April 29, 2008

Jeffrey L. Sommer
Acting Executive Director
New York State Financial Control Board, 23rd Floor
123 William Street
New York, NY 10038

Dear Jeff,

I am writing to express the Citizens Budget Commission’s views on the issue to be considered at the Financial Control Board’s special meeting on April 30, 2008. We are aware that the FCB’s procedures do not include public participation at the meeting, but we hope you will share this letter with the Board members before or at the meeting.

The current requirements in State law for the City of New York to prepare a financial plan and to end its fiscal year with a budget balanced in accord with Generally Accepted Accounting Principles, in effect for roughly three decades, have served the City well. It has recovered remarkably well from its 1975 brush with bankruptcy and gained a reputation in the credit markets as having sound financial management practices. The enforcement of this requirement by the Financial Control Board was seen by Mayor Michael Bloomberg and many outside observers as a key factor in developing these sound practices, and extending the life of the FCB beyond 2008 was a widely supported way to enhance the City’s standing and the soundness of its practices.

Because the City’s required adherence to GAAP standards for year-end results has served New Yorkers so well, it should be altered only if a new rule imposes extreme hardship and only for as short a period as is necessary to adjust to the new standard. The Mayor’s request, to be considered at the April 30 meeting, for a deferral in the application of the Government Accounting Standards Board’s Statement No. 49 (promulgated in December 2006 and effective for the City on July 1, 2008) to the City’s balanced budget requirement should be judged in terms of these criteria.

We urge that, in responding to this request, the Board make clear on the public record two points. First, that any deferral will be temporary; there is no intention to grant, in effect, permanent or long-term exemptions. The GAAP standard has proved valuable, and it should not be abandoned. It should be made clear that, notwithstanding any brief emergency deferrals, the FCB supports the application of all current GAAP requirements.

Second, any deferral granted should be as brief as is necessary and practical; that is, for one year. Three arguments have been made at various times for a deferral or exemption. As indicated below, two should be rejected, and the third warrants only a one-year delay.

(1) GASB 49 may be useful for reporting purposes, but it is not appropriate for budgetary practices. As noted in the first point above, this argument should
be rejected. Outlays that GAAP define as operating expenditures should be included in a balanced budget, and the City and the FCB should continue to accept the best available standard, the GASB rules, as the basis for defining a balanced budget. It is not appropriate to pick and choose the accounting rules an entity wants to follow.

(2) Applying GASB 49 would require a significant amount of spending now in the capital budget and financed with long-term borrowing to be paid from current operating revenues; this would force difficult choices between the expenditures for remediation covered by GASB 49 and other operating expenditures such as hiring police officers and teachers. This is true, but should be rejected as an argument against compliance. Borrowing is appropriate for investments in assets with a long-useful life and permits the long-term benefits to be paid for by the multiple generations who benefit from the investment. The remediation expenses affected by GASB 49 do not create a useful asset and should not be financed with borrowing. This is the basic logic of the GASB. The City should use its budget process to address the difficult tradeoffs among multiple services to taxpayers, and the affected remediation expenditures should be one of the priorities addressed in budget debates.

(3) The City does not have sufficient information to comply with GASB 49. This is true, in part because City officials did not seek to develop such information in a systematic way until nearly one-year after adoption of GASB 49. The Office of Management and Budget is now working with outside consultants to develop the necessary information. There is typically a tradeoff between the time required for a task and the resources and energy devoted to it; if the job is given sufficient priority, the City and its consultants should be able to develop a method for reasonable compliance for the fiscal year beginning July 1, 2009. Only the minimum necessary delay should be granted.

Thank you for considering and sharing the views of the Citizens Budget Commission.

Respectfully,

Charles Brecher
Executive Vice President and Director of Research