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STAFF REPORT TO THE NEW YORK STATE SENATE SELECT COMMITTEE ON BUDGET AND TAX REFORM

A New Fiscal Year— A Better Budget

CHAIR: Senator Liz Krueger



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Executive Summary

Much has changed since the Legislature last changed the start of New York State's fiscal year. When lawmakers in 1943 shifted New York to an April 1 fiscal year, the State suffered from budgets that were passed too early; the State typically ended its fiscal year on June 30 with huge surpluses that irked taxpayers; and the Senate and Assembly often passed the Executive Budget with few to no changes. And while the rationale for changing the fiscal year in 1943 had its merits, they are not applicable to modern times.

A host of deficiencies in the budget process stem from the April 1 start date. These problems include poor revenue forecasting and difficulties in establishing a firm revenue consensus between the Executive and Legislative branches. These problems often lead to others later in the process, such as a lack of transparency or inadequate time to review the budget before the vote on it.

One way to prevent this domino effect that roils the budget process is to change the start of the State's fiscal year to a later date. The big question is *when*?

On December 17, 2009, the New York State Senate Select Committee on Budget and Tax Reform held a public hearing on improving transparency, forecasting and flexibility in the State's budget process. At the Manhattan public hearing, experts said such a fiscal year change promised to improve New York's troublesome revenue consensus process. The change would also provide legislators with ample time to review the budget and all but guarantee time for conference committee meetings.¹

A later start date promises to provide forecasters with better tax revenue data and could also reduce the need for the Legislature to repeatedly pass deficit reduction plans toward the end of the fiscal year. At the public hearing, opinions varied on whether the fiscal year should begin on May 1 or July 1. Since 2003, Select Committee Chairwoman Liz Krueger has sponsored legislation (S.5221-B) proposing a June 1 fiscal year.

On March 1, 2010, the Select Committee released a report based on the December public hearing highlighting the need for improved transparency, forecasting and flexibility in New York's budget process.² With this report, the Select Committee has furthered its budget reform investigation with particular attention being paid to the benefits of changing the State's fiscal year.

Key findings and conclusions based on the Select Committee's investigation are detailed in this report. They include:

- ▶ **National Landscape:** Although 46 states operate on a July 1 to June 30 fiscal year cycle, New York should not peg the start of its fiscal year to July 1 for the sake of conformity. July 1 now appears as an arbitrary date because an important factor that drove many states to that date (i.e. the start date of the federal fiscal year from 1842 to 1976) no longer exists. But school fiscal years that typically start on July 1 nationwide contribute to that date's appeal among states.
- ▶ **Revenue Forecasting:** Under an April 1 fiscal year cycle, legislators must pass a budget without seeing vital personal income tax revenue data due on April 15. By having access to

that data, Executive and Legislative forecasters could make better estimates on how much income would be available for spending. Access to more timely revenue data also promises to vastly reduce the threat of having to pass deficit reduction plans. By providing ample time to assess the April 15 tax revenue data and to review the budget, a later fiscal year start date could also result in more opportunities for participation in the budget process among rank-and-file lawmakers and the public.

- ▶ **New York Fiscal Year History:** In the first half of the 20th century, New York legislators made multiple attempts to find the best fiscal year start date that fit New York. In 1916, they changed that date from October 1 to July 1; thus tying it to the federal fiscal year. However, the enactment of a July 1 fiscal year—coupled with the Executive Budget procedural deadlines outlined in the State Constitution—contributed to a host of problems that prompted the shift to an April 1 fiscal year cycle in 1943. However, legislators today face the antithesis of the budgeting problems that haunted Albany in the late 1930s and early 1940s, such as huge fiscal year-end surpluses and budgets passed too early.
- ▶ **Fiscal Year Impacts on Schools:** The 1997 law that established a uniform public voting day on the third Tuesday of May for school district budgets outside the big five cities could complicate attempts to start the State's fiscal year after that day. Districts need to know how much school aid they will receive from the State to develop their budgets. To accommodate these districts under a June 1 fiscal year, legislators could push back the uniform budget vote day.

Given the promise of access to better tax revenue data and the Executive Budget procedural deadlines outlined in the State Constitution, June 1 is the best date to begin New York's fiscal year. A June 1 fiscal year would also better position the State to operate on a two-year budgeting cycle, which promises to improve long-term planning and encourage sounder financial practices. To furnish school districts with accurate state aid information needed for the development of their annual budgets, lawmakers should move the uniform school budget vote day to the fourth Tuesday in June.

National Landscape

When it comes to fiscal years, New York is an oddity. New York is one of only four states that do not have a July 1 fiscal year (see [TABLE 1](#)). The three other non-July 1 states begin their fiscal years in either September or October.

Over a century ago, July 1 became the fiscal year of choice for most states. But the attraction of that date was determined more by the federal government than by states. In 1842, President John Tyler changed the federal fiscal year to a July 1 start date. School fiscal years that largely began on July 1 also likely influenced the states’ affinities for that date. Many states—including New York—conformed their fiscal years to the federal date. In 1916, New York adopted a July 1 fiscal year.

