BLOG | STATE BUDGET

NYS Should Not Borrow for Operations Without Spending Restraint, Fiscal Stability Plan, Enhanced Oversight, and Transparency

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Governor Andrew Cuomo released the New York State Fiscal Year 2022 Executive Budget January 19, which included actions to close both the fiscal year 2021 and 2022 budget gaps. While the budget does not use debt to balance the operating budget, it does propose to give the State the authority ultimately to issue up to $11 billion of debt for operations.[1] Using long-term debt to fund operations can be a tempting way to close budget gaps, but it should be a last resort after other less harmful strategies are exhausted. To ensure appropriate use of debt for operations, such debt authorization or use should require that debt should not support unsustainable spending increases, should be part of a comprehensive fiscal stability plan, and should trigger enhanced fiscal oversight and transparency that includes balancing annual budgets in accordance with Generally Accepted Accounting Principles (GAAP).

The Governor has recognized the pitfalls of borrowing to close budget gaps, calling it "the most dangerous answer because you then postpone all the hard decisions to another date."[2] Borrowing to fund operations would provide short-term relief, but also would increase long-term costs, obligate future New Yorkers to pay for current services, constrain the ability to fund future services, and hamper New York's competitiveness.[3]

Prospects for additional federal relief are good, but whatever aid provided to the State—while critical and appropriate—is unlikely to be sufficient and may not be timely, and risks to the economy persist. Additional federal aid would help the State bridge the chasm opened by the recession, but that bridge should land on a stable shore. Thus, State leaders should make hard choices that balance the needs of current and future New Yorkers—providing local aid and core services, taking care of our most vulnerable, and keeping New York competitive as a place to live and start and grow businesses. Spending should be restrained appropriately to ensure the spending level is sustainable when the economy recovers.

The Citizens Budget Commission outlined several viable options to balance the fiscal year 2021 budget, including restructuring the capital plan and financing, reducing unproductive economic development programs, focusing school aid reductions on wealthy districts that already fund a sound basic education with local resources, using rainy day funds and other reserves, and cautiously considering revenue enhancements.

This approach should guide the State in closing future gaps, so that when any additional federal aid is depleted, the State's finances are sound.

Greater transparency through the use of GAAP also will improve the State's fiscal stability. The State's use of cash accounting obscures its true fiscal condition, as exemplified dramatically when the State shifted $1.7 billion in Medicaid payments by three days in order to appear to spend less in fiscal year 2019 and to obscure the program's fiscal outlook. This maneuver did not provide genuine budget relief, which would have been apparent if the State budgeted and reported in accordance with GAAP.

Thus, long-term borrowing is a reasonable choice in future fiscal years only if the State exhausts less harmful strategies. Therefore, borrowing should be authorized or used only under the following strict conditions:

1. The State balances this year's budget without long-term borrowing for operating expenses;
2. The amount used is limited to what is needed after the State exhausts other gap-closing strategies and uses new federal aid to reduce budget gaps;
3. Borrowing is not used to increase state operating spending, inclusive of any federal stimulus aid, more than 2 percent or the inflation rate, whichever is lower;[4]
4. Borrowing is part of a comprehensive and feasible multiyear plan that leads to fiscal stability and is presented in accordance with GAAP;
5. The State Comptroller assesses whether the fiscal stability plan is realistic and feasible, and approves each instance of borrowing for operations only if it comports with a realistic and feasible plan; and
6. The State adopts, in law and practice, fiscal integrity and transparency measures that include the transition to an annual State operating funds budget that is balanced in proposal, adoption and at year end in accordance with GAAP, and is certified as balanced by the State Comptroller.[5] A GAAP balanced budget eventually should be mandated through a constitutional amendment.

By Andrew Rein

Endnotes

1. The Fiscal Year 2022 Executive Budget proposes re-authorization for one year of the State ability to issue up to $8 billion in short-term debt and $3 billion in a line of credit for state agencies. Both forms of debt may be converted to long-term debt. These debt authorizations were originally included as part of the Fiscal Year 2021 Enacted Budget. See Chapter 56 of the Laws of 2020 and Part QQ of S.2505/A.3005 of 2021.
2. Governor Andrew Cuomo, briefing to press (September 24, 2020), www.youtube.com/watch?v=krENYPb5dfw.
3. In order to prevent debt burdens from becoming onerous for future New Yorkers, the State Debt Reform Act of 2000 capped debt and limited its use to capital purposes. As enacted in fiscal year 2021, this year's Executive Budget again proposes to loosen these limitations. While this should not be done without the conditions enumerated below, if done the State should heed the Act's intent and use the enacted budget's authority only if essential.
4. The local property tax cap also sets the maximum permissible levy increase at 2 percent or the rate of inflation, whichever is less. For the purposes of borrowing, State spending should be adjusted for one-time federal aid and other artificial changes to spending, such as shifting spending off budget or reclassifying spending as a tax expenditure. For more information regarding the most accurate method for measuring state operating spending see: Patrick Orecki, "Flipping the Switch: Difficult Fiscal Decisions Compound as State Shifts from Spending Growth to Cuts," *Citizens Budget Commission Blog* (July 15, 2020), https://cbcny.org/research/flipping-switch.
5. State operating funds include State spending funded by state-derived resources, and exclude federal funds and spending on capital investments. For the purposes of these recommendations, GAAP is defined as using the modified accrual basis with the exception of debt used in accordance with this set of policies.