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Budget Process - NY State; Series I; File 24

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#24

BUDGET PROCESS – N.Y. STATE

NEW YORK STATE EXECUTIVE BUDGET PROCESS

Agency Program Planning and Budget Preparation

April to Mid-Sept.

Bureau and institution heads prepare their Budget Requests (spring).

Governor's Policy Letter (Budget call-letter) issued to agency heads with guidelines for preparing Budget Requests.

Agencies review bureau requests (summer):

- Review by division heads;
- Requests submitted to agency budget offices for analysis;
- Budget review conferences;
- Final decisions by agency heads and final preparation of agency Budget Requests.

Review by Division of the Budget

Mid-Sept. to Mid-Dec.

Agencies submit Budget Requests to DOB (first Monday after Labor Day).

Preliminary review of Budget Requests:

- Analysis by Budget examiners of:
    - -- Program fiscal requirements and budget justifications;
    - -- Long-term trends;
    - -- Comparative data, with agencies supplying new data as requested.
- Budget examiners conduct informal hearings with agencies (Sept.-Oct.);
- Budget Director conducts formal hearings (Oct.-Nov.);
- Budget examiners evaluate hearings and any further justifications; make final recommendations;
- Fiscal analysis estimate expenditures and revenues and prepare alternative financial plans.

Executive Decision-Making

Mid-Dec. to Mid-Jan.

Final review and policy formulation:

- Policy recommendations by Budget Director;
- Policy decisions by Governor;
- Financial plan recommendations by fiscal analysts;
- Financial plan formulated by Governor and Budget Director;
- Budget Message written and press briefing held.

Deficiency Budget Bill for current fiscal year submitted to Legislature (early January).

Legislative Action

Mid-Jan. to April

Passage of Deficiency Budget by both houses.

Governor submits Executive Budget document and supporting Budget Bills to Legislature (mid-January or February 1):

- Analysis by fiscal committees;
- Public hearings;
- Passage by both houses

Governor submits Five-year Projection of Revenues and Expenditures

Passage of special appropriation bills sponsored by legislators and reviewed by DOB, with recommendations sent to Governor.

Fiscal year begins April 1:

- Budget execution begins --segregations, allocations, transfers, interchanges.

Governor submits Supplemental Budget:

- Analysis by fiscal committees;
- Passage by both houses (any time before adjournment).

DOB

#24

BUDGET PROCESS —
N.Y. STATE

APPENDIX IV

THE BUDGET PROCESS

New York State's budgetary process offers a prime example of an executive budget system. The Governor is required by the State Constitution to seek and coordinate requests from agencies of State government, to develop a "complete" plan of proposed expenditures and available revenues (a "balanced budget") and to submit to the Legislature a budget and the appropriation bills and other legislation required to carry out the budgetary recommendations. The Governor is also required by the State Finance Law to manage the budget through administrative actions during the fiscal year.

The State's fiscal year begins each April 1 and continues for 12 months through March 31. The actual "budget cycle," however, representing the time between early budget preparation and last-minute disbursements, begins some 9 months earlier and lasts approximately 27 months—until the expiration of the State Comptroller's authority to honor vouchers against the previous year's appropriations.

Agency Budget Preparation

The budget cycle begins in late June or early July when the Budget Director issues a policy memorandum—the "call letter"—to agency heads. The call letter outlines, in general terms, the Governor's priorities for the coming year, alerts the agency heads to anticipated fiscal constraints and informs agencies of the schedule for submitting requests to the Budget Division. In short, the call letter signals the official start of the budgetary process.

Preparation of the budget request will vary from agency to agency, reflecting size, complexity and internal practice. Typically, however, budget development begins at the program or subdepartmental level, with staff preparing individual program requests guided by the call letter and following the instructions set forth by the Division of the Budget in a Budget Request Manual. By late August, as a rule, the final program package is assembled and approved by the agency head.

Division of the Budget Review

In accordance with the schedule outlined in the call letter, agencies submit their budget requests shortly after Labor Day to the Division of the Budget, with copies to the legislative fiscal committees. Within the Budget Division, examination units analyze the requests of agencies for whose budgets they are ultimately responsible. Examiners may seek additional information from the agencies, and often hold "informal" hearings to clarify agency requests and seek a more precise definition of agency priorities.

In November, the Budget Director conducts a series of constitutionally required "formal" budget hearings, giving the agency heads an opportunity to present and discuss their budget requests and giving the Budget Division and the Governor's staff a formal "on-the-record" opportunity to raise critical questions on program accomplishments, policy issues, long-range requirements and priorities. As provided in the Constitution, representatives of the legislative fiscal committees may participate in the hearings. After the hearings, the Budget Division staff transforms agency requests into preliminary budget and personnel target recommendations which are reviewed in detail with the Director. The staff will also prepare the appropriation bills and any other legislation required to carry out the recommendations set forth in the Executive Budget.