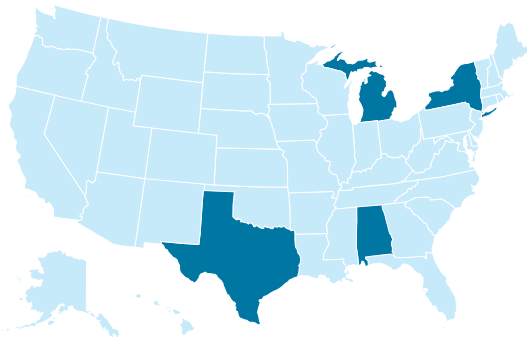
By 1975, 47 states had set their fiscal years to begin on July 1. However, a year later, the Ford administration changed the federal fiscal year to October 1. The rationale for this shift was that it would make the federal government operate in a more businesslike fashion. It also enabled Congress to weigh the president’s Executive Budget released in January as a whole, rather than reviewing and authorizing tax and appropriation bills in a piecemeal fashion.³

According to the National Conference of State Legislatures, the last state to change its fiscal year was Michigan, which in 1976 shifted from a July 1 start date to an October 1 start date. However, legislation has been introduced in Michigan to return its fiscal year to July 1.⁴

Nevertheless, a July 1 fiscal year is not a panacea; it does not guarantee a smooth and prompt budget process. For example, between 1967 and 2007, Wisconsin only passed eight budgets prior to the start of its July 1 fiscal year.⁵ Eight states—all with July 1 fiscal years—started their 2010 fiscal years without finalized budgets. They included Arizona, California, Connecticut, Illinois, Mississippi, North Carolina, Ohio and Pennsylvania. Indiana and Rhode Island finalized their budgets on June 30. Since 2002, 19 states have entered fiscal years without a final budget.⁶

TABLE 1. States with Fiscal Years that do not start in July

| State | Fiscal Year Start |
|----------|-------------------|
| New York | April |
| Texas | September |
| Michigan | October |
| Alabama | October |



Fiscal year data according to the National Conference of State Legislatures

Revenue Forecasting

In 1937, at the request of Governor Herbert Lehman, the Senate and Assembly explored ways to modify New York’s budgeting process. In response to that request, a joint legislative committee recommended changing the fiscal year’s start date from July 1 to April 1. In defending this recommendation, the joint committee concluded, “There is nothing sacred about when a fiscal year begins. The date chosen is purely arbitrary and should be one which fits most effectively the financial structure of the State.”⁷

Seventy three years later, the start date of any state’s fiscal year still cannot be called “sacred.” But to now say it is an “arbitrary” date would belie the complexities now involved in collecting tax revenue information, forecasting how much funds will be available for spending in the next fiscal year and ultimately passing a budget.

Given that approximately 60 percent of New York’s tax revenues comes from the personal income tax (PIT), Executive and Legislative fiscal forecasters are heavily dependent on information related to this tax. And the need for this data has only become more pressing since 1995, when PIT receipts accounted for about 50 percent of All Funds receipts.⁸ But due to the way the State’s fiscal year is structured, forecasters are not able to use vital PIT data that would enable them to make more accurate estimates on how much income would be available for spending in the next fiscal year. When actual revenues fall short of these estimates, the Legislature often finds itself reconvening in Albany to fill multi-billion-dollar budget holes.

New York’s budget cycle is not structured in a way conducive to obtaining timely and relevant PIT data (see [TABLE 2](#)). While most tax filings, such as those for the excise and sales tax, are due to the New York State Department of Taxation and Finance (Tax and Finance) on a monthly basis, usually around the 20th of each month, PIT filings are due to the agency on a quarterly basis.

Tax and Finance’s deadline for first quarter PIT filings is April 15, and subsequent quarterly deadlines are on the 15th of June, September and January. These deadlines conform to those set by the federal government. It would be difficult to advance the State deadline schedule because taxpayers need to determine their federal taxes before they can determine their state taxes.

Even though the Division of Budget, Senate Finance Committee and Assembly Ways and Means must wait until after these quarterly deadlines to receive complete PIT data for each three-month period, they are not left in the dark about the status of tax collections. Tax and Finance supplies them with daily and monthly financial reports detailing the progress of collections.

The Executive Budget process formally begins around early May when the Director of the Division of the Budget issues to agency heads a “call letter” outlining budgetary priorities. Meanwhile, the Legislature kicks off budget negotiations with an early November “Quick Start” revenue forecast presentations. The Quick Start presentations are intended as a first step toward reaching a consensus between the Executive and Legislative branches over revenues available for spending in the next fiscal year. Given that third quarter PIT filings are due September 15, Executive and Legislative forecasters have access to timely PIT data they can incorporate into their Quick Start presentations, which are required under the Budget Reform Act of 2007 (Ch. 1, L. 2007).

TABLE 2. Revenue Forecasting Benefits in Fiscal Years Beginning June 1 or July 1

| Month | PIT Filing Deadlines | Key Constitutional and Statutory Budget Procedural Deadlines | Revenue Forecasting Under an April 1 FY | Revenue Forecasting Under a June 1 FY | Revenue Forecasting Under a July 1 FY |
|-----------|---|--|--|---|--|
| January | Fourth quarter PIT filings (1/15) | Submission of the Executive Budget (by 1/15 for an incumbent governor) | The wave of fourth quarter PIT filings cannot fully be incorporated into the Executive Budget | See April 1 FY | See April 1 FY |
| February | | <ul style="list-style-type: none"> ▶ Submission of the Executive Budget (by 2/1 for a newly-elected governor) ▶ Executive and Legislature must convene a Revenue Forecasting Conference (before 3/1) | | | |
| March | | <ul style="list-style-type: none"> ▶ Executive and Legislative revenue consensus (3/1) ▶ Comptroller revenue estimate in lieu of no consensus (3/5) ▶ Passage of the next fiscal year's budget (3/31) | Fourth quarter PIT data can be used in achieving a revenue consensus. | | |
| April | First quarter PIT filings (4/15) | | First quarter PIT data cannot fully be used to establish more precise revenue forecasts | Legislators have six weeks to utilize full first quarter PIT data to better grasp their spending parameters | Legislators have ten weeks to utilize full first quarter PIT data to better grasp their spending parameters |
| May | | Budget Director issues "call letter" to agency heads outlining the Governor's priorities and other fiscal issues for the coming year, formally beginning the budget cycle (early May) | | | |
| June | Second Quarter PIT filings (6/15) | | Second quarter PIT data cannot be fully used to establish more precise revenue forecasts | See April 1 FY | Legislators have two weeks to utilize full second-quarter PIT data to better grasp their spending parameters |
| July | | | | | |
| August | | | | | |
| September | Third Quarter PIT filings (9/15) | | Third quarter PIT data can be used for November's Mid-Year Fiscal Plan and Quick Start presentations | See April 1 FY | See April 1 FY |
| October | | Submission of agency budget estimates to the governor (by 10/15) | | | |
| November | | <ul style="list-style-type: none"> ▶ Executive Mid-Year Financial Plan (by 11/5) ▶ Quick Start revenue presentations (by 11/5) | | | |
| December | Claims for local and state income tax itemized deductions on federal taxes in current calendar year (12/31) | | The wave of year-end PIT filings cannot fully be incorporated into the Executive Budget | See April 1 FY | See April 1 FY |

