

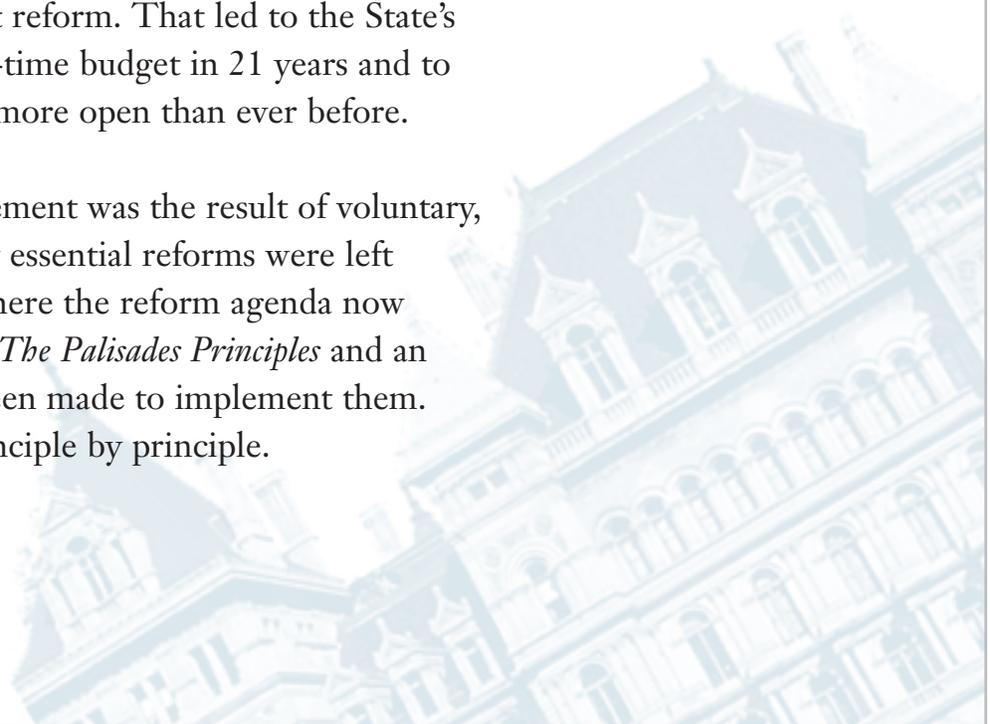
The Palisades Principles Revisited

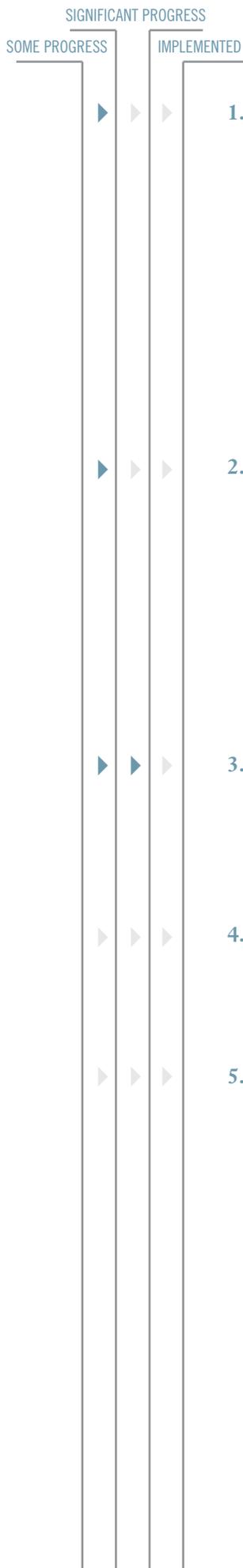
A Progress Report on New York State Budget Reform

Eighteen months ago, the Citizens Budget Commission convened a two-day conference of civic and business leaders from across New York State to lay the conceptual groundwork for New York State's much-needed budget reform. The conference, held in Palisades, New York, produced *The Palisades Principles*, which identified the ten principles that should be implemented to achieve true budget reform.

The conference and the resulting *Palisades Principles* helped ignite a public outcry for State budget reform. That led to the State's passage this year of the first on-time budget in 21 years and to budget deliberations that were more open than ever before.

But much of this year's improvement was the result of voluntary, informal agreements, and many essential reforms were left unaddressed. Understanding where the reform agenda now stands requires another look at *The Palisades Principles* and an analysis of what progress has been made to implement them. This report does just that – principle by principle.





1. Strengthen the financial accountability of public authorities.

The Governor has issued an executive order establishing a commission, which has begun to craft recommendations on this issue. It's composed of representatives of the Governor, the legislative leaders, the Comptroller, and the Attorney General. Diana Fortuna, President of the Citizens Budget Commission, has been appointed to serve on the commission.

