

TESTIMONY  
AS PREPARED FOR DELIVERY  
DEPUTY COMPTROLLER MARCIA VAN WAGNER  
BEFORE THE CHARTER REVISION COMMISSION  
MONDAY, JUNE 27, 2005

Good evening, Chairwoman Fuchs, Vice Chairman Forsythe and members of the Charter Revision Commission. My name is Marcia Van Wagner, Deputy Comptroller for Budget. I am testifying today on behalf of Comptroller William C. Thompson, Jr.

Before I discuss the specific recommended reforms, I would like to provide some context.

As you all are aware, New York City engaged in dubious fiscal practices for decades prior to its near-collapse in the mid-1970s. As part of its response to the City's fiscal crisis, the State enacted into law the Financial Emergency Act in September 1975. Among other steps, the FEA created what is now known as the Financial Control Board. The FEA's passage signaled the beginning of the City's fiscal renewal.

The Act gave the FCB the authority to take over the City's finances if the City ran a budget deficit of more than 100 million dollars. The presence of this stick over the City's head helped impose the fiscal discipline New York needed. The Act also required annual presentations by the City of a four-year plan that included the current year's budget and the next three years of future operations. These provisions remain in place today.

We need to be certain that we continue to avoid the missteps this City made prior to the '70s crisis.

As a result, the Comptroller generally supports the Charter Revision Commission's recommendations that the City incorporate into the Charter those provisions of the FEA that have helped the City restore stability to its finances. The Comptroller does, however, have concerns about one element of the proposals, specifically the provision for allowing a revenue anticipation note to

mature after the end of the fiscal year. Under the Financial Emergency Act, this can be done provided that the FCB certifies that the revenue against which the bond is issued is properly estimated and accrued. This acts as a check on the reasonableness of the Mayor's revenue forecasts. Under the new language, this certification would be done by the Mayor. It would be far more prudent to have a more objective entity, such as the Comptroller's office, certify the revenue numbers.

In addition, Comptroller Thompson is concerned by the notion that the Charter revision proposals, by themselves, are sufficient to replace the oversight mechanisms that have served the City so well for nearly 30 years. Quite simply, they are not. The revisions should be complemented by State law. First, at the State level we should work to maintain some version of the Financial Control Board. The FCB has helped ensure that the City be disciplined in its budgeting and financial planning, and I believe the City would benefit from maintaining some form of the FCB.

Second, as part of these discussions, Comptroller Thompson believes we should consider amending the FEA so that it allows the City to establish a Rainy Day Fund. Under a Rainy Day Fund, some portion of budget surpluses would be deposited in an account accessible only under specified circumstances. This account can be funded over a period of years and then used to stabilize City services in a downturn.

In this regard, New York would join many other local governments and it would be a vast improvement over the City's current "Budget Stabilization Account" because the Rainy Day Fund could only be used when the economy falters. With our Budget Stabilization Account, the Mayor simply prepays the following year's expenses by essentially rolling over a built-up budget surplus. Indeed, the Mayor is largely balancing the Fiscal 2006 budget by relying on over 3 billion dollars accumulated in the BSA. If the City did not have easy access to this rolled-over surplus, it would be forced into establishing a structurally balanced budget. For this reason and others, creating a permanent Rainy Day fund would do much more to ensure stability in the City's finances. As you know,

the Charter would have to be altered to provide for the creation of a Rainy Day Fund, as would elements of State law, which would require the assistance of Albany. The FEA in its current form prohibits the creation of such a fund. In addition, the State would have to change provisions in the General Municipal Law (Article 2, 6-e). It currently provides for a rainy day fund, but puts constraints and conditions on it that would not necessarily be appropriate for New York City. As a result, the City would have to be made exempt from this law or the law would have to be changed.

Third, we should take action to ensure that the information provided to the public by the current budget process is not diminished. For example, the language in the FEA requiring 4-year financial plans from the “covered organizations,” such as the Health and Hospitals Corporation, is not included in the recommendations for revision. The fiscal condition of the covered organizations frequently has implications for the City’s budgetary obligations. The continuation of a requirement to provide financial plans by the covered organizations should be pursued at the State level.

The reforms made in the 1970s have been crucial to the way we have managed our budgetary challenges in recent years. Extending and improving those reforms is the most logical next step for our City to take. The transparency that is now a part of our budget process allows us to confront our budget problems years in advance. That is no small thing. We must resist any impulse to slide back toward the murkiness in our fiscal affairs that defined our not-so-distant history.

Comptroller Thompson also supports the Charter Revision Commission proposal to create a commission on public reporting and data access. Such a commission would benefit agency management as well as increase accountability to the public.

The Comptroller applauds the Charter Revision Commission’s prudent recommendations, and he looks forward to working with you to ensure that the City adopts those provisions that merit inclusion in its Charter. Thank you.