Concurrently, the Division's fiscal staff is reassessing economic projections, investigating possible changes in the revenue structure, analyzing trends in Federal funding, and preparing the financial plan that describes and forecasts the State's fiscal condition. In recent years the financial plan has been prepared both on a cash basis and on the basis of generally accepted accounting principles (GAAP).

By mid to late December, the Budget Division will normally have completed this initial recommendation process on both the revenue and expenditure side and Budget staff prepares the tables and the narrative (the "budget story") that accompanies each agency budget and the description and forecasts of individual revenue sources.

The Governor's Decisions

The Governor and his immediate staff, who are also preparing his annual Message to the Legislature (the "State-of-the-State" message which he presents soon after the Legislature convenes in January), will be conversant with the budget throughout its development. The Governor thus keeps up-to-date on changing economic and revenue forecasts and makes sure that program priorities have been clearly understood and are reflected in the budget. Based on the most current reading of the economic and fiscal environment, the final Executive Budget recommendations are formulated in a series of sessions between the Budget Director and the Governor. These sessions focus, naturally, on major issues and may lead to revisions in significant parts of agency budgets. At the same time, the Governor completes his Budget Message, setting forth his perspective on the coming year and discussing his priorities and major recommendations for changes in policy, program, revenue or administration that will have a significant impact on the State Financial Plan.

Legislative Action

In mid-January—or, following a gubernatorial election year, by February 1—the Governor submits his Executive Budget to the Legislature, along with the related appropriation, revenue and other budget bills concerning State operations, aid to localities and capital projects. A five-year projection and more extensive discussion of the State's capital program is submitted under separate cover with the Executive Budget.

The Governor also submits with or without commentary the budget requests of the Legislature and the Judiciary. As required by the Constitution, these are incorporated in the budget unaltered. The legislative fiscal committees—Senate Finance and Assembly Ways and Means—then

analyze spending proposals and revenue estimates, holding public hearings on major programs and seeking information as deemed necessary from the staffs of the Budget Division and other State agencies.

Except for the budgets of the Legislature and the Judiciary, the Legislature may not alter an appropriation bill except to eliminate an item or reduce the amount recommended. It may, however, add items separate and distinct from those included in the original bill submitted by the Governor. The appropriation bills, except for those adding items or providing funds for the Legislature and Judiciary, become law without further action by the Governor. The Governor must approve or disapprove all or parts of the appropriation bills covering the Legislature and Judiciary and may disapprove items added to his original bill. As provided in the Constitution, the Legislature may override the Governor's veto by the vote of two-thirds of those elected to each house. The passage of the appropriation bills—covering State Operations, Aid to Localities, Capital Projects, Debt Service and the Legislature and Judiciary—provides a legal foundation for the disbursement of funds during the new fiscal year that begins on April 1.

At this point the budget process enters a new phase: budget execution. As a first step, the Division prepares "certificates of allocation" informing the State Comptroller that he may establish accounts as specified in the certificate and honor vouchers drawn against the account.

In addition, throughout the year the Division keeps close watch on the flow of revenue and pattern of expenditure against its projections, and incorporates these in quarterly updates of the financial plan which are provided to the Legislature, as required by law, in April, July, October and January. These become the basis of financial management during the fiscal year, and may alert both the Governor and the Legislature to potential problems in maintaining budget balance as the year unfolds.

#24
BUDGET PROCESS –
N.Y. STATE

APPENDIX V

FINANCIAL TERMINOLOGY

The Accounting, Financial Reporting and Budget Accountability Reform Act of 1981 introduced a new dimension to New York's financial accounting and reporting practices—the use of generally accepted accounting principles (GAAP). With the enactment of this reform, New York now presents its State Financial Plan and Executive Budget both on the traditional "cash" basis and in accordance with GAAP. State accounting and financial reporting are also required to be in accordance with these principles.

The GAAP system carries a unique set of accounting concepts and definitions and, in some instances, revises the meanings of financial terms familiar to those acquainted with the cash-based system. Because of these differences in definition, this financial terminology section explains each method of accounting independently, and how each works in the comprehensive accounting system now operating in New York.

BUDGETS

Executive Budget: This term refers broadly to the structure and process of the constitutional system of budgeting in New York State, which vests most authority and responsibility for budget formulation, presentation and execution in the Governor. More specifically, the term refers to the Governor's constitutionally mandated annual submission to the Legislature containing his recommended program, expressed in dollar terms, for the forthcoming fiscal year.

This annual submission is an overall plan of recommended appropriations, expenditures and cash disbursements (see **appropriation**, **expenditures** and **disbursements**, below) necessary to carry out the program, together with estimates of revenues and cash receipts expected to be available to support these expenditures and disbursements. The State Constitution requires, where necessary to achieve a balanced budget, explicit recommendations for changing the current revenue structure and legislation to implement any such recommendations (see **Financial Plan** and **Fiscal Year**, below).

