CITIZENS BUDGET COMMISSION

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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 allowing me to present testimony today on the Transportation Bond Act of 2005.

The Commission announced its opposition to the Bond Act in a statement released on September 22. While we acknowledge that New York State has serious infrastructure needs, we think that it already has too much debt. The State should finance needed infrastructure improvements without placing an unreasonable debt burden on the taxpayers, both present and future.

New York State already has $46.7 billion in outstanding debt — $8 billion more than in 2000 and nearly double the level in 1990. That's more debt than that of any other state in the nation except California. But New York is a big state. How does one know how much debt it can afford?

In explaining our opposition to the Bond Act, the Commission concurrently released a new report, *New York's Endangered Future: Debt Beyond Our Means*, which addresses that question. To be affordable, the repayment of debt should (a) not require tax increases or service cutbacks that make a place less attractive than its competitors, and (b) be gauged according to the level of resources available to repay it. Using six steps to judge affordability, the report concludes that New York's current level of outstanding debt is nearly $10 billion over affordable levels and, therefore, places the State well into a "danger zone." Among the nation's 50 states, only seven others are in the danger zone. Only two, Massachusetts and Hawaii, are in a riskier position than New York.

New York's excessive borrowing is possible because the State has no effective limits on the amount of debt that it can assume. The State Constitution, adopted in 1894 and revised in 1938, requires voter approval for any long-term debt backed by the State. Although this may have been appropriate 60 years ago, it has proved unworkable in modern times. It doesn't give State leaders the flexibility to fund all the infrastructure investments that are essential to the State's economic well being.

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Out of necessity State leaders have devised ways to circumvent the constitutional requirement. They have created and used authorities to issue debt that does not have to be approved by voters. This "backdoor" borrowing now represents $43.0 billion of the $46.7 billion in total State debt.

Recognizing this trend, State leaders passed the Debt Reform Act of 2000, in order to address statutorily the unworkable constitutional provisions. This statute set a limit on new debt at a fixed share of personal income. The legislation has not been effective. With other legislation State leaders have exempted borrowing from the limit. For example, in fiscal years 2003 and 2004 nearly $7 billion in borrowing was exempted from the limit.

In addition, fully a quarter of the backdoor borrowing – about $11.5 billion – has been used for the wrong purposes. Instead of being invested in long-term capital projects, it has underwritten annual operating deficits.

Our report recommends two solutions:

First, voters should reject the Transportation Bond Act, so that the already dangerous debt situation is not immediately made that much worse.

Second, 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.

The Bond Act would authorize just $2.9 billion of an additional $13.2 billion that the State plans to borrow. The remainder of the borrowing will be "backdoor" borrowing by public authorities. Thus, the vote on the Act is the only opportunity that the public will have to oppose increasing the State's already high debt burden. It is also the best way for the voters to register their dissatisfaction with the amount of debt that is being incurred in their names, and for which they and their children will have to pay higher taxes.

The complication is, of course, that New York has real transportation-infrastructure needs that should be addressed. But adding more tax-supported debt that burdens our children and scares away prospective new employers is not the way to pay for necessary capital projects. New York already has high taxes. It's time that the priority becomes spending that money well and raising it from the right sources rather than borrowing and spending today without regard for the future consequences. The State can and should find other ways to finance the necessary transportation improvements, including pay-as-you-go capital, higher user fees and increased productivity.

Thank you.