 2004

In its 2004 session the State Legislature has made progress in addressing the troublesome problem of a “broken” budget process. The legislative leaders established a Conference Committee to consider reforms, the Committee has conducted open meetings characterized by thoughtful debate, and last week the Committee released a proposed constitutional amendment and statutory measures that include positive steps towards more open and responsible budgeting. The State Senate has now passed the measures and they are pending in the State Assembly.

However, the proposed measures fall short of an acceptable solution. These measures can be and should be revised for action in the current legislative session. The Conference Committee should redesign its proposals to strengthen them in the following ways.

- 1. The positive statutory changes included in the Committee’s proposal should become effective upon passage, rather than delayed until other steps requiring a constitutional amendment that will take almost two years are approved.**

The Committee’s proposed changes are of two types. The first require only statutory action in the current legislative session. Others require an amendment to the State Constitution. Such an amendment requires passage by the current legislature, by the next legislature meeting in 2005, and approval by voters in an election in November 2005. It would not be effective until the budget cycle beginning in January 2006.

Unfortunately, the Committee has delayed implementation of the statutory changes until after passage by the voters of the constitutional amendment. The delay is neither necessary nor desirable. Citizens and legislators should benefit from the positive statutory changes as soon as is practical, rather than have the progress deferred or thwarted. Among the proposed changes that could and should be implemented as early as the current 2004-05 budget are bringing “off-budget” accounts such as those authorized by the Health Care Reform Act into the regular budget process, requiring a “current services” budget to which the Executive Budget and the Adopted Budget can be compared, and requiring more timely and detailed reporting on the budget and the three-year financial plan.

**2. The Committee's proposed constitutional amendment should be redrafted in order to accomplish more effectively its intended objectives.**

The proposed constitutional amendment serves three purposes: (a) to authorize a "contingency" budget should the legislature fail to adopt a budget by the start of the fiscal year; (b) to increase the permissible size of a "rainy day" fund; and (c) to create a new reserve fund that would deal with cash flow problems arising from the change of the start of the fiscal year from April 1 to May 1. The change in the fiscal year itself does not require a constitutional amendment and would be accomplished by statute.

**Contingency Budget.** Currently, when a budget is not adopted by the start of the fiscal year, the Governor asks the Legislature to pass "emergency" legislation that appropriates funds temporarily at specified levels in order to keep government agencies functioning and pay debt service. To encourage more permanent action on appropriation bills, the members of the legislature are not paid until a full budget is enacted.

The Committee's amendment would replace these emergency measures with a contingency budget that automatically takes effect at the start of the fiscal year. While this contingency budget would authorize debt service payments and keep many government agencies operating at essential levels, it removes incentives for timely action. School districts would receive increased aid, and other large components of the budget may be authorized at levels equal at least to the previous year's. To be a more effective stimulus to timely action, the concept of the contingency budget should be revised to constrain spending more tightly and to keep pressure on the Governor and the members of the Legislature to take timely action. Otherwise a contingency budget would just codify current practice.

**Rainy Day Fund.** The State's rainy day fund, known as the Tax Stabilization Reserve Fund, is now limited in size to 2 percent of the previous year's General Fund spending, and annual deposits to the fund are limited to one-tenth that amount. This has proved inadequate to help the State weather economic downturns. The Committee's amendment would increase this to 3 percent. While a step forward, this is still inadequate. The limit should be increased to 5 percent or more, and larger annual contributions should be authorized.

**New Reserve Fund.** A third part of the Committee's constitutional amendment is intended to cope with a potential problem created by the shift in the start of the fiscal year from April 1 to May 1. April is a month in which the State enjoys a cash flow surplus, because it has no unusual expenditures and it receives unusually large payments in the form of final income tax returns (due April 15) and estimated income tax payments. In contrast, May and June typically are months with cash flow deficits because of limited receipts and large payments of school aid to local districts. Unless provision is made to move some of the cash surplus from April to the start of the proposed new fiscal year, the State would start the new year without adequate cash to make school aid payments and would have to borrow. In order to cope with this problem, the proposed amendment authorizes a new reserve fund that can be used to make school aid payments.

However, the proposed fund is inadequate for the task. Its size is limited to 3 percent of previous year's General Fund spending, and this sum is to be built up gradually over six years. Consequently, especially in the early years, the amount in the fund would fall short of the required school aid payments.

This problem can be solved in one of two ways. First, the fund could be made larger and adequate funding could be mandated. Alternatively, and preferably, the change in the fiscal year could be modified. The new fiscal year should start on July 1, but adoption of a budget should be required by May 1. The latter change would provide the same deadline for adoption as the Committee's proposals, but would not create the cash flow difficulties inherent in a May 1 start of the fiscal year.

### **3. The Committee' proposals should be expanded in scope to include other essential elements of budget reform.**

At a meeting in Palisades, NY, in November of 2003, more than 150 concerned leaders from across the state agreed upon ten measures, known as the Palisades Principles, as most important for improving New York State's fiscal practices. Most of these measures are not included in the Committee's recommendations. In some cases, such as making the State's public authorities more accountable and reducing the mandated local government share of Medicaid costs, the omission is understandable, because the relevant policies are intended to be addressed in other legislative forums.

However, this budget reform package should include other relevant and vital reforms such as requiring (in constitutional amendments) that the budget be balanced in accord with Generally Accepted Accounting Principles and that State debt be limited based on realistic measures of affordability. Other reforms achievable by statute include requiring performance assessment of State expenditures, preparing a version of the budget in clear language understandable by the lay citizenry, utilizing consensus revenue estimates, and strengthening the legislative committee process. Without these measures, the proposals must be judged incomplete.

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