Pursuant to the Constitution, the Governor must incorporate in the Executive Budget submission, appropriations to the Judiciary and the Legislature (which are not part of the Executive branch of State government) as proposed by them, although he may recommend changes to such appropriations.

The Constitution requires submission of the Budget on or before the third Tuesday after the first Monday in January, except in years following gubernatorial elections, when it must be submitted by February 1.

Amendments to the Budget: Under the Constitution the Governor may amend or supplement the Executive Budget within 30 calendar days after its submission or, with the consent of the Legislature, at any time before the close of the session. These revisions, additions or deletions reflect responses to new situations or conditions that arise after the Executive Budget is prepared or corrections of the Executive Budget.

Supplemental Budget: Following negotiations between the Governor and the legislative leaders, a legislative supplemental budget bill may be introduced that reflects, in part, the Governor's recommendations. The term **Supplemental Budget** refers to this type of submission. As a multiple-appropriation measure, it is subject to **item veto** by the Governor (see **item veto**, below).

Other Appropriation Measures: An appropriation bill may also be submitted through the regular legislative process (i.e., it may be introduced by one or more legislators or by a legislative committee). However, the Legislature must act upon the Governor's constitutionally mandated appropriation bills prior to acting upon any other appropriation bills (unless the Governor certifies the need for immediate passage of another appropriation bill, pursuant to his constitutional authority to issue a "Message of Necessity"). Such other appropriation measures are subject to veto by the Governor.

FINANCIAL PLAN

The Director of the Budget is designated by statute to act on behalf of the Governor in exercising certain of the Governor's constitutionally prescribed responsibilities. The Division of the Budget, headed by the Director of the Budget, prepares a financial plan for each fiscal year, which sets forth for such year the Governor's projections of State revenues and expenditures, and of State receipts and disbursements, that would result from legislative adoption of the Executive Budget recommendations. A revised financial plan must be submitted as soon as practicable after the Executive Budget is enacted. This plan, which is the basis for administration of the State's finances by the Division, must be updated quarterly.

FISCAL YEARS

The State fiscal year runs from April 1 through March 31. The Federal fiscal year runs from October 1 through September 30. The calendar year is the fiscal year for all New York counties and towns and for most cities, while New York City and independent school districts in the State operate on July 1— June 30 fiscal years. For most villages, the fiscal year runs from June 1 through May 31. Other cities and villages in New York State have varying fiscal years (see the State Comptroller's annual **Special Report on Municipal Affairs**).

MAIN BUDGET FUNDS

General Fund: This is the major operating fund of the State. It receives all State income not earmarked for the support of a particular program or activity and not specified by law to be deposited in another fund. **State income** for New York financial plan purposes has consisted of moneys deposited to the credit of the General Fund during the fiscal year from

current revenues (taxes, fees, certain Federal grants, and miscellaneous receipts including certain repayments of State advances) and transfers thereto. General Fund income finances disbursements from its two operating accounts, the Local Assistance Account and the State Purposes Account, and transfers therefrom to other funds.

The **Local Assistance Account** finances:
—State grants to, or State expenditures on behalf of, counties, cities, towns, villages, school districts, and other local entities;
—Certain contractual payments to localities;
—Certain advances for reimbursable costs (see **advances**, below); and
—Certain financial assistance to individuals and nonprofit organizations.

The **State Purposes Account** finances:
—Salaries and nonwage compensation for most State employees;
—Other operating costs of State agencies, the Legislature and the Judiciary;
—General State charges. These are fixed charges, mandated by statute or court decree, for which the State is liable. They include pensions; health, dental and optical benefits; social security payments on behalf of State employees; employee benefit programs; court judgments; assessments for local improvements; and taxes on public lands;
—Certain contractual payments, including some contractual payments to localities;
—Certain financial assistance to individuals and nonprofit organizations;
—Certain advances for reimbursable costs; and
—Interest payments on tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs) and BANs issued in the form of commercial paper.

The General Fund, as reported by the State Comptroller in his annual GAAP financial statements, also includes the revenues and expenditures of funds budgeted as internal service and enterprise funds and certain special revenue funds.

Special Revenue Funds: These funds account for State receipts of specific revenue sources, legally restricted in use to expenditure for specified purposes. This governmental fund type is divided into two classifications in New York State — **State special revenue funds** and **Federal special revenue funds**. An example of a State special revenue fund is the Conservation Fund. An example of a Federal special revenue fund is the Department of Health and Human Services Fund. While the earmarked revenue fund is treated as a State special revenue fund for cash-basis budgeting and reporting purposes, it is combined with the General Fund for purposes of GAAP-basis budgeting and reporting.