However, forecasting complications emerge in the budget process a month after the Quick Start presentations. The start of the new calendar year sees two waves of pertinent PIT data. The first comes from mostly affluent taxpayers who file fourth quarter PIT data by Dec. 31 instead of the fourth quarter filing deadline on Jan. 15. This way they can take their local and state income tax itemized deduction on federal taxes at the end of the current calendar year instead of having to wait to take them in the next year.

The second wave of PIT filings comes from taxpayers filing for the Jan. 15 deadline. Due to timing constraints, the Division of Budget (DOB) is largely not able to incorporate data from these two waves of PIT data into the Executive Budget, which the governor usually submits to the Legislature by mid-January. Neither do Executive, Legislative or Comptroller forecasters have access to complete and timely PIT data by the time they are required to reach a revenue consensus or submit a revenue estimate in early March. This more current first quarter PIT data is not due until April 15—two weeks after the budget must be passed.

New York Fiscal Year History

In 1916, New York lawmakers passed legislation (Ch. 118, L. 1916) changing the State's fiscal year to one that started on July 1 and ended June 30. Previously, the fiscal year cycle ran from October 1 and ended September 30. While this change conformed New York to the federal fiscal year, the shift had unintended consequences and lawmakers began exploring another shift three decades later.

By the 1930s, the July 1 fiscal year was causing a host of problems for lawmakers. The biggest problem with the July 1 start date largely stemmed from the large portion of revenues the State received in April, May and June. With a huge influx of revenues coming in during these three months, the State often ended the fiscal year on June 30 with what appeared to be a sizeable surplus. For example, New York received \$177 million in revenues during the three-month period ending June 30, 1942, and during the fiscal year's nine other months the State took in \$244 million. During the three-month period, the State paid out \$95 million, leaving it with an \$82 million surplus by June 30.⁹

The mere presence of such a large surplus irritated taxpayers who viewed it as a "profit" on the year's operations. Deficits were likewise viewed as "losses." However, as a joint legislative committee explained: "A surplus does not mean that the State has that amount of unexpended, unmortgaged funds to be applied toward the next year's budget or tax reduction. There may be outstanding liabilities already incurred in almost equal amount."¹⁰

Surplus or profit, the April through June revenues were a political liability. The heavy influx of revenues at the end of the fiscal year also made the New York more dependent on short-term borrowing to fund State operations.¹¹

Lawmakers made several attempts to improve the State's annual "check book balance" on June 30 by advancing tax payment dates and advancing the time of crediting certain tax revenues to the State treasury. Some large payments, such as the appropriation for employees' retirement system, were pushed back from June to July. However, these mostly administrative changes marginally improved New York's budgeting outlook.¹²

Further complicating matters was the Legislature's tendency to pass the main budget bill up to five and a half months prior to the start of the fiscal year on July 1. This trend raised concerns about lawmakers making premature fiscal decisions based on revenue data that was months old by July 1. Partly because the Governor is constitutionally required to submit his Executive Budget several months before the fiscal year started, the Executive tended to inflate its revenue estimates for the ensuing fiscal year and make them match its appropriations.¹³

Between 1929 and 1937, excluding one year (1936), the Legislature passed a main budget bill before the end of March. In 1931, 1932, 1934 and 1935, main budget bills passed the Senate and Assembly in mid-February—only one month after an incumbent governor is constitutionally required to submit his Executive Budget by January 15 and two weeks after a newly-elected governor's submission deadline of February 1.¹⁴

Recognizing the problems caused by New York's budgeting dynamics, Governor Herbert Lehman in 1937 urged the Legislature to give serious consideration to introducing "some suitable modifications of the accrual method of accounting which will reduce to much smaller

limits, the opportunity to arbitrarily throw various items of receipts and expenditures into one fiscal year or another.” These modifications “will result in a more accurate picture of the State’s true financial strength at the end of each fiscal year.”¹⁵

Answering Lehman’s request was the Joint Legislative Committee on State Fiscal Policies, also known as the Moffat Committee, after Abbot L. Moffat, chairman of the Assembly Ways and Means Committee. In December 1937, the Moffat Committee issued a report recommending the adoption of an April 1 fiscal year. The report said an advanced fiscal year would result in better revenue forecasting, reduced temporary borrowing and a more accurate year-end balance. It stated:

“Advancing the fiscal year would tend to reduce uncertainties and would bring the bulk of the current year’s revenue into the treasury before the submission of the budget instead of afterwards, improving the accuracy of the revenue estimates in the budget as well as the appropriation estimates.”¹⁶

The Moffat Committee identified two objections to advancing the fiscal year to April 1. The first objection stemmed from concerns over detaching New York’s fiscal year from those of the federal government and schools and colleges statewide. Because educational activities accounted for a third of public expenditures, it was believed better for the State to conform to schools’ fiscal years that run from July 1 to June 30. However, the Moffat Committee concluded any impacts on schools’ budgeting practices would not be “of significant importance to offset the definite gains which will be achieved by an advance of the fiscal year to April 1.”¹⁷

