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Testimony of George Sweeting, IBO Deputy Director
To the New York State Senate Select Committee on Budget and Tax Reform

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Good afternoon Chairwoman Krueger and members of the Select Committee on Budget and Tax Reform. I am George Sweeting, Deputy Director of the New York City Independent Budget Office. I want to thank the committee for the invitation to testify before you on this critically important subject. Despite some recent reform initiatives, New York State is faced with a double conundrum: a budget process that no longer provides the fiscal discipline needed to insure sustainable budget outcomes coupled with an enormous multiyear budget gap that will require major readjustments of fiscal priorities to resolve. Hopefully your efforts can help in beginning to address these challenges.

While the IBO does not generally make policy recommendations we have chosen to make an exception for questions of budget process and, therefore, I will offer the following suggestions. With limited time and a full panel of experts to hear from, I will confine my comments today to two areas: improving the state's revenue forecasting process and establishing a state Independent Budget Office.

Improving the Revenue Forecasting Process. While a state IBO could help in providing impartial information and analysis, an even more critical need is to build more discipline into the budget process. One area is setting objective revenue estimates. Obviously, settling on how much money will be available is fundamental to making a budget. Here, there are several ideas to consider. The first is to move the first day of the fiscal year to July 1. Even more important than adding time for the legislature to consider the Governor's Executive Budget—moving the due date for the Executive Budget earlier would also give them more time—this change would give budget makers additional information about spring tax receipts and, therefore, a sounder revenue estimate.

New York State is heavily dependent on personal income tax (PIT) revenue. Tax forecasters use the information from final returns which are due on April 15 and taxpayers' accompanying initial estimates of liability for the current year to update their forecasts of PIT revenue. Moving the fiscal year date to July 1—which is the most common date among the other 49 states—would allow New York State's budget makers to incorporate this new information when making their final budget decisions. Such a change would require adjustments in the budgeting process for local school districts.

A second suggestion is to strengthen the state's consensus revenue estimating process. The goal is to remove the revenue estimate from the politics of budgeting. One model, which is used in

New York City, is to give the executive sole control over the estimate. A more common alternative is to have the legislature, the executive, and perhaps other organizations independently forecast revenues and then have a process to forge a consensus on a single estimate that will be used throughout the budget process. New York State uses a flavor of consensus forecasting except that we leave out the last step: forcing all parties to use the consensus number.

Consensus forecasting was introduced in the 1996 budget reforms which mandated a meeting between the legislative budget committees and the Governor's budget office in early March, followed by a consensus revenue estimate later in March. Unfortunately, the 1996 reforms did not include provisions to ensure that the consensus revenue forecast was used. Moreover, in at least some years, the consensus revenue forecast report did not actually include a consensus forecast, but rather discussions of each of the principals' own forecasts.

The 2007 budget reforms made some improvements to this process. First, the revenue estimating now gets started in November through "Quick Start" meetings of the legislative fiscal staff with the Governor's budget staff and the Comptroller's office. Each office participating in the Quick Start produces a forecast by early November followed by a meeting open to the public where differences between the forecasts are discussed. Then on November 15, the legislature and the Governor's budget office produce a joint report on the findings. At this point in the process it is not required that there be a consensus; instead the objective is to have the forecasters exchange information about the outlook. The Quick Start meetings have been held in 2008 and 2009.

Also under the 2007 reform, the consensus revenue conference that had been held in March was moved up to February and the due date for the final report was accelerated to March 1 in order to provide the budget makers additional time to get the budget completed by the April 1 deadline. If the Legislature and the Governor cannot come to a consensus, the 2007 reform requires that the Comptroller issue a revenue estimate by March 5th. However, the law did not provide an effective mechanism to make the Comptroller's estimate binding.

While the 1996 and 2007 reforms made some changes to the established process, they did not fundamentally change the revenue estimating dynamic for the state. The three parties still spend much of the time leading up to adoption, fighting over how much money will be available before turning to spending priorities for the budget.

In many other states, the revenue estimate is the product of a much less politicized process. Some states rely on estimates from panels of outside experts or a nonpartisan agency. A New York State IBO or the Comptroller might play that role. Other states begin with the forecasts from the Legislature and the Governor but settle on a single estimate through a defined process that usually involves other parties and outside experts. Some states use an arbitration process when consensus fails with the arbitrator picking one of the two forecasts submitted by the Legislature and the Governor. Such an approach creates an incentive for the estimates to converge.

Regardless of the means of settling on a consensus forecast, New York will need to find a way of making it truly binding, something that the 1996 and 2007 reforms failed to do. While statutory changes may address some loopholes, the budget-making culture presumably plays a large role as well. In New York City it took the 1970s fiscal crises, which brought a combination of mandated change from a higher authority—the state—and the shock of losing access to credit markets to create a budget-making culture that works relatively well. Hopefully the state can find a way to shift its culture without undergoing a similar crisis.

State IBO. The idea of creating a state Independent Budget Office has regularly surfaced in recent years, although it was not part of the final 2007 budget reform package. With all due modesty, I believe that creating a truly Independent Budget Office for the state would be a helpful step for improving New York's budget environment. Such an office would increase public understanding about the state's fiscal condition by producing reports that are clear and accessible for the lay reader. It would also serve as a nonpartisan source of impartial revenue and expense numbers and policy analysis for those engaged in the budget process.

Based on the experience of the city's IBO, I suggest that if you were to recommend such an office for the state, you focus on the first initial in the name if you want it to be effective. The independence of the city's IBO depends on two factors. First, the director is appointed to a fixed four-year term by a group that includes all of the elected officials that are our clients. Thus, we are not beholden to any single individual or office. Second, our budget is guaranteed in the City Charter as a percentage of the budget for the Mayor's budget office which insulates us from the annual appropriations process.

While the structure might need to be tailored to fit the state structure, some similar arrangements would be necessary to ensure that a state IBO has the independence to command credibility for its estimates and analysis.

Thank you. I would be happy to answer your questions.