



CITIZENS BUDGET COMMISSION

11 Penn Plaza * Suite 900 * New York, NY 10001

Charles Brecher
Executive Vice President and Research Director
Citizens Budget Commission

Testimony
New York City Charter Revision Commission
June 27, 2005

I am Charles Brecher, Executive Vice President and Director of Research at the Citizens Budget Commission. The Citizens Budget Commission, founded in 1932, is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State government.

Thank you for this second opportunity to speak with the members of the Commission. In March of this year I had the privilege to join a panel giving presentations to you on the topic of promoting fiscal stability. It is gratifying to see that some of the suggestions made at that time are reflected in your preliminary report.

In appearing here this evening I have a more focused agenda. Specifically, I want to:

1. Endorse the Commission's proposals to incorporate in the City Charter many of the financial planning and related measures now in the Financial Emergency Act;
2. Respond to your request for comments on the preliminary proposal to establish a "public reporting and data access commission;"
3. Offer some unsolicited advice on additional proposals related to promoting fiscal stability and transparency.

New Charter Requirements on Financial Planning and Budgeting

The Citizens Budget Commission is probably better known for its criticism than its praise. But we want to be clear in commending Mayor Michael Bloomberg for establishing a group to pursue these changes well in advance of the expiration of the Financial Emergency Act and in thanking the Commission members for designing a set of proposals that will serve the City well after the scheduled termination of the Financial Control Board. While we recognize that there is support among some of the current Board members for extending the Act, the CBC has not taken a position on that issue and we believe it is wise to establish enhanced procedures in the Charter on the assumption that current deadlines will be followed.

In brief, the Citizens Budget Commission endorses the proposed Charter revisions that incorporate current State statutory requirements in the City Charter that will:

- **Mandate Four-Year Financial Plans with Quarterly Modifications** – The current system has brought discipline and transparency to the budget process and should be continued. However, the Charter proposal should be augmented in one important way: the City should seek State legislation to extend the mandated financial planning to “covered” organizations such as the Health and Hospitals Corporation. Local taxpayers support these organizations; continuing consistent planning on the same basis as the City’s own financial plan is integral to a full presentation of the financial activities of City government. We recognize this cannot be mandated in local law and requires State action, but such legislation could be recommended in your report.
- **Set Strict Limits on Short-Term Borrowing** – Continuing the FEA limitations and repayment requirements on short-term debt is essential. The current Charter limits are too general to prevent the mistakes of the past from happening again.
- **Require Year-End GAAP Balance** – The most reliable and meaningful way to determine if a budget is balanced is by applying Generally Accepted Accounting Principles (GAAP). Under the FEA the City has been obliged to meet a doubly high standard - it must adopt a balanced budget *and* it must finish the year in balance. This year-end balance requirement has served the City well and should be continued. However, as I will note later, future amendments should be considered to allow the creation and use of a meaningful “rainy day” fund.
- **Establish Financial Reporting Requirements** – One of the principal outcomes of the FEA was improved transparency in the City’s budget process. The obligation to make regular reports to the Financial Control Board (FCB) vastly improved the City’s accountability. Operating with regular reporting practices and the requirement to supply whatever additional financial detail the FCB deems necessary, the City discloses its affairs fairly fully. The CBC supports the proposed required reporting of monthly financial statements with updates regarding variances between projected and actual revenues and expenses, and cash and capital cash in-flows and out-flows in the Charter. However, we are concerned that without an FCB with the power to compel whatever additional reporting is needed to maintain full disclosure, the City’s current practices could deteriorate in the future.

Proposed Commission on Public Reporting and Data Access

You have solicited comments on this proposal, and we have some thoughts to share. We agree that the purpose that this commission is intended to serve is essential and is not now done well. Action of some type is in order. The Charter should create an entity to review and improve Charter reporting requirements (in areas other than the budget and the Mayor’s Management Report).

However, your preliminary proposal should be improved in two ways. First, you should recognize the overlapping mission of the new entity and the current Charter mandated body called the Commission on Public Information and Communication (COPIC). This Commission has some functions similar, if not identical, to some of those proposed for your new entity. Your proposal should either modify the composition and functions of the COPIC to serve the desired

objectives or should eliminate the COPIC and replace it with an improved Commission. The City does not need a new, but duplicative, agency.

Second, the composition of the body serving this important function should be more independent of the mayor than you propose. Membership on the Commission, which you set at a total of nine with six mayoral appointees, should be revised to have only a minority of members be appointed by the mayor. The principle is that the reporting requirements for the executive branch should be set by officials representing the public, but not by the chief executive or his appointees.

Some Unsolicited Advice

It would be out of character for a representative of the Citizens Budget Commission to present public testimony without making some bold criticism or controversial suggestion for reform. I will try not to disappoint by offering some additional unsolicited advice on three topics.

- 1. Do not miss the chance to make the budget process and financial reporting requirements that you are incorporating even better than current practice.*** While widely respected, the City's current practices have a significant deficiency that undermines transparency by allowing substantial public funds to remain "off budget." Currently off-budget are the activities of the Transitional Finance Authority, the Tobacco Settlement Asset Securitization Corporation, and the New York City Industrial Development Agency and the Economic Development Corporation. The revenues and expenditures of the TFA and TSASC should be included in the regular budget process; the revenues of the IDA and EDC in excess of their debt service requirements also should be allocated as City revenues.
- 2. Lay a better groundwork for the future creation of a true "rainy day" fund.*** We acknowledge that it may not be necessary or appropriate to amend the Charter now to require or permit a rainy day fund. Use of such a fund would violate the FEA, so it is not especially relevant until 2008 passes. But creating such a fund would be in the City's best interest, and your report does not make a strong case for pursuing such a charter reform in the future.

In fact, the comments on the need for a rainy day fund on pages 24 and 25 of your report are simply wrong. Your characterization of the practice of "rolling" funds and of the "budget stabilization account" as an equivalent of a rainy day fund does not do justice to the function of a legitimate rainy day fund. The City has been spending its budget stabilization account in good times rather than saving it for a rainy day, and a true rainy day fund would not permit withdrawals in the sunny climate of record high surpluses. If you chose not to make such revisions this year, you ought to at least create an accurate record of the need for such a measure and the options a future proposal might follow.

- 3. Take seriously the concerns of the Independent Budget Office and others about the potential for future mayors to limit access to financial information.*** Ronnie

Lowenstein, the Director of the IBO, has been outspoken about the potential for future mayors to withhold important fiscal information despite the language incorporated in your proposed charter amendments. One possible rebuttal to this concern is that greater protection of a right to access to information is not possible in the absence of a Financial Control Board. But her concerns are legitimate. The IBO and the CBC know from direct experience with a previous mayor that (to adapt Sinclair Lewis' phrase), it can and did happen here. If better language can be devised to protect the fiscal monitors' access to information, you should not miss any chance to do so.

Thank you again for the opportunity to testify. I would be glad to answer any questions.