Capital Projects Fund: This fund, together with all other funds within the capital projects fund type, finances:
—Planning, land acquisition, construction and equipment costs attributable to: highway, parkway and rail preservation projects; outdoor recreation and environmental conservation projects; buildings and other capital facilities required by various State departments and agencies;
—Aid payments to local governmental units and public authorities to help finance the following types of capital programs: highway; parkway; bridge; mass transportation; aviation; port development; community college; senior college; community and State mental health; outdoor recreation; State-assisted housing; and environ mental quality;
—Advances for capital construction costs reimbursable by public authorities, instrumentalities of the State, the Federal government, or local governments;
—Bonded State spending; and
—Spending from Federal capital grants.

Debt Service Funds: All tax-financed State debt service on long-term debt and lease-purchase or other contractual obligation payments are paid from debt service funds, which account for the accumulation of money for, and the payment of principal and interest on, general long-term debt. Lease-purchase payments for State University, Health, and Mental Hygiene facilities and for highway construction, reconstruction, reconditioning and preservation purposes under contractual agreements with public authorities are also paid from funds classified as debt service funds.

Tax Stabilization Reserve Fund: Prior to the 1982-83 fund reclassification, two operating funds, the Local Assistance Fund and the State Purposes Fund, had corresponding reserve funds for the stabilization of tax revenues. At the end of each fiscal year, any unexpended balance in either of these operating funds, within certain limits, was transferred to its complementary reserve fund. Either reserve fund could be drawn upon only to meet unanticipated deficits in its respective operating fund.

Under 1981 legislation, the activities of these funds are accounted for in the General Fund. In July 1984, the State Purposes Tax Stabilization Reserve Fund and the Local Assistance Tax Stabilization Reserve Fund were combined in a single Tax Stabilization Reserve Fund. This fund receives any General Fund cash surpluses existing at year-end, up to a maximum contribution of 0.2 percent of total General Fund disbursements. The reserve fund cannot exceed 2 percent of General Fund disbursements for the fiscal year. Any General Fund surplus after the reserve contribution may be used for State tax reduction or may be carried over into the succeeding fiscal year.

Cash assets of the Tax Stabilization Reserve Fund are available on a cash flow basis to finance General Fund disbursements during the fiscal year, but must be reconstituted, in cash, by March 31 of any fiscal year.

NOTE: For a discussion of the complete fund structure of the State, see "Accounting Terms Related to Generally Accepted Accounting Principles."

APPROPRIATIONS, OBLIGATIONS, EXPENDITURES AND RELATED TERMS

An **appropriation** is a statutory authorization against which expenditures may be made during a specific State fiscal year, and from which **disbursements** (see **disbursements**, below) may be made, for the purposes designated, up to the stated

#24
BUDGET PROCESS –
N.Y. STATE

amount of the appropriation. Under the Constitution, an appropriation may be made for no longer than a two-year period (also see **reappropriation**, below).

Appropriations are authorizations, rather than mandates, to spend. Expenditures and disbursements need not, and generally do not, equal the amount of the appropriation from which they are made, since less than the full amount of the appropriation is usually spent within the fiscal year to which it pertains (see **carryover**, below). An appropriation represents maximum spending authority unless a lower maximum has been set by an expenditure ceiling (see **expenditure ceiling**, below).

In New York, all appropriations are classified in one of the four following four **categories**:

—**State Operations**. This category relates to appropriations for the operation of State agencies, regardless of fund source. For example, an agency may have appropriations in several different fund types, and from many different funds (or accounts within funds), and all these appropriations would be categorized as "State Operations."

—**Aid to Localities**. This category includes all appropriations for aid to localities, regardless of fund source.

—**Capital Projects**. When used as a category, "Capital Projects" includes all appropriations for capital construction projects, regardless of fund source. It should not be confused with "Capital Projects" as a fund type, or with the Capital Projects Fund.

—**Debt Service**. This category includes all appropriations for tax-financed State debt service on long-term debt, contractual obligation and lease purchase arrangements with several public authorities and municipalities, and lease-purchase payments for State University, Health, and Mental Hygiene facilities and for various highway projects (construction and reconstruction and reconditioning and preservation under contractual agreements with public authorities).

A **deficiency appropriation** is used to meet actual or anticipated obligations not foreseen when the annual and supplemental budgets were enacted and for which the costs would exceed available spending authorizations. It might add to a previously authorized appropriation anticipated to be inadequate, or provide a new appropriation to finance an existing or anticipated liability for which no appropriation exists. A deficiency appropriation usually applies to the fiscal year during which it is made.

Section 53 of the State Finance Law authorizes the enactment of a **special emergency appropriation**, which may be allocated by the Governor to various funds. Allocations to the General Fund, the Capital Projects Fund and funds receiving Federal moneys are subject to the approval of specified legislative leaders.

An **advance** is a payment by the State on behalf of an agency, authority, fund, public benefit corporation, or the Federal government that must be reimbursed by such entity. Certain advances are made from the Capital Projects Fund for prefinancing the cost of capital projects undertaken by public authorities, State agencies or localities.

