CITIZENS BUDGET COMMISSION
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N.Y.'s Debt Mess

$166 billion, and uncontrolled

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GOV. Pataki and the Legislature are locked in an important battle over this year's state spending. Meanwhile, though, a bigger problem goes unaddressed — New York's booming debt crisis.

Borrowing by the state's public authorities — quasi-independent government organizations — is out of control. Their outstanding debt now exceeds $166 billion, according to a first-ever tally by the Citizens Budget Commission. This represents nearly three-quarters of the $227 billion of outstanding debt issued by New York's state and local governments and their authorities.

Part of the reason that it's been so hard to keep track of the debt is that New York has so many authorities — an astonishing 583. Of those, 104 are accountable to state officials, 474 to local officials and five to more than one government.

These authorities play a crucial role in delivering public services, supplementing the work of direct government agencies. They provide electric power, build and maintain bridges and highways, run mass transit, finance housing and higher education, provide medical care and more.

Valuable work — but their borrowing practices have become a major problem. The debt is enormous, yet the authorities' practices prevent the money from providing the well-maintained infrastructure and competitive services that New Yorkers want.

The authorities' debt is of three different types. Each has a serious problem, and each requires a separate solution.

State-supported debt: This is repaid with the state's tax and other revenues. Under the state Constitution, this debt is supposed to be subject to voter approval, but state leaders regularly get around the requirement by having authorities issue "back door" debt. As a result, less than $4 billion (9 percent) of the $45 billion in current state-supported debt has been approved by the voters.

Because authorities make it so easy to borrow, New York's elected leaders borrow too much — $10 billion too much, according to the CBC's recent analysis. This puts the state in a danger zone and contributes to an uncompetitive tax burden. (Moreover, billions of that "back door" debt have been used to cover operating deficits rather than true capital investments — "buying groceries with the mortgage money.")

Pataki: Missing deeper woes in budget battle.

The solution to this problem is to adopt a new constitutional limit that would apply to *all* state-supported debt, including any issued by authorities. The new cap would be based on affordability; voter approval would be required only to exceed it. The constitution should also limit this debt to true capital purposes.

Project-revenue debt: This is repaid with revenues raised from a specific project, such as a toll-bridge or an airport. New York has two problems with this debt, which totals about $56 billion: First, state authority projects are not coordinated with the state's own capital program, causing some important needs to go unmet while lower-priority "pet projects" get funded. Second, the feasibility of projects is not analyzed consistently, creating risks for state and local taxpayers.

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The solution to this problem is for the governor and the budget director to be given responsibility for preparing a comprehensive, multi-year capital plan that includes state agencies *and* authorities. They should also be responsible for timely and transparent analyses of the feasibility of state authority projects. The Public Authorities Control Board, which was created to provide such analyses, has not been doing the job adequately and ought to be abolished.

Private-conduit debt: This is issued on behalf of a private party and is repaid by contractual payments from that party. The private entities want authorities to borrow for them, because the borrowing is tax-exempt and, therefore, has a lower interest rate.

Much of this borrowing is done by industrial-development authorities created by the state and 116 local jurisdictions to facilitate job growth. But the projects are often chosen in a murky process that's sometimes vulnerable to political favoritism. As a result, there is little accountability for the benefits, and firms can drive up the cost to the public by playing one local authority against another.

The solution to this problem is more competition among private entities for the tax-exempt benefits. Each local industrial-development authority should select among private parties based on criteria established in advance and in response to competitive proposals. And the process should be done in the open rather than behind closed doors.

■ For too long, New York's authorities have operated without adequate restrictions. Given their massive debt, it's time to enact these reforms. They will protect taxpayers from excessive debt and enable them to receive more effective and efficient services.

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