The second objection concerned the shorter period the Legislature would have to consider and pass a budget. But looking at the speediness the Executive and Legislature reached budget agreements throughout the 1930s, the Moffat Committee did not view this objection as pressing. It said, “Theoretically, a deadlock may occur between the two houses of the Legislature at any time,” but “[i]n no case has a deadlock gone beyond the close of the fiscal year.”¹⁸

However, the Moffat Committee failed to anticipate changes to New York’s political and budgeting dynamic. Starting in 1985, New York went 20 years without passing an on-time budget. Many budgets were passed over 100 days overdue, with tardiness peaking in 2002 at 208 days late.¹⁹

Five years after the release of the Moffat Committee report, in 1942, the Legislature passed a bill providing for an April 1 state fiscal year start date. The 1942 legislation also proposed to allow taxpayers to pay their personal income taxes in quarterly installments rather than in three annual installments.²⁰

Despite his call for budget reform, Governor Lehman vetoed the bill. He argued it required more legislative adjustments than initially expected. It also would have been too burdensome on corporation taxpayers and state government from an administrative standpoint.²¹

“From a budgetary standpoint, it is at best a close question whether it is better to have a fiscal year start on April 1 than on July 1. Much can be said on either side,” Lehman said in his May 22, 1942 veto message.²²

Seven months later, Governor-elect Thomas Dewey began preparing to revive the April 1 fiscal year shift. He submitted his first Executive Budget on February 1 and majority leaders in the Legislature immediately promised to pass his \$369.6 million budget by March 1.²³

The fact that Governor Lehman left office with an approximately \$80 million surplus eliminated some of the complications that in part prompted his veto months earlier. The presence of such a huge surplus quelled concerns that shifting the fiscal year would have created a deficit by pushing the two-thirds of New York's personal income tax receipts and half of the corporate franchises taxes from April, May and June into the next fiscal year.²⁴

Minority leaders in the Senate and Assembly strongly opposed the fiscal year change. They wanted to see the \$80 million surplus left by Lehman "accrue to the benefit of taxpayers in this time of emergency" rather than see it wiped out by the Majority-led fiscal year shift, Senate Minority Leader John Dunnigan and Assembly Minority Leader Irwin Steingut said in a joint statement on January 17, 1943.²⁵

The Minority leaders said: "The plan is unsound. It will wipe out a surplus which was brought about by the wise management of Governor Lehman ... There are no advantages in having a fiscal year start on April 1 rather than on July 1 which justify using up the eighty-million-dollar surplus."²⁶

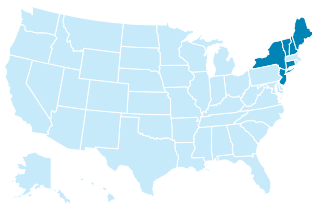
Despite the Minority opposition, the Legislature passed the fiscal year shift bill. The act (Ch. 1, L. 1943) abridged the fiscal year that started July 1, 1942 and made it end on March 31, 1943. It also established the quarterly income tax payments, which enabled the state to center its operations on a cash basis. As predicted, the Assembly passed the Governor's budget unchanged on March 1.²⁷ A day later, the Senate unanimously passed the budget.²⁸

Fiscal Year Impacts on School Years

Just as advancing the start of New York’s fiscal year raised objections in the Legislature in the 1930s due to its potential impact on schools, that date’s move back carries its own set of education-related concerns. As the Moffat Committee report noted, most school fiscal years naturally run from July 1 to June 30. Schools in cities then began their fiscal years between January 1 and May 1. It was argued the State should conform its fiscal year to the common school fiscal year “so as to facilitate the preparation of records and statistical data and provide greater uniformity.”²⁹

TABLE 3. States with Public Votes on School Budgets

| State | Vote Description | Common Timing of Vote |
|---------------|--|-----------------------|
| Connecticut | Regional school district budgets require public approval at a referendum. | May |
| Maine | Small municipalities that operate school districts include school budgets in town budgets, which must be approved by residents at a town meeting or referendum. | May–June |
| New Hampshire | School budget votes are held at annual meetings at which district voters can approve the budget figure or make it higher or lower. That leaves it up to school board members to decide on how to make appropriation adjustments. | March |
| New Jersey | In most school districts, voters must approve amounts to be raised for school purposes through property taxes. An additional ballot question is necessary if schools intend to spend over a maximum permitted net budget. | April |
| New York | All school district budgets outside the five big cities (Buffalo, New York, Rochester, New York, Syracuse, and Yonkers) require voter approval. | May |
| Vermont | School budgets are voted on at annual town meetings. | March |



School budget vote descriptions from the National Conference of State Legislatures

By the late 1930s, about a third of the State’s expenditures went toward educational activities. Lawmakers then worried an April 1 fiscal year would make it harder for schools to prepare budgets because of the threat of the same semester falling in two fiscal years.³⁰

Today, complicating a shift back to a later fiscal year are the myriad of school budget procedural requirements the Legislature has approved over the years. First and foremost, the challenge posed by a June 1 or July 1 fiscal year is the 1997 law (Ch. 436, L. 1997) requiring school district budget votes outside the big five cities to be held on the third Tuesday in May.

Before school boards can complete their budgets and put them to a public vote, they need to know how state aid will be allocated to them in the coming fiscal year. Currently,

that state aid allotment is finalized with the enactment of the State budget on April 1, roughly seven weeks prior to school budget votes. Another time-sensitive school budget procedural requirement includes the advertisement in a local newspaper of legal notices for the budget vote four times in the seven weeks before the vote.

