



CITIZENS BUDGET COMMISSION

One Penn Plaza ▪ Suite 640 ▪ New York, NY 10119

New York City Charter Revision Commission Public Hearing, August 2, 2010

Testimony by Courtney Wolf, Research Associate Citizens Budget Commission

Good evening. I am Courtney Wolf, Research Associate at the Citizens Budget Commission.

The Citizens Budget Commission is a nonpartisan, nonprofit civic organization that since 1932 has been devoted to influencing constructive change in the finances and services of the New York City and State governments. With a reputation for independence and objective research, CBC has been an outspoken and influential advocate for government reform – and unique in that the organization confines its advocacy to areas on which it has conducted research. The quality of CBC’s research is enhanced by its staff’s ability to draw upon the additional knowledge of the approximately 150 prominent New Yorkers who serve as trustees. Through that research, as well as bringing together major stakeholders on key issues and working closely with media in the region, CBC has been a catalyst for positive change in such areas as budget reform, government finance, education, transportation, public authority reform, and economic competitiveness.

Thank you for the opportunity to testify today.

The Charter Revision Commission’s comprehensive assessment of the structure of city government has prompted a debate about the desirability of providing formula budgets, often referred to as ‘independent budgets’, to particular agencies and offices. I submit this testimony to express our opposition to granting charter-mandated formula budgets to certain City offices, as doing so would be fiscally imprudent and would undermine the long-established process by which the Mayor and the City Council establish budget priorities as elected representatives of the people of New York City.

During your series of public hearings, formula budgets were suggested by multiple witnesses as a response to a perceived imbalance between the power of the Mayor and entities meant to serve as counterbalances. Testimony supported formula budgets for several entities, including the Comptroller’s Office, the Borough Presidents, the Public Advocate, Community Boards, the Civilian Complaint Review Board and the Conflict of Interest Board.

The Independent Budget Office (IBO) is often cited as a precedent and an example of the success of the concept of the formula budget. The IBO was created by the 1989 Charter Revision Commission to counter the Mayor’s power over the budget process. A 1975 charter revision commission had addressed this same issue by creating the Legislative Office of Budget Review (LOBR) to provide the City Council with independent financial forecasting and analysis, but this office was short-lived; Council members preferred to pick their own financial staff and, with the tacit support of the Office of Management and Budget (OMB), they ceased funding the office and instead increased their own staff.

In response to the continuing concerns, the IBO created in 1989 was modeled after the federal Congressional Budget Office (CBO) to be an independent source of information and financial analysis to City Council Members, Borough Presidents, Community Boards and the public. In addition to that general mandate, the charter revision included specific mandated reports for the IBO to produce as part of the City’s budget process.



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To avoid a similar fate to that suffered by the LOBR, the IBO was granted a formula budget. While the CBO is subject to the regular Congressional budget process for all agencies of the federal government, the IBO was guaranteed a minimum annual budget allocation of ten percent of the approved budget of OMB; last year as part of State legislation continuing mayoral control of the public schools the formula was raised to 12.5 percent to cover estimated increased costs for newly mandated activities relating to analysis of public school performance. In light of the history of the previous failed attempt to establish an independent budget office and in the context of the massive government overhaul undertaken by the 1989 commission, guaranteeing a formula budget for the IBO seemed a reasonable and unique initiative. But the practice of earmarking funds for particular agency operations is problematic and is a precedent that should not be extended further.

The budget process used in New York City is born of democratic principle and is similar to processes used in municipalities across the country and at the federal level. The voters elect an executive and legislators to represent their interests with regard to how government money, including their tax dollars, is spent. In January, the Mayor submits a preliminary budget, a document of public record, that includes proposals for the City's spending priorities for the upcoming fiscal year. The City Council holds a series of public budget hearings on the Mayor's proposals and publishes its response, which includes proposed changes and additional budgetary priorities based on the hearings. In May the Mayor submits an Executive Budget, also made available to the public. After another round of public budget hearings, the Council makes changes to the Mayor's Executive Budget including "terms and conditions" to any appropriations, before voting to adopt the budget.

Throughout this six-month process, the budget is subject to public review and scrutiny. The Mayor and the Council ultimately make the decisions that set the budget priorities for the coming year, and these elected officials are answerable to their constituents. To remove specific agencies, offices and/or entities from that process by permanently earmarking dollar amounts or formulas, is to shield them from the public input on budgetary priorities.

In the context of this democratic budget process, it is important to note that formula budgets do not necessarily promote political independence, an argument made in some testimony you heard on this subject. Guaranteeing an official money does not necessarily make him or her more independent; it is more likely to serve as a protective device against true political accountability in the budget process. Independence may derive from being independently elected or from appointment to a specific term of office, but not from the size of one's budget.

In addition to interfering with the democratic budget process, formula budgets tie government decision-makers' hands on budget priority decisions. Using a formula based on one agency's budget to determine that of another complicates decisions by creating automatic consequences to budget actions that may not be ideal or warranted. For example, a cut to OMB's budget allocation automatically triggers a cut to IBO's allocation, regardless of whether the resultant cuts are justified. In times of fiscal austerity formula budget allocations limit the amount of revenue available to basic operations of government and discretionary programs, making cuts in those areas deeper and more painful, while those offices with guaranteed funding are protected.

One need only look to California to see the catastrophic effects of budget earmarking on maintaining balanced budgets during tough times. California is known for its "ballot box budgeting," by which general fund revenues are earmarked for specific purposes by way of voter referendum. A 2002 report by the California Budget Project estimated that about two-thirds of California's general fund revenues are earmarked



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for specific purposes, although the report notes that it uses a very minimal definition of mandatory spending and thus in practice the state actually has discretionary control over far less than one-third of the budget.ⁱ That means that in the face of falling revenues, California has only a small portion of its budget from which to cut in order to achieve budget balance. The result is deep cuts to welfare and social services programs, parks and other “unprotected” budget areas.

Finally, there are the practical matters of determining what agencies and entities should be guaranteed certain levels of funding and how those levels would be set. Granting formula budgets to some offices and not others is a slippery slope. What are the criteria for determining which should be guaranteed a particular allocation and which should not? And might those criteria change over time based on the changing needs and interests of the City’s residents? Further, on what do we base the levels of allocation? Many agencies, including some of those that have been suggested in previous testimony as candidates for formula budgets, perform unique functions that are not analogous to those of any other agencies or entities; there is no rational way to tie their budgets to those of another particular agency. Consideration of these practical issues supports maintaining the current budgetary discretion exercised annually by the mayor and the council; allocating the appropriate level of funding to an agency or entity based on its particular needs in a given year is precisely what the current budget process is intended to achieve.

In the interest of fiscal prudence and maintaining an open and democratic budget process, you should reject establishing formula budgets for any City agencies or offices besides the IBO. The recent round of budget negotiations at the city level and the current round of negotiations at the state level are evidence that we cannot afford to open the door to further restrictions on our ability to keep spending in check by guaranteeing funding to any particular office or function.

Thank you for your time and consideration of this matter.

ⁱ See California Budget Project. *Proposition 51: Should California Earmark the Sales Tax on Motor Vehicles?* 2002. Accessed on June 28, 2010 at <http://www.cbp.org/pdfs/2002/020601Prop51.pdf>.