A **lump-sum appropriation** is one made for personal service, for nonpersonal service, or maintenance undistributed, or for capital projects for all State agencies or to a designated agency (either for itself alone, or on behalf of itself and one or more other agencies) for a stated purpose, without specifying maximum amounts that may be spent by such agency (or agencies) for specific activities or individual objects of expenditure. Such appropriation cannot be obligated and expended without an allocation (see **allocation**, below).

A **reappropriation** is a legislative enactment that continues all or part of the unexpended balance of an appropriation that would otherwise lapse (see **lapsed appropriation**, below). Reappropriations are commonly used in the case of Federal funds and capital projects that usually proceed from planning to completion over a span of several years. Funds for capital projects are customarily recommended and appropriated in amounts sufficient to cover the total estimated cost of each phase (such as land acquisition, design, construction and equipping). As contracts within each phase are negotiated, portions of the capital construction appropriation are obligated. However, expenditures are made only to meet the actual costs incurred as each phase of the project progresses.

An **obligation** is a commitment (such as a contract or purchase order) to spend against a given appropriation.

An **encumbrance** provides a mechanism for reserving all, or a portion, of an appropriation for future expenditure. Entering into a contract usually requires an encumbrance, although the funds will be expended or disbursed over a period of several months. Encumbrance accounting provides management control to prevent spending in excess of authorized appropriations.

A **carryover** is the balance of an appropriation (which has not been repealed or reappropriated) against which liabilities have been incurred but not disbursed remaining at the end of the fiscal year for which it was appropriated. Disbursements may be made against such balance through September 15 of the following fiscal year to liquidate any such liabilities.

A **lapsed appropriation** is an appropriation which has expired and against which obligations can no longer be incurred. An appropriation lapses for encumbrance purposes at the close of the fiscal year (March 31) if it is not reappropriated for the succeeding fiscal year.

BUDGET EXECUTION AND CONTROL

An **expenditure ceiling** is a limitation placed on an agency by the Director of the Budget to indicate the maximum dollar amount of **expenditures** (see **expenditures**, below) that the agency may make against its current-year appropriations, from a given fund, subfund or account.

Certificates are documents issued by the Director of the Budget that authorize various fiscal actions, depending upon the type of certificate. Copies of all certificates must, by law, be sent to the State Comptroller and the chairpersons of the two legislative fiscal committees.

A **certificate of approval** is an instrument issued by the Director of the Budget to indicate approval and authorization

for an agency to make certain financial transactions. These transactions include **allocations** or **segregations**, **apportionments**, and **interchanges**:

—An **allocation** or **segregation** is an authorization to make expenditures from appropriated funds for specified purposes, activities or objects. It is used as a control device for appropriated funds (e.g., quarterly allocations), and to distribute lump-sum appropriations within State agencies.

—An **apportionment** is an action taken to transfer part of an appropriation from one State agency to another, when such a transfer has been authorized in an appropriation act, or from certain lump-sum appropriations for all agencies to specific agencies.

—An **interchange** is the movement of funds by certificate to increase **or** decrease the funds for any item **within** the same program or purpose appropriation schedule. For the General Fund, the amounts appropriated to a department or agency may also be interchanged among such programs or purposes schedules **except** that the total amount appropriated for any given program or purpose may not, in aggregate, be increased or decreased via interchanges by more than 5 percent of the first $5 million, 4 percent of the second $5 million, and 3 percent of amounts in excess of $10 million.

Capital interchanges or transfers of amounts between appropriations within the Capital Projects Fund are permitted when the following structure exists:

—**One or more comprehensive construction programs (CCP)**, which may or may not relate to agency programs or other organizational arrangements;

—**A grouping of appropriations into one or more purposes within CCPs**, which purposes may or may not relate to other agency organizational arrangements;

—**One or more appropriations or projects in each purpose.** Some appropriations have "project schedules" that list institutions or projects for which construction work will be done.

Interchanges between items in a project schedule or transfers between appropriations, whether between items within a "project schedule," between appropriations within the same purpose and the same CCP, or between appropriations having different purposes, must be accompanied by a certification of need and availability of funds. Interchanges between items within a "project schedule" do not require certification where the appropriation states that schedule amounts are estimates and are interchangeable among the various projects.

For capital projects, a **certificate of approval of availability**, issued by the Director of the Budget in accord with an appropriation, authorizes the State Comptroller to encumber and/or expend funds, to the extent required, for specific projects or phases of projects.

A **certificate of transfer** authorizes the transfer of a specified sum of money, within available limits, from an appropriation for a given capital project to one for another capital project within the same agency, or the transfer of operating funds between units of a single agency, or the transfer of positions (**with** funds appropriated therefor) from one program to another within the same agency.