By pushing back the uniform school budget vote day and adjusting some notification schedules, lawmakers could make the school budget cycle fit into a state fiscal year starting June 1 or July 1. Even though 46 states have fiscal years that start on July 1, a majority of them do not encounter these complications because they do not have public referendums on school budgets. Instead, most states leave the matter of passing school budgets primarily to school boards. The six states that do permit school budget votes are all in the Northeast (see [TABLE 3](#)).

In the other states, school district boards have the authority to pass budgets, but proposals to raise property taxes are commonly put to public referendums. Districts in some states need to get voter approval to exceed tax or spending caps. Nationwide, as of 2004, 34 states had tax caps and 12 had spending caps.³¹

Weighing Fiscal Years: May 1, June 1 or July 1

In 2004, the Legislature passed a budget reform package (S.7615/A.11702), which included a proposal to change the start of the state fiscal year to May 1. However, Governor George Pataki vetoed the package, which also called for the creation of an independent budget office and a contingency budget in lieu of late budgets. Governor Pataki said the legislation would have further encouraged late budgets and undermined by the State’s ability to pay financial obligations.

In 2005, the Legislature again passed this budget reform package (S.2/A.1). Governor Pataki again rejected this legislation, but the Senate and Assembly overrode his veto. The fiscal year shift never took effect because the legislation included changes to the State Constitution that required voter approval. The budget reform question was put on the November 2005 ballot as Proposal One, which voters rejected by an almost two-to-one ratio (734,844—yes; 1,368,120—no).

By itself, a fiscal year change does not require a constitutional amendment or a constitutional convention because it is set in statute. However, budgeting procedures, such as when the Governor must submit his Executive Budget and the annual adoption of a budget, are outlined in the Constitution.

The passage of the 2004-2005 package marked the closest New York has come to changing the state fiscal year in years. At the Select Committee’s budget reform public hearing in December, most experts who advocated for a fiscal year shift favored a July 1 start date. And two Select Committee members have sponsored legislation for a June 1 fiscal year. They include Chairwoman Krueger (S.5221-B) and Senator Neil Breslin (S.377). Each date presents its own unique benefits and challenges (See [TABLE 4](#)).

TABLE 4. Advantages and Challenges Posed by a Fiscal Year Shift

| | Pro | Con |
|--------|--|--|
| May 1 | <ul style="list-style-type: none">▶ Would give legislators an extra four weeks to deliberate over the budget.▶ Would not significantly disrupt existing school district budget vote procedures.▶ Would allow school districts to hold budget votes before summer.▶ Would leave lawmakers two months to devote their full attention to non-fiscal matters. | <ul style="list-style-type: none">▶ Would give legislators only two weeks to incorporate full first quarter personal income tax data due April 15 into the revenue projections for the proposed budget. |
| June 1 | <ul style="list-style-type: none">▶ Would give legislators an extra eight weeks to deliberate over the budget.▶ Would give legislators six weeks to incorporate full first quarter personal income tax data due April 15 into the revenue projections for the proposed budget.▶ Would leave lawmakers with an entire month to devote their full attention to non-fiscal matters.▶ Could keep the first school budget vote out of the peak summer vacation season. | <ul style="list-style-type: none">▶ Would require a change to the law requiring school district budget votes to be held on the third Tuesday of May (possibly to the fourth Tuesday of June). |
| July 1 | <ul style="list-style-type: none">▶ Would give legislators an extra twelve weeks to deliberate over the budget.▶ Would give legislators ten weeks to incorporate full first quarter personal income tax data due April 15 into the revenue projections for the proposed budget. | <ul style="list-style-type: none">▶ Would require a change to the law requiring school district budget votes to be held on the third Tuesday of May (possibly to the fourth Tuesday of July).▶ Would give legislators only two weeks to incorporate full second quarter personal income tax data due June 15 into the revenue projections for the proposed budget.▶ Would push budget negotiations to the end of the legislative session, giving lawmakers little time to devote their full attention to non-fiscal matters. |

Conclusions

I. The Best Date: June 1

A May 1 fiscal year offers some worthwhile benefits, such as providing for an analysis of more current PIT data. Perhaps the most attractive feature of this May 1 shift is that it would not significantly disrupt the school district budget cycle, which revolves around the vote on the third Tuesday of May (see [TABLE 5](#)).

However, while Executive and Legislative forecasters would have access to the April 15 tax data, legislators would have only two weeks make use of it. Under a May 1 fiscal year, by the time the April 15 data is evaluated by the Executive and Legislative finance staffs, it could at best validate or invalidate the March 1 revenue consensus. It likely could not “change the game” before the April 30 adoption deadline. Such a short timeframe leaves little time for conference committee meetings and a thorough consideration of a fiscal plan agreed upon by both houses. In the end, a May 1 shift almost defeats the purpose of shifting the fiscal year for the sake of getting more timely revenue statistics.

A July 1 fiscal year poses the similar dilemma of leaving only two weeks for legislators to make use of the most recent quarterly PIT data, which would be the second quarter filings due June 15. A July 1 fiscal year would also mean the budget would almost consume an entire legislative session; thus threatening other pressing non-fiscal matters. As noted above, the argument that New York should adopt a July 1 fiscal year to conform to 46 other states is weakened when considering an important factor that drove those states to July 1 (i.e. the federal fiscal year that started on that date up until 1976) no longer exists.

A June 1 fiscal year stands out as the best option among the three dates. It would afford legislators six weeks to make use of the most recent quarterly PIT data, which comes in on April 15. Like a July 1 fiscal year, a June 1 fiscal year would require changes to school budget cycles so districts can draft their budgets knowing how much financial aid they will receive from the State in the coming fiscal year.

II. School Budget Cycle Considerations

Under a June 1 fiscal year, school budget votes could be held on the fourth Tuesday in June (see [TABLE 6](#)). Some procedural changes would be necessary to fit the June budget vote schedule, such as shortening the budget vote seven-week advertising period.

