

Conference of Local Mental Hygiene Directors Reference Guide to the New York State Budget Process

According to historians, in 1784 George Washington referred to New York as “at present the seat of the Empire.” This quote is believed to be the source New York’s nickname as the Empire State. The nickname captures the scale and strength of this great State. The State’s Budget also reflects this nickname; in 2004, the total amount available for spending is estimated at over \$100 billion dollars. Understanding this budget is not a simple matter; the budget is a complex mix of laws, money and process that often appears daunting to the uninitiated. This Guide will provide you with a road map to the various parts of the budget and an understanding of how the budget process works.

What is a Budget?

A budget is a plan and a management control tool. The budget expresses New York State’s programs and activities in terms of money. New York State has an Executive Budget process, which means that the development of the budget begins with the Governor. Each year the Governor is required to submit a balanced budget proposal to the Legislature for the coming fiscal year. A fiscal year is the twelve-month accounting period for the State; New York’s is unusual, with the start of the fiscal year on April 1 and the end on March 31. The counties have either a January 1 or July 1 fiscal year and the federal government has a fiscal year that begins on October 1.

How does the process work?

In New York State we have an Executive Budget process. It is often said that the Executive proposes and the Legislature disposes. This means that the budget cycle begins with the Executive Branch. The Executive Budget process begins with the State agencies. During the summer months the State agencies begin to prepare their Budget requests that will be submitted to the Division of the Budget sometime in September. During this time the Budget Director issues a “call letter” that gives guidance to the agencies for preparing their requests. The call letter sets the tone for the process and describes the rules and formats that agencies need to use in developing the request.

➤ **Advocacy Tip:**

Local government organizations and nonprofit groups should be in touch with State agency staff year round. However, it is especially important for these groups to communicate their program and budget priorities to the State agency representatives as they put their budget request together; April and May are not too early for thinking about your priorities for the *next* fiscal year.

Some time in September the agencies send their budget requests to the Division of the Budget and the Fiscal Committees of the State Legislature. The State Division of the Budget (DOB) then reviews the agencies requests. DOB is a central Executive fiscal

agency, reporting directly to the Governor. The staff at DOB is organized functionally into “units” with each unit responsible for a program area. The Health and Mental Hygiene Unit is responsible for the Department of Health, the Office of Mental Health, the Office of Mental Retardation and Developmental Disabilities and the Office of Alcoholism and Substance Abuse Services. From early fall until the Governor submits his proposed budget to the Legislature, the DOB staff analyze and make recommendations on the agency budget requests. During this same time there are several formal budget hearings where selected commissioners discuss and explain their requests; legislative staff may also attend these hearings. These hearings are not open to the public. While the agency expense requests are reviewed, the DOB is also preparing revenue estimates for the coming fiscal year.

The New York State Constitution requires the Governor to submit his proposed budget to the Legislature by mid-January or by the first of February if it is the beginning of a new term. The Governor is also required to submit a budget that is balanced. After the Governor has submitted the proposed budget, he has 30 days to make amendments to the submittal. These so-called 30-day amendments are to correct any technical errors in the budget and have also been used to change items that have received a particularly negative political or constituency response.

➤ **Advocacy Tip**

Know your DOB Budget Examiner! The decision making process in the Division of the Budget is very hierarchical. Recommendations begin at the Budget Examiner level and work their way up the organization chart. While budget staffs are often viewed as tight fisted when it comes to public spending (as they should be; their mission is to maintain the integrity of the fiscal plan), they can be effective advocates for programs. If nothing else, making sure these folks understand the program initiatives and why they are important can improve the potential for an item being included. Your DOB visits are most effective during the fall and early winter.

This is the same time to be in touch with the Governor’s Program staff responsible for your programs. These people monitor the development of the Governor’s Budget to make sure that the Governor’s promises and priorities are fulfilled and that any proposed spending cuts are consistent with the Governor’s positions. Remember that this is also the time the Governor’s annual State of the State Message is prepared. This speech and document represent the blueprint of the Governor’s vision for then upcoming year.