ACCOUNTING TERMS RELATED TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Generally Accepted Accounting Principles (GAAP) for governments set forth uniform minimum standards and guidelines for financial accounting and reporting as promulgated by authoritative national standard-setting bodies, primarily the National Council on Governmental Accounting (NCGA); its successor, the Governmental Accounting Standards Board (GASB); and the American Institute of Certified Public Accountants (AICPA). NCGA's "Statement One — Governmental Accounting and Financial Reporting Principles," published in 1979, and succeeding statements (reaffirmed by GASB) are the most widely recognized source for authoritative guidance. The definitions that follow are based upon "Statement One," although the accounting terms defined here do not always correspond to traditional usage of the same or similar terms in New York State budgeting.

Accounting is the process of discovering, recording, classifying and summarizing financial information to produce financial reports and provide internal control. A governmental accounting system should make it possible to: (a) present fairly and with full disclosure the financial position and results of operations of the funds and account groups of the governmental unit; and (b) determine and demonstrate compliance with finance-related legal and contractual provisions.

Generally accepted accounting principles require that government resources be accounted for in seperate subentities, called **funds**, based upon the purposes for which they are to be spent and the means by which spending activities are controlled. GAAP emphasize reporting by fund type and by individual fund, rather than consolidated reporting for the government as a whole.

Section 70 of the State Finance Law establishes seven fund types into which all funds of the State are classified: the General Fund, special revenue funds, capital projects funds, debt service funds, enterprise funds, internal service funds, and fiduciary funds.

These fund types are grouped into three broad classes. Most governmental operations are accounted for in **Governmental Funds**. Certain operations resembling business or commercial activities are accounted for in **Proprietary Funds** (which include enterprise and internal service funds). When a government holds funds in trust or as an agent for individuals or organizations, such activity is recorded in **Fiduciary Funds**.

Depending on the purpose of a fund, the accounting treatment varies as to what is recorded and when. Accounting for governmental funds concentrates on measuring the sources and uses of "available spendable resources." Accounting for proprietary funds is more like commercial accounting and concentrates on measuring the total cost of providing services (including depreciation).

The **accounting measurement focus** refers to the accounting convention that determines **what** is measured (i.e., which assets and liabilities are included on an entity's balance sheet) and the presence on its operating statement of either "financial flow" information (revenues and expenditures)

#24

BUDGET PROCESS —

N.Y. STATE

or "capital maintenance" information (revenues and expenses). (See **spending measurement focus**, below.)

The **basis of accounting** refers to the accounting convention that determines **when** revenues and expenditures or expenses are recognized in accounts and reported in financial statements.

The **cash basis** of accounting (the State's traditional method) recognizes transactions only when cash changes hands and does not recognize for reporting purposes such items as accounts receivable, accounts payable or other accruals.

The **accrual basis** of accounting recognizes revenues when they become both "measurable" and "available to finance expenditures for the current period."

GAAP require **modified accrual** accounting for all governmental funds and expendable trust funds. Under a modified accrual system, expenditures are recognized when the related fund liability is incurred, with certain exceptions for inventories, prepayments, accumulated unpaid employee benefits, and principal and interest on long-term debts.

To illustrate the differences in **what** is measured: under the "financial flow" measurement concept, the purchase of a $25,000 truck would be reported as an "expenditure" in the year purchased; under the "capital maintenance" measurement concept, the "expense" of the truck would be reported as spread over the useful life of the truck, or as depreciated.

To illustrate the differences in **when** things are measured: when a purchase order for the truck is issued, funds would be "encumbered" or "obligated"; when delivery of the truck is accepted, a liability to pay would be acknowledged by recording an "expenditure"; and when a check is written, funds are "disbursed."

Expenditures are decreases in **net financial resources**, or **fund balance**, while **expenses** are decreases in **net total assets**, or **equity**, and represent the total cost of operations (including depreciation) during a period, regardless of the timing of related expenditures. **Disbursements** are cash payments.

Receipts are cash received, while **revenues** are increases in net assets. In governmental fund types, revenues are increases in net current assets from sources other than expenditure refunds and residual equity transfers. General long-term debt proceeds and operating transfers-in are classified as **"other financing sources"** rather than revenues. In the proprietary fund type, revenues are increases in net total assets other than expense refunds, capital contributions and residual equity transfers. Operating transfers-in are also classified separately from revenues.

The **spending measurement focus** reports only current assets and liabilities on balance sheets; presents revenues and expenditures ("financial flow") information for operating statements; and applies to governmental and expendable trust funds under GAAP. The **cost of services** (also known as **capital maintenance**) **measurement focus** reports **all** assets and liabilities, whether current or noncurrent, on balance sheets and presents revenues and expenses ("capital maintenance") information on operating statements.

The table below summarizes the classification, measurement focus and basis of accounting for each GAAP fund type.