A late-June budget referendum is unpalatable to organizations such as the New York State Council of School Superintendents (NYSCOSS) and New York State School Boards Association (NYSSBA), which worry about lower-than-normal-voter turnout because some parents are away on vacation at that time. However, a late-July school budget vote under a July 1 fiscal year would be far more unpalatable to district boards and superintendent, because it would come at the peak summer vacation season. The fourth-Tuesday-in-June schedule would keep initial school budget votes out of these peak summer vacation weeks and enable districts to enter new fiscal years on July 1 with clearly defined spending parameters. However, to accommodate for revotes, the July 1 fiscal year start date for school districts and the uniform school budget revote day on the third Tuesday of June should be moved back about a month.

TABLE 5

School Budget Cycle under an April 1 State Fiscal Year

| April 2010* | | | | | | | May 2010* | | | | | | |
|-------------|---------|---------|-----------|----------|--------|----------|-----------|--------|-----------------|-----------|----------|--------|----------|
| SUNDAY | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY | SATURDAY | SUNDAY | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY | SATURDAY |
| 28 | 29 | 30 | 31 | 1 A | 2 | 3 B | 25 | 26 | 27 | 28 | 29 | 30 | 1 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 | 2 | 3 | 4 F, G, H, I | 5 | 6 | 7 | 8 J |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 | 9 | 10 | 11 K | 12 L | 13 M | 14 | 15 |
| 18 | 19 C | 20 | 21 | 22 | 23 | 24 D | 16 | 17 | 18 N | 19 | 20 | 21 | 22 |
| 25 | 26 | 27 | 28 E | 29 | 30 | 1 | 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| | | | | | | | 30 | 31 | 1 | 2 | 3 | 4 | 5 |

*Deadlines based on minimum statutory requirements. Budget data from the New York State School Boards Association.

Key School Budget Cycle Deadlines

- A. Start of New York State fiscal year.
- B. Notice of *the budget vote must be advertised* four times within the **45 days** before the date of the annual meeting.
- C. *School board candidate nominations due* in the district clerk's office **30 days** before the election.
- D. School districts must *adopt and submit their budget and tax report cards* to local newspapers and the Education Department at least **24 days** before the budget vote.
- E. School board candidate nominating petition deadline **20 days** before vote.
- F. School boards must *complete a budget* **seven days** prior to the budget hearing.
- G. *The budget statement must be made available, upon request*, to residents during the **14 days** before the vote.
- H. *Copies of the budget must be made available upon request* **14 days** before the vote.
- I. School districts *must appoint inspectors of elections, assistant clerks, chief inspector of Elections and a chairperson* at a regular Board of Education meeting, at least **14 days** before the vote.
- J. *New York State Department of Education must make public school property tax report card data* **10 days** before the budget vote.
- K. School districts must *present their budgets at an annual budget hearing*, which must be held **seven days** before the budget vote.
- L. *Budget notice mailing deadline* **six days** before vote.
- M. *School district registration board deadline for voter registration* **five days** before vote.
- N. *Budget vote* must be held on the **third Tuesday of May**.

TABLE 6

School Budget Cycle under a June 1 State Fiscal Year

| May 2010* | | | | | | | June 2010* | | | | | | |
|-----------|--------|---------|-----------|----------|--------|----------|------------|--------|-----------------|-----------|----------|---------------|----------|
| SUNDAY | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY | SATURDAY | SUNDAY | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY | SATURDAY |
| 25 | 26 | 27 | 28 | 29 | 30 | 1 | 30 | 31 | 1 B | 2 C | 3 | 4 D**, E** | 5 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 | 6 | 7 | 8 F, G, H, I | 9 | 10 | 11 | 12 J |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 13 | 14 | 15 K | 16 L | 17 M | 18 | 19 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 | 20 | 21 | 22 N | 23 | 24 | 25 | 26 |
| 23 A | 24 | 25 | 26 | 27 | 28 | 29 | 27 | 28 | 29 | 30 | 1 | 2 | 3 |
| 30 | 31 | 1 | 2 | 3 | 4 | 5 | | | | | | | |

Key School Budget Cycle Deadlines

- A. School board candidate nominations due in the district clerk's office **30 days** before the election
- B. Start of New York State fiscal year.
- C. School board candidate nominating petition deadline **20 days** before vote.
- D. Notice of the *budget vote must be advertised two times within* the **18 days** before the vote.**
- E. School districts must *adopt and submit their budget and tax report cards* to local newspapers and the Education Department at least **18 days** before the budget vote.**
- F. School boards must *complete a budget* **seven days** prior to the budget hearing
- G. The *budget statement must be made available, upon request*, to residents during the **fourteen days** before the vote.
- H. *Copies of the budget must be made available* upon request **14 days** before the vote.
- I. School districts *must appoint inspectors of elections, assistant clerks, chief inspector of Elections, and a chairperson* at a regular Board of Education meeting, at least **14 days** before the vote
- J. *New York State Department of Education must make public school property tax report card data* **10 days** before the budget vote.
- K. School districts must *present their budgets at an annual budget hearing*, which must be held **seven days** before the budget vote.
- L. *Budget notice mailing deadline* **six days** before vote.
- M. *School district registration board deadline for voter registration* **five days** before vote
- N. *Budget vote* must be held on the **fourth Tuesday of June**.

*Deadlines based on minimum statutory requirements.