The Comptroller has identified and classified hundreds of State authorities, has issued numerous reports on the subject, and drafted a concrete proposal for legislation. The Assembly has passed the legislation, and the Senate is considering its own. It remains to be seen whether the commission embraces any of the currently proposed solutions or develops some of its own.

2. State assumption of the local governments' share of Medicaid costs.

The Governor and the Legislature took a step toward relieving local governments of the Medicaid burden. They have capped the growth in local Medicaid spending over the next three years. At that point, local governments will have the option of surrendering sales tax revenues equivalent to the local cost of Medicaid to the State or of continuing under the cap.

This change is a first step toward more equitable financing of the Medicaid program, but financial responsibility for Medicaid still needs to be shifted entirely to the State.

3. Eliminate "off-budget" accounts.

The Legislature proposed, and the Governor included in his Executive Budget, the transfer of all Health Care Reform Act funds from "off budget" to "on budget" – a multi-billion dollar change that resolves a majority of the problem. Many other "off budget" accounts still need to be made "on budget."

4. Require a four-year financial plan with quarterly updates.

No progress has been made on this issue. Requiring four-year financial planning would make the longer-run consequences of current decisions clear, bringing greater discipline and transparency to the budget process.

5. Authorize a larger "rainy day" fund.

A constitutional amendment that would increase rainy day reserves passed both houses last year and passed again this year in the Assembly. If it receives second passage in the Senate as well, it will be on the ballot in November.

Unfortunately, this amendment also provides for a contingency budget that will be counterproductive in terms of encouraging on-time budgets. It increases the allowable rainy day fund, but to a limit of just 3 percent of General Fund revenues. And it fails to require a balanced budget or to include meaningful debt reform. The Legislature should abandon this proposed amendment and work to design a new amendment that delivers to New Yorkers true budget reform including the elements identified above.

The Legislature should increase the usefulness of the existing rainy day fund by amending State Finance Law to raise its permissible limit from 2 percent to 5

percent of General Fund revenues. The fund is now full – at the very time when it is possible and desirable, given this year’s higher-than-expected tax receipts, to add to reserves.

6. Require performance assessment of State expenditures.

The Executive Budget sounded the call for performance measurement improvements and outlines some modest first steps scheduled for this year. Other governments do a better job of informing citizens about agency performance and providing hard information upon which to base budget decisions. Efforts in this area should be broadened in scope and accelerated.



7. Prepare a version of the budget in clear language understandable by the lay citizenry.

There has been no progress on this issue. While the Executive Budget presentation continues to improve incrementally in clarity, it remains a daunting document that the average citizen cannot hope to decipher. The budget bills are voluminous and similarly difficult – even for budget experts – to comprehend.



8. Budget based on revenue estimates arrived at through “consensus” techniques.

The Governor and the Legislature reached agreement on revenue forecasts in a timely manner, and they had earlier agreed in concept to turn, if necessary, to the Comptroller for a binding revenue forecast. In the end, it was not necessary.

Their commitment to turn to the Comptroller, however, was purely informal. State Finance Law was not revised to bind the leaders to the Comptroller’s revenue forecast.



9. Balance the budget in accord with Generally Accepted Accounting Principles.

The State does not balance its budget in accordance with Generally Accepted Accounting Principles, even though the State requires it of New York City. Instead, the State balances its budget on a cash basis, which allows for the timing of revenues and expenditures to be manipulated, thereby obscuring how well spending is matched with recurring revenue.



10. Strengthen the legislative committee process.

This year the Governor and legislative leaders established a more open budget process with stronger committees and more opportunities to participate for individual legislators. The Governor convened open meetings with the legislative leaders to set up and monitor the budget calendar; the Legislature used a comprehensive Joint Conference Committee approach to come to agreement on budget items. And, the Legislature did not solicit messages of necessity from the Governor, thus allowing at least a modicum of time for legislators and the public to review budget bills before they were enacted. This expanded committee process helped enable the budget to be passed on time for the first time in 21 years.

While this broadened process was permitted this year, the rules were not changed to require it in the future. Moreover, outside the budget process, little progress has been made toward stronger legislative committees.



This past year has shown that progress is possible, but gains remain limited. Of ten Principles, four have shown no progress, five have shown limited progress, and only one has shown significant progress. Concerned citizens must sustain and even increase the pressure on State leaders to do more.

A more detailed discussion of *The Palisades Principles* and the fiscal problems that underlie them is available in the CBC publication *The Palisades Principles: Fixing New York State's Fiscal Practices*, which is available online at www.cbcny.org.

The Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.

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