A SUMMARY OF FUND ACCOUNTING UNDER GAAP FOR GOVERNMENTS

Class/Fund Type	Measurement Focus	Basis for Accounting
Governmental funds		
General	Spending	Modified accrual
Special revenue	Spending	Modified accrual
Debt service	Spending	Modified accrual
Capital projects	Spending	Modified accrual
Special assessment	Spending	Modified accrual
Proprietary funds		
Enterprise	Capital maintenance	Accrual
Internal service	Capital maintenance	Accrual
Fiduciary funds		
Trust and agency		
Expendable trust	Spending	Modified accrual
Nonexpendable trust	Capital maintenance	Accrual
Pension trust	Capital maintenance	Accrual
Agency	Not applicable	Modified accrual

Governmental Funds: Under generally accepted accounting principles, this term describes a class encompassing five specific fund types: the General Fund, special revenue funds, capital projects funds, debt service funds, and special assessment funds. New York State does not have special assessment funds.

Proprietary Funds: Funds in this class include enterprise funds and internal service funds. **Enterprise funds** account for operations that are financed and carried on much like private enterprise; they reflect the cost of goods and services being paid by those who benefit. **Internal service funds** account for the financing of goods or services provided by one department or agency to other departments or agencies (or governments) on a cost-reimbursable basis.

Fiduciary Funds: The State maintains custody over certain funds in a trust capacity (trust funds) or as an agent (agency funds) for individuals, private organizations, other governments or other funds. The Common Retirement Fund is an example of a trust fund, while the Federal Withholding Tax Fund is an example of an agency fund.

"Fund" accounting requires the application of special principles to **interfund transactions** to avoid distorting the financial picture of the government as a whole by counting the same revenues and expenditures more than once as moneys are processed and spent.

Under GAAP, interfund transactions are classified into four groups: quasi-external transactions, reimbursements, residual equity transfers, and operating transfers.

Quasi-external transactions would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit (e.g., payments in lieu of taxes from an enterprise fund to the General Fund, routine employer contributions from the General Fund to a pension trust fund, or internal service fund billings to departments). Such transactions are reported as revenues, expenditures or expenses of the funds involved. Where aggregated data for two or more funds is desired, the revenue, expenditure or expense data may be adjusted to remove the effects of quasi-external transactions.

Residual equity transfers are nonrecurring or nonroutine transfers of equity between funds (e.g., a General Fund contribution of capital to an enterprise fund or internal service fund, subsequent return of all or part of such contribution to the General Fund, and transfers of residual

balances of discontinued funds to the General Fund or a debt service fund). They are reported as additions to or deductions from beginning fund balances in governmental funds from contributed capital in proprietary funds.

Operating transfers are all interfund transfers other than residual equity transfers. Examples are legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, transfers from the General Fund to a special revenue or capital projects fund, operating subsidy transfers from the General Fund or from a special revenue fund to an enterprise fund, and transfers from an enterprise fund other than payments in lieu of taxes to finance General Fund expenditures. Operating transfers, which can affect the results of operations in both governmental and proprietary funds categories, are reported, as appropriate, in the "Other Financing Sources (Uses)" section of the "Statement of Revenues, Expenditures, and Changes in Fund Balance" (governmental funds) and in the "Operating Transfers" section of the "Statement of Revenues, Expenses, and Changes in Retained Earnings" (proprietary funds).

OTHER TERMS THAT APPEAR IN THE BUDGET MESSAGE

An **account**, which is a subdivision of a fund, refers to a classification by which information on particular financial transactions and financial resources is recorded and arranged.

Annualization refers to the expected full-year total of financial implications of a revenue item or an expenditure item initially budgeted for only part of a fiscal year.

Baseline expenditure growth is that portion of the increase in expenditure, for an activity or program, attributable solely to the higher costs required to maintain existing service levels. Illustrative examples include that growth attributable to cost increases for personal services resulting from collective bargaining agreements and such increases for supplies and materials due to inflation.

Baseline expenditure reduction represents a decrease in current service levels for such activity or program, or an increase in administrative efficiency.

Bondable capital spending consists of expenditures for capital purposes that, under statute, may be financed by proceeds from bond sales or bond anticipation note sales. **Nonbondable capital spending** consists of expenditures for capital purposes that may **not** be financed by proceeds from bond or bond anticipation note sales. The latter **must** be (and the former **may** be) financed from other income.

Cap refers to an absolute dollar limit placed on spending and/or borrowing for a designated activity or program. The term is sometimes used to refer to the limitation of an expenditure for the current (and/or one or more forthcoming) fiscal year(s) to the level of the preceding fiscal year or to some other predetermined level.

Chargeback refers to the assessment levied by the State on another government or other entity (e.g., a public authority, a private-sector enterprise, a trade association, or a nonprofit organization) for payment of costs incurred by the State in administering an activity or program on behalf of such government or entity. It may also refer to an assessment by one State agency against another for such costs.