**Indicates a proposed statutory change for the state or schools.

Under the third-Tuesday-in-May schedule, voter participation in school budget votes is marginal, averaging 14.2 percent statewide in 2006. While voter participation in school budget votes reached 20 percent in Suffolk County, it fell to as low as 10.4 percent in Sullivan County and averaged 12.9 percent in 27 other counties.³²

June votes on local issues—excluding school budgets—are uncommon in the State. But they are far more common than April or July non-school-budget-related elections, at least among villages. Statewide, 463 out of 556 villages hold elections in March. June has the second-highest concentration of village elections, totaling 59. Meanwhile, only four villages hold elections in April and 30 in November.³³

III. Biennial budgeting

Given Albany's track record of passing 20 consecutive late budgets between 1984 and 2004 and the volatility of New York's revenue sources, both the Executive and Legislative branches have attempted to bring some degree of predictability to school district officials trying to develop their own budgets.

To achieve this goal, the Senate and Assembly included in their 2004-2005 budget reform package a requirement for the Governor to submit two separate appropriations for school aid for the upcoming fiscal year and the succeeding fiscal year. In 2007, Governor Eliot Spitzer proposed a similar, albeit temporary, multi-year funding method for schools with his Foundation Aid formula. This formula, which was enacted in the 2007-2008 budget and was by far simpler than the hodgepodge of categorical aid formulas used previously, promised predictable aid increases over a four-year implementation period.

While long-term funding was not the primary goal of Foundation Aid and its scheduled increases are currently behind schedule, its development does suggest school aid can be allocated in a more predictable fashion, according to NYSCOSS. Another example of the State engaging in multi-year school aid came in the form of the two-year freeze on Foundation Aid that Governor David Paterson imposed in the 2009-2010 fiscal year. Governor Paterson has also proposed to extend for another year through 2011-2012, according to NYSSBA and NYSCOSS.

However, a biennial budgeting cycle for schools would be a poor fit for a state with an annual budgeting process. At best, school aid planned for out years could serve as a recommendation under an annual budget cycle. Neither the Education Commission of the States nor the National Conference of State Legislatures were aware of any states with annual budgets that have mandated biennial school budget cycles. Nationwide, 20 states have biennial budgets, though 15 of them have annual legislative sessions. Among the six states that require public votes on school budgets, three of them (i.e. Connecticut, Maine and New Hampshire) operate on biennial budget cycles.³⁴

For biennial budgeting to work best, it should be adopted by both the State and schools. But forecasters would need access to the more current tax data afforded by a June 1 fiscal year to provide accurate revenue estimates over a two-year period. Along with encouraging long-term planning in Albany, a two-year budget process for the State would guarantee school districts more school aid predictability.

Under a two-year budgeting cycle for both schools and the State, districts should also realize significant administrative cost savings by having to conduct one fewer budget vote every two years. A portion of these savings should be held in reserve by districts to finance two-year budgeting courses for school chief financial officers.

IV. Revised Revenue Consensus

Under a June 1 fiscal year, New York could maintain its existing statutory and constitutional budgeting procedures. A shift to June 1 promises to strengthen the 2007 budget reforms, particularly by providing an opportunity to establish a firmer revenue consensus based on more precise and timely data.

With a June 1 fiscal year, the Quick Start presentations would still be made by November 5, and a consensus agreement would be required by March 1. However, this March revenue consensus would serve more as a memorandum of understanding than a final agreement. Over the next two months, this agreement could provide the framework for preliminary allocation discussions among leadership and conference committees.

By May 1, fiscal leaders from the Executive and Legislative branches should be required to meet again to reach a revised revenue consensus that incorporates the April 15 tax data and other tax data that predominately comes in on the 20th of that month. After May 1, conference committees could reconvene and reconcile any differences between house bills created as a result of any adjustments to the March revenue consensus.

Many other states incorporate such May revisions in their budget processes, particularly for recommending revenue adjustments for the current and ensuing fiscal years. Some of these states include California, Michigan and Maine, according to the National Conference of State Legislatures.

V. Recommended Statutory and Constitutional Changes

For a shift to a June 1 fiscal year to work efficiently for both the State and school districts, the following statutory and constitutional changes are recommended:

- ▶ Shifting the State to a June 1 to May 30 fiscal year cycle from an April 1 to March 31 cycle (statutory);
- ▶ Replacing the State's annual budgeting process with a biennial budgeting process; (constitutional);
- ▶ Requiring the Executive Budget and Enacted Budget be balanced in accordance with the Generally Accepted Accounting Principles (GAAP) (statutory);
- ▶ Requiring the Legislature to pass biennial budgets in non-election years, compared to voting each year on annual budgets (constitutional);
- ▶ Moving the uniform school budget vote day to the fourth Tuesday of June from the third Tuesday in May (statutory);
- ▶ Shortening the budget vote advertising period to 18 days from 45 days (statutory);

- ▶ Requiring districts to advertise school budget votes in local newspapers two times prior to a vote instead of four times (statutory);
- ▶ Requiring districts to predominately post on schools' Web sites budget notices throughout the 18-day period prior to the vote (statutory);
- ▶ Requiring districts to adopt and submit their budget and tax report cards to local newspapers and the Education Department at least 18 days before the budget vote (statutory);
- ▶ Moving the uniform school budget revote day to the fourth Tuesday of July from the third Tuesday of June (statutory).
- ▶ Shifting school districts to an August 1 to July 31 fiscal year cycle from a July 1 to June 30 cycle (statutory).
- ▶ Requiring the Executive and Legislature to achieve a revised revenue consensus based on the April 15 tax data by May 1 (statutory);
- ▶ In cases when a consensus cannot be reached, the State Comptroller would be responsible setting a revised forecast by May 5 (statutory).

About the Select Committee on Budget and Tax Reform

On February 5, 2009, the New York State Senate adopted Senate Resolution No. 315, which created the Select Committee on Budget and Tax Reform. Since then, the six-member, bi-partisan committee chaired by Senator Liz Krueger has sought to look at New York State's entire tax structure. It aims to determine what aspects of it are working smoothly and where there are inequities and complications that must be rectified.

Select Committee activities in 2009 have included:

Personal Income Tax Reform

Exploring progressive changes to New York State's personal income tax system.

