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OP-ED CONTRIBUTOR

The Next Scandal

By MITCHELL L. MOSS

FOR the past few weeks, questions surrounding Comptroller Alan Hevesi’s use of public funds to pay a personal driver have focused New Yorkers’ attention on his ethics. Now that we are paying attention to the office-holder, who was re-elected on Tuesday despite signs he may be unable to retain his job, it seems an appropriate time to reconsider the powers of the office as well. Because the authority of the state comptroller is so vast, and is subject to so little oversight, it creates the potential for abuses far more substantial — and devastating — than anything we’ve seen thus far.

Indeed, if there is a positive aspect to the Hevesi scandal, it is the heightened public awareness of the role of the state comptroller. The job involves far more than accounting; the comptroller’s office oversees more than $145 billion in public pension funds for more than 340,000 retirees and beneficiaries and 600,000 current state and local government employees. To get a sense of just how large that sum is, compare it to the state budget, which is $114 billion and is the product of negotiations between the governor and Legislature.

Should the state comptroller be the “sole trustee” of the Common Retirement Fund? No elected official in the nation has similarly unfettered power over such a substantial amount of money. Connecticut’s state treasurer is also a sole trustee, but with responsibility for a much smaller pension fund.

In New York City, the city comptroller has responsibility for day-to-day management of the city’s $95 billion in assets. However, union representatives and public officials, including the mayor and city comptroller, serve on independent boards that oversee the funds. Those boards make the final investment decisions, serving as checks both on the authority of the comptroller and on one another.

Public pension costs have been rising due to higher salaries, mandatory cost-of-living increases and longer life spans. New York’s Constitution prohibits any reduction in public pension benefits for current retirees or currently enrolled employees. Should the state’s pension funds fail to meet their legal obligations because of a sagging stock market or an investment manager’s poor performance, the government — taxpayers, that is — would have to make up the difference. So all New Yorkers have a stake in the pension program and its leadership.

During Alan Hevesi’s tenure, the Common Retirement Fund has performed quite well, earning a return of 14.59 percent in the last fiscal year. Like his predecessors, Mr. Hevesi has been guided by voluntary advisory committees consisting of union representatives, business leaders, academics, real estate developers and financial experts. But the comptroller alone is authorized to make decisions.

Granting control over $145 billion in public money to a single official is, at the very least, unwise. Any comptroller can steer investments to politically favored managers or funds, send legal work to preferred law firms, or channel investments into causes or companies that advance a personal or political agenda. If a state
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comptroller has difficulty distinguishing between legitimate personal and governmental expenses, perhaps it would be prudent to safeguard the billions under his control.

Rather than rely on a single trustee for the state pension system, New York should create a three-person board, consisting of the comptroller, the governor and an individual with expertise in financial markets, like the president of the Federal Reserve Bank of New York. This board would have authority over the funds. In addition, an independent oversight board, drawn from labor leaders and elected representatives, should be created to monitor and evaluate the performance of the pension system.

There was a time when government workers were few and pensions were a relatively small obligation. That era is long gone. Our institutions of state government must adjust accordingly. Diminishing the powers of the state comptroller would require action by the Legislature, which would generate a healthy, overdue debate about who should have a voice in managing the state's pension funds.

Fortunately, New Yorkers now have a governor-elect, Eliot Spitzer, with a record of reform in the world of private finance. It's time for Mr. Spitzer to apply those same skills to the world of public finance by leading the effort to reform the Office of the State Comptroller. The funds — and the risks to the state — are too great to be the province of one person.

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