

CITIZENS BUDGET COMMISSION

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Testimony of Diana Fortuna, President, Citizens Budget Commission
Senate Democratic Task Force on Legislative and Budgetary Reform
Public Forum on Reform of the State Legislative and Budgetary Process
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The Citizens Budget Commission is a private, nonprofit civic organization dedicated to promoting better financial management and service delivery by New York City and State government. The Commission appreciates the opportunity to present testimony on the important reforms needed in Albany to fix New York State's fiscal practices.

Since 150 civic, government and business leaders developed the Palisades Principles two years ago at a CBC conference, many new ideas have been proposed to deal with Albany's storied dysfunction. The proposals have ranged from simple rules changes and executive actions to constitutional amendments; some good and some bad.

The Citizens Budget Commission believes that the two next steps should be 1) a fresh set of proposals to reform the budget process and 2) reforming the way the State incurs debt, especially through its public authorities.

A. Budget Reform, a la the Palisades Principles.

1. The Legislature should go back to the drawing board on budget reform. The voters were right to reject Proposal 1. The following changes can be accomplished in statute.

- The Legislature should require that the adopted budget be balanced. Better yet, New York's constitution should be amended to require that the budget be balanced in accord with Generally Accepted Accounting Principles.¹
- The Legislature should:
 - Increase the size of the rainy day fund to 5 percent or more of General Fund revenue.²
 - Require performance assessment of State expenditures;³
 - Prepare a presentation of legislative proposals in clear language understandable by the lay citizenry;⁴
 - Continue strengthening the legislative committee process; among other things, conference committees on budget must be mandatory.⁵

¹ Palisades Principle #9.

² Palisades Principle #5.

³ Palisades Principle #6.

⁴ Palisades Principle #7.

⁵ Palisades Principle #10.

2. The Legislature should join the Citizens Budget Commission in calling on the Governor to incorporate certain reforms into the Executive Budget and quarterly updates to the financial plan.

- Last year the spending associated with the Health Care Reform Act was for the first time included in the Executive Budget. The Governor should build on this record of including hitherto off-budget spending on State programs in next year's Executive Budget.⁶ Ideally, the Executive Budget should include budget information of public authorities doing State business.⁷
- The Division of the Budget should include complete 4-year financial projections and updated cash flows for the current fiscal year in the State's Financial Plan and each quarterly update thereof.⁸
- The Governor should also present a so-called "current services budget" to facilitate comparison of proposed appropriations with the costs of continuing state programs and expenditures at the current level. He should also prepare a version of the budget in clear language understandable by the lay citizenry.⁹

3. The Legislature and the Governor should work together on the broader reforms – public authority reform, Medicaid reform, and a “binding” revenue forecast.

- There has been considerable progress in strengthening the accountability of public authorities; it is time to finish the job.¹⁰ The CBC plans to release a new report on authority reform in the next month or so.
- Funding for the Medicaid program is inequitable. Last year some progress was made when the State assumed responsibility for the growth in the program. However, inequities in funding the base contribution are yet to be addressed. Ideally the State should assume the local government's share so that it bears full financial responsibility for the Medicaid program. On the spending side, the Commission has identified numerous program changes that would decrease the cost of the program without compromising health care for consumers. Our report, *Confronting the Tradeoffs in Medicaid Cost Containment*, was issued in February 2004 and is available at <http://www.cbcny.org/medicaid04.pdf>.
- Failure of the Governor, the Senate and the Assembly to reach consensus on the amount of each type of revenue available is the first point at which the budget process becomes delayed; this failure was averted last year but has contributed to the lateness of many of New York's budgets. Nearly all the states with the best credit ratings rely on a "binding" revenue forecast to reach 3-way agreement on available revenues. In these states, if the parties cannot agree, then an independent agency is empowered to prepare the

⁶ Palisades Principle #3.

⁷ Palisades Principle #1.

⁸ Palisades Principle #4.

⁹ Palisades Principle #7.

¹⁰ Palisades Principle #1.

revenue estimate that will be used. New York should adopt a similar system.¹¹

B. Debt reform

- Debt reform is a first priority. New York has borrowed excessively because there are no effective limits on the amount of debt that it can assume. Constitutional provisions intended to limit debt are outdated and are circumvented regularly. Statutory limits – passed in 2000 – are also being circumvented. As a result, it has become too easy for State leaders to borrow. In addition, they have misused debt, which should be restricted to paying for long-term capital projects, by financing annual operating expenses.
- The State needs constitutional debt reform and modern constitutional limits that would:
 - Establish a new debt limit based on the concept of affordability as determined by an independent Debt Policy Committee;
 - Apply the limit to all forms of state-backed debt, including such bonds issued by authorities;
 - Eliminate the need for voter approval within that limit;
 - Restrict the use of borrowed funds to true capital investments.

C. Bad ideas

- If the Legislature changes the fiscal year, the choice should not be May 1, which would create cash flow problems and could force additional borrowing costs on State taxpayers. The Governor's proposal to require budget adoption by May 1 but start the fiscal year on July 1, also supported by the State Comptroller, would avoid this problem.

¹¹ Palisades Principle #8.