- ▶ Public hearing: Albany, March 12, 2009.
- ▶ Staff report: April 2009.

Business Tax Reform

Evaluating the equitability of New York State's business and banking tax structures and their effectiveness to foster economic growth statewide.

- ▶ Public hearings: Rochester, April 30; Manhattan, May 21, 2009.
- ▶ Staff report: July 2009.

Telecommunications Tax Reform

Modernizing New York State's telecommunication taxes.

- ▶ Roundtable: Albany, August 12, 2009.
- ▶ Staff report: October 2009.

Property Tax Exemption Reform

Evaluating the needs for and costs of New York State property tax exemptions.

- ▶ Roundtable: Albany, October 13, 2009.
- ▶ Staff report: December 2009.

Budget Reform

Improving transparency, forecasting and flexibility in New York State's budget process.

- ▶ Public hearing: Manhattan, December 17, 2009.
- ▶ Staff report: February 2009.

Budget Reform

A New Fiscal Year — A Better Budget

- ▶ White paper: April 2010

The Select Committee's members also include Senators Neil Breslin, Kenneth LaValle, Kevin Parker, Bill Perkins and Michael Ranzenhofer. Select Committee staff includes Executive Director Michael Lefebvre, Principal Analyst Richard Mereday and Administrator James Schlett.

Notes

I. See:

- ▶ Testimony from Ron Deutsch, Executive Director of New Yorkers for Fiscal Fairness. New York State Senate Select Committee on Budget and Tax Reform. Albany public hearing, Dec. 17, 2009.
 - ▶ Testimony from E.J. McMahon, Director of the Empire Center for New York State Policy. New York State Senate Select Committee on Budget and Tax Reform. Albany public hearing, Dec. 17, 2009.
 - ▶ Testimony from George Sweeting, Deputy Director of the New York City Independent Budget Office. New York State Senate Select Committee on Budget and Tax Reform. Albany public hearing, Dec. 17, 2009.
2. See: "Staff Report to the Select Committee on Budget and Tax Reform on Improving Transparency, Forecasting and Flexibility in New York State's Budget Process." Accessed at: <http://www.nysenate.gov/committee/budget-and-tax-reform>.
 3. Associated Press, "U.S. fiscal year to start Oct. 1," in Tri City Herald (Pascao, Kennewick, Richland, Wash.). May 3, 1976. Accessed on Google News: news.google.com.
 4. See Michigan House Bill 5381, 2009.
 5. Bauer, Scott for the Associated Press. "When budget deadline passes, state government won't stop." June 20, 2007. Accessed at <http://www.winonadailynews.com>.
 6. National Conference of State Legislators. "Late State Budgets." Accessed at <http://www.ncsl.org/default.aspx?tabid=17823>.
 7. New York State Legislature. "Report of the Joint Legislative Committee on Fiscal State Policies." December 1937, 10.
 8. New York State Division of the Budget, 2010-II Executive Budget: Economic and Revenue Outlook. January 2010, 179.
 9. New York Times. "Dewey Tax Cuts Hinged on Change in the Fiscal Year." January 5, 1943. Accessed on American Historical Newspapers, an online database supported by NewsBank, Inc.
 10. New York State Legislature. "Report of the Joint Legislative Committee on Fiscal State Policies." December 1937, 10.
 11. Ibid.
 12. Ibid, 11.
 13. Ibid, 17.
 14. Ibid, 15.
 15. New York State Legislature. "Report of the Joint Legislative Committee on Fiscal State Policies." December 1937, 11
 16. Ibid, 17.
 17. Ibid, 19.
 18. Ibid, 20.
 19. Citizens Budget Commission. "Fixing New York State's Fiscal Practice." November 2003. Accessed at: <http://www.cbcny.org/fixingnys.pdf>
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 21. Lehman, Herbert H. "Public Papers of Herbert H. Lehman: Forty-Ninth Governor of the State of New York, Fourth Term 1942." Albany, Williams Press, 1947, 306-308.
 22. Ibid, 307.
 23. New York Times. "Dewey to Submit Budget Tonight." January 31, 1943. Accessed on ProQuest Historical Newspapers, The New York Times (1851-2006).
 24. Moscow, Warren, "Dewey Proposes New Fiscal Year to Start April 1 on Cash Basis," in The New York Times. December 18, 1942. Accessed on ProQuest Historical Newspapers, The New York Times (1851-2006).

25. New York Times. "Democrats Fight Fiscal Year Shift." January 18, 1943. Accessed on ProQuest Historical Newspapers, The New York Times (1851-2006).
26. Ibid.
27. New York Times. "Assembly Passes Budget Unchanged." March 2, 1943. Accessed on ProQuest Historical Newspapers, The New York Times (1851-2006).
28. New York Times. "Senate Unanimous on Dewey Budget." March 3, 1943. Accessed on ProQuest Historical Newspapers, The New York Times (1851-2006).
29. New York State Legislature. "Report of the Joint Legislative Committee on Fiscal State Policies." December 1937, 19.
30. Ibid.
31. Education Commission of the States. "State Notes: Taxation and Spending Policies." June 2004. Accessed at: <http://www.ecs.org/clearinghouse/52/94/5294.pdf>
32. New York State Commission on Local Government Efficiency and Competitiveness. "Elections and Voter Participation." April 2008. Accessed at: http://www.nyslocalgov.org/pdf/Voter_Participation_in_Elections.pdf
33. Ibid.
34. Snell, Ronald K. "Annual and Biennial Budgeting: The Experience of State Governments." National Conference of State Legislatures, August 2009.



Senator Liz Krueger speaks at the Select Committee on Budget and Tax Reform's December 17, 2009 public hearing on improving transparency, forecasting and flexibility in New York State's budget process.



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