What documents are submitted with the Governor’s Budget?

The State budget can be confusing because of all the documents that make up the budget. Here is what is included:

Executive Budget Overview

This document is just what it says. It is a functionally organized (Mental Hygiene, Public Protection, Education) narrative that presents the highlights of the Governor's proposed budget as well as accomplishments in each of the areas. Two Appendixes accompany the Overview. Appendix #1 is the Agency Presentations. Here you will find a narrative describing a particular agency and its core responsibilities. Also included are a series of tables that display the actual new budget recommendations compared to the amounts for the previous fiscal year. This part of the budget will give you a good idea of the direction that an agency budget is taking. However, additional discussion with the agency or the Division of the Budget is usually necessary to completely understand all the assumptions and underpinnings of a budget.

Appendix #2 is the Financial Plan. This document describes the Executive's economic outlook for the State. It also describes the assumptions used for the projection of receipts (money to come from taxes, fees and other sources) and disbursements (spending). This Appendix also includes the State's Capital Program and how it will be paid for. The Capital Program describes major assets like roads and buildings. Because these assets are different from the spending in the operating budgets, and are often paid for by borrowing, they are handled in a separate document.

Appropriation Bills

An appropriation is required for a public agency to spend money. It is the legal authorization for expenditure; it does not require spending. In New York, we have four **categories** of appropriations:

State Operations:

These appropriations finance the work done by the state agencies directly; it reflects the cost of the state workforce and the other expenses of the state agency's work.

Aid to Localities:

These appropriations reflect the support that goes to local governments or community based organizations

Capital Projects:

These appropriations authorize expenditures to pay for capital construction projects, like building a road or a bridge.

Debt Service:

These appropriations reflect the interest owed on money that has been borrowed for capital projects.

Three of these categories- State Operations, Aid to Localities and Capital Projects – are in the appropriation bill called the Appropriations in the Support of Government. Debt service appropriations are in a separate bill; a third major appropriation bill is the one for the Legislature and the Judiciary. These three bills are like other pieces of legislation in that they are assigned numbers and sent to a committee (in this case the Fiscal Committees) in the State Legislature.

Other Budget Documents

In addition to the bills explained above, the Governor's Budget submittal includes Article 7 bills. These bills are legislative actions that are necessary to enact the Governor's budget. For example, the proposed 2004-05 Budget included savings associated with the closing of the Middletown Psychiatric Center and that 50 percent of the savings be used for State-operated community based programs. The Article 7 bill was necessary to change the permanent law that established the Middletown Psychiatric Center to begin with.

Sometimes the Governor also submits a deficiency bill. This bill is necessary when there is a deficit for the fiscal year that is about to end.

Legislative Budget Negotiations

Once the Governor has delivered his proposed budget for the coming fiscal year, it is the responsibility of the two Houses (the Upper House is the Senate, the Lower House is the Assembly) of the Legislature to respond and react to the proposal. A key Committee in the Senate is the Senate Finance Committee; its counterpart in the Assembly is the Ways and Means Committee. In addition to these fiscal committees all of the various legislative program committees are also engaged in the review and reaction to the Governor's budget. The analysis begins with joint legislative hearings on the major agencies and issues. These hearings are open to the public and usually get quite a bit of press coverage.

>Advocacy Tip

Once the Governor's proposed budget is before the Legislature, the advocacy work becomes even more intensive. You need to see the program committee chairs that are responsible for your issues, the fiscal committees as well as the staff that work for the leadership and possibly the leaders themselves. It is always a good idea to keep your local legislator informed about your concerns, even if that member is not responsible for your issue. This is the person you actually vote for and your program is likely to be in his or her district. Remember Tip O'Neil's wisdom – all politics are local.

You should also identify other groups that share your point of view on an issue. When there are multiple constituency groups in support or against an item, their voice is more likely to carry.