Credits, for purposes of State taxes, are amounts that may be subtracted from computed tax liability to determine tax due. **Deductions** are amounts that are subtracted from the tax base prior to computing tax liability. **Exclusions and exemptions** (other than "personal exemptions," which are actually deductions for purposes of the personal income tax) usually refer to items specifically not included in the tax base.

A **deficit**, for purposes of the cash-basis financial plan, is an excess of disbursements over receipts for a given fiscal period. On a GAAP basis, a deficit is an excess of expenditures (or expenses, as appropriate) over revenues.

Fixed assets are assets of a long-term character that are intended to continue to be held or used, such as land, buildings, improvements other than buildings, machinery and equipment. **General fixed assets** include all fixed assets not accounted for in proprietary funds or in trust and agency funds. Under GAAP, general fixed assets are recorded in an **Account Group** (which does not involve the measurement of results of operations), rather than a fund, and the recording of "infrastructure" assets and depreciation is not required.

Full-faith-and-credit debt, in New York State, refers to general obligation bonds (and bond anticipation notes [BANs]) authorized by the voters of the State and issued by the State Comptroller. When the term encompasses short-term debt, it also includes State tax and revenue anticipation notes (TRANs) issued by the State Comptroller. The State Constitution mandates legislative appropriation of debt service on such debt; in the absence of such appropriation, it requires the Comptroller to apply first revenues to payment of such debt service. **Moral obligation debt** of the State, in contrast, refers to long-term bonds issued by certain State public authorities (also known as public benefit corporations), which are essentially supported by revenues of such authorities, but also carry the backing of the State (though not its full faith and credit). The statutes authorizing issuance of these bonds by such authorities also establish procedures by which the State is to meet certain deficiencies in debt service reserve funds supporting the bonds. Legislative appropriation is required to meet the resulting "moral obligation." **State-guaranteed debt** has been authorized by the voters of the State for three public authorities: the Job Development Authority, the New York State Thruway Authority; and the Port Authority of New York and New Jersey.

General State charges are costs mandated by statute, by collective bargaining agreements, or by court order. The major portion of these charges reflects the cost of fringe benefits for employees.

Impoundment, in New York State, refers to the setting aside, in a separate bank account, of sufficient income to pay principal and interest on State obligations as such liabilities become due. This action is taken to provide added security for holders of State debt instruments. Impoundment is currently used only for TRANs.

Income maintenance refers to payment of public funds to

#24

BUDGET PROCESS —
N.Y. STATE

eligible beneficiaries to assure specified minimum income levels.

Item veto. Unlike the President of the United States, the Governor of New York State has, in certain instances, the power of **item veto**. The State Constitution authorizes the Governor to selectively veto individual appropriations contained within any multiple appropriation bill passed by the Legislature.

A **joint custody fund** is a fund held within the State Treasury by both the State Comptroller and the Commissioner of Taxation and Finance (see **sole custody fund**).

Key Item Reporting System (KIRS) is a mandated State management information system that provides the Legislature and the general public with information for the purpose of evaluating the achievement of State agency goals and objectives.

A **margin**, or **positive margin**, is a temporary excess of receipts over disbursements. When disbursements temporarily exceed receipts, a **negative margin** exists. A positive margin is not a surplus, nor is a negative margin a deficit, until the fiscal year ends.

A **matching formula** is a formula applied under an intergovernmental grant program which requires a recipient to match from its own funds a specified percentage of each dollar granted by one or more higher level(s) of government.

Nonrecurring receipts are receipts in a given fiscal year that are not normally expected to recur in subsequent fiscal years. **Recurring receipts** are receipts normally expected to continue from one fiscal year to the next.

An **official statement** is a disclosure document prepared (and updated as required) to accompany bond and note issuance by the State or its public authorities. This statement describes recent and projected fiscal and economic trends and developments of the State and for various municipalities and public authorities throughout the State. It discusses potential legal, fiscal or economic problems facing State government and other major governmental jurisdictions in the State. Its primary purpose is to provide prospective bond or note purchasers sufficient information to make informed decisions on the credit-worthiness of the issue.

An **overrun** occurs when actual expenditures for a particular purpose or project exceed originally planned (or budgeted) levels.

Save harmless refers to a provision of law under which the State protects another entity against any decrease in the level of receipts under a given State program from a previous level.

A **sole custody fund** is a fund administered by an individual State agency official and not under the joint custody of the State Comptroller and the Commissioner of Taxation and Finance. Sole custody funds are usually fiduciary in nature. Examples of such funds would be those held for wards of the State (see **joint custody fund**, above).

Spring borrowing is the short-term borrowing undertaken by New York each April because the State's annual pattern of receipts and disbursements is such that disbursements exceed receipts during the initial quarter of each fiscal year. The State traditionally issues short-term tax and revenue anticipation notes (TRANs) to finance this imbalance. These notes are gradually retired during the remainder of the fiscal year.