GOVERNOR'S PROGRAM BILL

2006

MEMORANDUM

AN ACT

to amend the state finance law, the legislative law, the state technology law, the tax law, the parks, recreation and historic preservation law, the labor law, and the retirement and social security law, in relation to enacting the budget reform act of 2006 and making various amendments to the budget process

Purpose:

This bill would enact comprehensive, statutory reforms to promote the enactment of an on-time, fiscally responsible budget with full public transparency.

Summary of Provisions:

Section 1 of the bill contains the title of the act, the "Budget Reform Act of 2006".

Section 2 of the bill would amend the State Finance Law to (i) accelerate the date for convening the Consensus Revenue Forecasting Conference from March to February and (ii) require all participants to issue a joint report on or before March 1 of each year (currently required on or before March 10). If consensus is not reached the State Comptroller would provide a binding revenue amount.

Section 3 of the bill would amend the Legislative Law to require the Senate and Assembly to appoint conference committees to deliberate on the budget if the Legislature fails to act on the Executive Budget by March 1. It also requires each of these appointed committees to issue a report on the budget no later than two weeks prior to a budget enactment vote.

Section 4 of the bill would amend the Legislative Law to require the Legislature to:

- Enact a budget by May 1 of each year;
- Enact a balanced budget in the General Fund. If the Division of the Budget and the Comptroller believe the budget is out of balance, the Legislature woul have ten days to restore budget balance or across-the-board cuts would result;
- Place on the desks of its members a summary report of the multi-year financial impact of the proposed budget changes prior to a vote on the budget bills; and,
- Require the Division of the Budget to prepare summary reports for use by individual legislators and the public prior to a budget enactment vote.

Section 5 of the bill would amend the State Finance Law to increase the permissible balance in the Tax Stabilization Reserve Fund to 5 percent of General Fund spending (currently capped at 2 percent). This section also directs the Commissioner of Labor to calculate and publish a monthly composite index of business cycle indicators that would provide an objective measure of the State's current economic performance. The Commissioner would prepare the index in accordance with the generally accepted forecasting methodology developed by the Conference Board, an internationally recognized non-partisan, not-for-profit research organization. If the composite index registers five consecutive monthly declines -- an objective indication of a “recession” -- the State would be authorized to withdraw a portion of the funds from the Rainy Day Reserve. Since 1970, this "trigger" would have been invoked 8 times (1975, 1980, 1981, 1982, 1989, 1990, 2001 and 2003). A portion of the Reserve would be available to assist the State in managing its finances during such economic downturns, but before actually incurring an unexpected mid-year shortfall or year-end deficit. To preserve the "corpus" of the Reserve, a fund balance equal to two percent of General Fund spending would not be available for use when the composite index "trigger" is in effect, but must be maintained for cash flow needs or unexpected shortfalls. The authority to transfer funds under this new provision lapses when the composite index has increased for five consecutive months (signaling an end to the downturn), or twelve months after the end of the consecutive decline, whichever occurs first.

Section 6 of the bill would amend the State Finance Law to require the Division of the Budget to prepare additional reports, schedules and other information along with the budget submitted annually by the Governor, including data on state employment levels within each agency, receipt expectations for the prior, current and next three fiscal years, monthly cash flow projections that would be updated quarterly, and additional information on the State's capital program and financing plan.

Section 7 of the bill would amend the State Technology Law to require the State’s Chief Information Officer to annually submit to the Governor and the Legislature on or before September 1 a report relating to information technology projects costing in excess of $25 million.

Sections 8-25 would amend applicable sections of law in order to change the State's fiscal year to July 1 as well as modifying various lapse and reporting dates, as necessary. Specifically, it would permit a fifteen month fiscal year in 2008-09 (April 1, 2008 through June 30, 2009) and each subsequent fiscal year would commence on July 1 and end on June 30.

Section 25 would amend the State Finance Law to update the manner in which information is provided in the State Capital Program and Financing Plan in order to improve comprehensiveness and transparency of this information for the public.

Section 26 would provide for the bill’s effective date. All sections would become law immediately; however, section 5 would take effect three years after passage, as provide for in the State Constitution.

Existing Law:

The current budget process is contained in Article VII of the State Constitution, and Article 3 and 4 of the State Finance Law.

Statement in Support:

In rejecting Proposal 1 by a two-to-one margin during the 2005 general election, the public endorsed the current constitutional framework that grants the Governor clear accountability over the State budget. However, there remains a consensus that reforms are needed to improve the State's budget process.

This budget reform bill would preserve the State's constitutional balance of powers, but directly address specific steps to improve fiscal accountability, avoid tardiness, and enhance transparency. Specifically, this bill proposes statutory amendments that would provide for a more honest, open and timely budget process between the Governor and the Legislature by:

- Accelerating the Consensus Revenue forecast, with the Comptroller, if needed, as a binding arbitrator;
- Requiring active involvement of individual legislators in the annual budget process through required conference committees;
- Requiring “sunshine” reporting to individual legislators and the public of multi-year fiscal impacts of budget changes before a vote on the budget;
- Changing the start of the State's fiscal year to July 1 with a May 1 budget enactment deadline. The advantage of July 1 is that it would provide additional time for legislative deliberations and align the State fiscal year with 46 other states. This must be balanced against several factors that led the State to change the fiscal year from July to April in 1943, including ending the year in a less volatile month for revenues and the need to correct the seasonal imbalance between receipts and disbursements. The key factors leading to the 1943 change were the need to end seasonal borrowing and lessen the uncertainties surrounding revenue forecasting.
- Requiring the Legislature to enact a balanced budget. If the Division of the Budget and the Comptroller agree the budget is out of balance and the Legislature does not act to restore balance, across the board spending cuts would result; and,
- Providing significant additional reporting of fiscal information to improve transparency and aid in budget analysis, including: multi-year financial plans updated quarterly, data on state employment levels within each agency, receipt expectations for the prior, current and next three fiscal years, monthly cash flow projections updated quarterly, and additional information on the State's capital program and financing plan.

Finally, the bill would strengthen further the State's fiscal reserves by increasing the permissible balance in the Rainy Day Fund to 5 percent -- the level of most other states and the minimum recommended by fiscal monitors.

<u>Budget Implications</u>:

This bill promotes sound fiscal management practices by: (i) requiring "sunshine reporting" to individual legislators that will clearly summarize the multi-year fiscal impact on a potential budget agreement before a vote (ii) providing for an on-time and balanced budget; (iii) permitting the State to deposit more money into the State's Rainy Day Reserve to guard against economic uncertainties and to respond more quickly to unexpected financial needs related to an economic downturn; (iv) improving budget transparency by adding substantial new reporting by the Executive that should aid in timely deliberations on the Executive Budget; and (v) ensuring additional time for such deliberations by extending budget enactment to May 1 and the State's fiscal year to July 1.