There is no set process at this point. In most years, the two Houses of the Legislature reach agreement on a budget and then negotiate a final plan with the Governor. However, other outcomes are possible including the Legislature passing a budget that the Governor does not agree with. The Governor then has the option to veto new spending proposed by the Legislature. This is called a line-item veto. It's called that because the Legislature is supposed to clearly line out where they have increased an appropriation. The Legislature then has the option to override the Governor's vetoes, which happened in the 2003-04 budget cycle. An override vote requires a two-thirds majority, which means that the action needs bi-partisan support. Veto overrides tend to be very rare.

It is worth noting that at the time of this writing it has been 20 years since a budget has been agreed to and passed by the March 31 deadline. In the absence of an agreed upon budget, the Legislature and the Governor agree to short-term emergency appropriations to permit the business of government to continue uninterrupted. But these are bare bones measures and this interim fix does not solve the big decisions of the Budget such as Medicaid cost containment and State Aid to local school districts. These interim appropriations also delay grant and contract programs important to local governments and nonprofit organizations.

One final point; the Legislature must enact a budget before they can do any other bills that carry appropriations. So the delays we have experienced over the last decade not only create uncertainty about the basic services of government, but they also impede progress on other new initiatives.

Budget Execution

Once a Budget is in place, the execution or management of the budget falls to the Executive Branch. The Division of the Budget approves agency spending plans and monitors actual spending against the planned amounts. They also monitor the State's revenues from taxes and other sources.

The Division of the budget can exert a great deal of control during the execution phase. Appropriations authorize but do not mandate spending. DOB can impose hiring freezes and spending caps to limit State spending. These actions are frequently used when it appears that a financial plan may be falling out of balance, that is when revenues are not sufficient to cover expenses.

The ability to limit spending through Executive actions is an area with a rich history of litigation. It is clear that DOB can exert more control over the State Operations component of the budget. The agency commissioners are a part of the Executive Branch and are appointed by the Governor. As such, they are likely to comply, albeit reluctantly,

with DOB's spending controls. While the power to restrain spending on the local assistance side is less clear, DOB is able to intervene there as well using delay tactics and contract approval requirements.

Other Issues

The following are questions that have been raised on various parts of the budget.

Why does it seem to be easier to get capital spending added to the budget?

To answer this question we need to understand the difference between the operating budget and the capital budget. An operating budget projects the revenues and expenses of an agency for one fiscal year. The revenues and expenses of this budget are recurring; we expect to receive the revenues each year and the spending repeats or recurs each year. Examples of recurring revenues include sales taxes and the taxes on personal income. Examples of recurring expenses are employee salaries, rent and insurance.

Capital budgets pay for different types of expenses (often referred to as capital assets) and are often financed differently. Capital assets include things like buildings, bridges and roads. These are purchases and projects that are not done on a recurring basis. Because these assets have a long useful life and are usually very expensive we often borrow to pay for capital assets. It is appropriate to borrow for these assets because many taxpayers will use them over time and everyone should pay their share. Also, if we had to pay for all of these assets out of one year's revenues, it would be very difficult to afford everything else in the budget.

It is often easier to get a capital item added to the budget because of borrowing. Borrowing spreads the cost of a capital item over many fiscal years, usually twenty years. This means that the impact of adding a new capital item to one year's budget is much lower than its total cost, which makes it easier to add. The problem with this is that borrowing makes it too easy to spend more, not unlike credit cards and individual household budgets. New York has the highest per capita borrowing in the country and debt service (the amount we pay back each year on the debt) is one of the fastest growing components in the budget.

Why did the Legislature Takeover Most of the Local Share for Medicaid Long Term Care Costs?

Budget decisions reflect many influences, including politics. When the Governor and the Legislature agree to give fiscal relief to the counties, they analyze it on a regional basis. If they agree to takeover 5% of a localities cost for Medicaid, New York City would receive a disproportionate amount of the relief. Now this might seem fair because New York City spends more than any other locality on Medicaid. But when you have to reach consensus with legislators that represent rural and suburban areas, compromise is required. Long term care costs were picked up because the costs for these specific services are distributed more evenly statewide.

