CRAIN'S NEW YORK BUSINESS

September 13, 2019 12:00 PM | UPDATED 55 MINUTES AGO

Who's running the railroad?

New York must decide whether politicians or independent boards control public authorities

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Should the leadership at public authorities such as the MTA answer to board members or the politicians who appoint them?

Public authorities over the past 50 years have become a critical source of funds for the state. As public needs have outstripped tax revenue, the state has increasingly turned to these quasi-governmental bodies to pay for essential infrastructure by issuing bonds neither approved by the public nor reflected in the state budget. Yet the role of public authorities in providing public services is often misunderstood or unknown to New Yorkers.

What are often considered essentially government functions—energy, economic development, health care, and public housing, education and transportation—are frequently funded and wholly managed by one or more public authorities. Most notable is the Metropolitan Transportation Authority, the country's largest regional transportation network, but there's also the Power Authority of the State of New York, the country's largest state public provider of electric power; Empire State Development; the Thruway Authority and others.

Often referred to as the "shadow government," these public authorities raise a key question: Who should guide them? History shows that shared oversight by their independent boards of directors and the political entities that appoint these boards would best serve the public's short- and long-term interests. Let us explain.

In the early days of this nation's expansion, the government's obligations were more modest: Provide charters and loans for private enterprise to encourage economic growth, maintain foreign policy and a common defense and establish a federal fiscal and monetary system to sustain the states in a national framework. But as the appetite for public services exceeded available taxes and the public's willingness to borrow, government's efforts were constrained by limited resources.

New York in the 20th century is a graphic illustration. By the 1960s our urban primary and secondary schools had faltered, public colleges were rated in the lowest quadrant in the nation, infrastructure was ignored, and, in the absence of public hospitals, subsidized housing and reliable transportation, the middle class fled the cities—further eroding the tax base critical to funding these services.

Gov. Nelson Rockefeller abandoned his predecessors' limited borrowing practices, which were inconsistent with his grand vision for the state. In short order he pioneered a mechanism relying on existing nongovernmental corporations chartered by the government to issue billions of dollars of tax-exempt bonds while avoiding the state constitutional requirement for public approval of debt.

These entities, referred to as "public authorities," became a cornucopia. Half a century later, more than 93% of the state's debt, neither in the state budget nor authorized by the public, has been issued by these authorities. To be sure, they have underwritten much of our state's progress and have been so effective that the Rockefeller model has been replicated by every state and many nations to raise private capital for public purposes. These public authorities have enhanced public education and health, safeguarded the environment, promoted economic development, and, of course, helped sustain the largest regional transportation system in the nation.

Public authorities were designed to be managed by independent boards of directors appointed by elected officials, but not subject to their beck and call. Yet, the law did not preclude the involvement of elected officials and was silent on the issue of control. As authorities came to finance and manage essential government services, elected officials increasingly wanted to involve themselves in key decisions and sought to assert themselves through their appointees.

Two camps emerged: one, favoring board independence and primacy in the decision-making process; the second, encouraging the active involvement of elected officials to ensure that public authorities were responsive to their constituencies.

Experience reflects that the broader the number of viewpoints represented at the table, the more thoughtful strategic decisions will be. Collaboration rather than primacy by public authority boards and elected officials should be the objective.

A collaborative model reflects the best practices of corporate governance. Private executives are often pressured by their investors to chase short-term gains. Their board members, however, are obliged to balance short-term strategies against their long-term implications for the company. What appear to be competing perspectives of executives and boards is simply a process to ensure that both short- and long-term considerations are factored in.

Admittedly, joint oversight can be awkward, and requires a willingness to indulge competing perspectives. But with public authorities it has demonstrated the greatest potential to safeguard public services.

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