



**THE COUNCIL
THE CITY OF NEW YORK
FINANCE DIVISION
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TO: Honorable Corey Johnson
Speaker

Honorable Daniel Dromm
Chair, Finance Committee

FROM: Latonia McKinney, Director, Finance Division
Raymond Majewski, Deputy Director/Chief Economist, Finance Division
Rebecca Chasan, Counsel
Paul Sturm, Supervising Economist,
Hector German Financial Analyst, Finance Division

DATE: April 11, 2018

SUBJECT: A Budget Modification (MN-7) for Fiscal 2018 that will appropriate \$783.8 million in new revenues.

INITIATION: By letter dated March 16, 2018, the Director of the Office of Management and Budget submitted to the Council, pursuant to section 107(e) of the New York City Charter, a request to appropriate \$783.8 million in new revenues. These new revenues, combined with additional resources of \$400 million of Prior Year Payables, and \$1.4 billion from the General Reserve, will be used to increase the Budget Stabilization Account by \$2.58 billion.

BACKGROUND: This modification (MN-7) seeks to recognize \$783.8 million in new revenues, and combines \$400 million in Prior Year Payables, and \$1.4 billion from the General Reserve, implementing changes reflected in the 2018 February Financial Plan. Of these funds, the total amount of \$2.58 billion is added to the Budget Stabilization Account, which will prepay debt service for Fiscal 2019.

FISCAL IMPACT: This adoption represents a net increase in the Fiscal 2018 budget of \$783.8 million.

RESOLUTION APPROVING A MODIFICATION (MN-7) PURSUANT TO SECTION 107(e) OF THE CHARTER OF THE CITY OF NEW YORK

By Council Member Daniel Dromm

Whereas, At a meeting of the Committee on Finance of the City Council of the City of New York (the "City Council") on April 11, 2018, the Committee on Finance considered a communication, dated March 16, 2018, from the Office of Management and Budget of the Mayor of the City of New York (the "Mayor"), of a proposed request to recognize a net increase in revenue pursuant to Section 107(e) of the Charter of the City of New York (the "Charter"), attached hereto as Exhibit A (the "Request to Appropriate"); and

Whereas, Section 107(e) of the Charter requires the City Council and the Mayor to follow the procedures and required approvals pursuant to Sections 254, 255, and 256 of the Charter, without regard to the dates specified therein, in the case of the proposed appropriation of any new revenues and the creation of new units of appropriation; and

Whereas, Section 107(e) of the Charter requires that any request by the Mayor respecting an amendment of the budget that involves an increase in the budget shall be accompanied by a statement of the source of current revenues or other identifiable and currently available funds required for the payment of such additional amounts, attached hereto as Exhibit B (together with the Request to Appropriate, the "Revenue Modification");

NOW, THEREFORE, The Council of the City of New York hereby resolves as follows:

1. Approval of Modification. The City Council hereby approves the Revenue Modification pursuant to Section 107(e) of the Charter.

2. Further Actions. The City Council directs the City Clerk to forward a certified copy of this resolution to the Mayor and the Comptroller as soon as practicable so that the Mayor, the Comptroller and the City Clerk may certify the Fiscal 2018 Expense Budget as amended by this resolution as the budget for the remainder of the fiscal year.

3. Effective Date. This resolution shall take effect as of the date hereof.

I hereby certify that the foregoing is a true and complete copy of a resolution adopted by the Council of the City of New York on _____ on file in this office.

**Clerk of The Council of The City
of New York**

THE COUNCIL

REPORT OF THE COMMITTEE ON FINANCE

RESOLUTION APPROVING A MODIFICATION (MN-7) PURSUANT TO SECTION 107(E) OF THE CHARTER OF THE CITY OF NEW YORK

The Committee on Finance, to which was referred the above-captioned resolution, respectfully submits to the Council of the City of New York the following:

REPORT

Introduction. At the meeting of the Committee on Finance of the City Council on April 11, 2018, 2018, the Council considered a communication from the Office of Management and Budget of the Mayor dated March 16, 2018, of a proposed request to modify, pursuant to Section 107(e) of the Charter of the City of New York, the Fiscal 2018 Expense Budget Plan, and the revenue estimate related thereto prepared by the Mayor as of March 16, 2018.

Analysis. The Council annually adopts the City's budget covering expenditures pursuant to Section 254 of the Charter. On June 14, 2016, the Council adopted the expense budget for fiscal year 2018 (the "Fiscal 2018 Expense Budget"). On June 6, 2017, the Council adopted the expense budget for fiscal year 2018 (the "Fiscal 2018 Expense Budget"). On September 27, 2017 the Council adopted MN-1 modifying the Fiscal 2018 Expense Budget. On January 16, 2018 the Council adopted MN-4 and on February 15, 2018 the Council adopted MN-5 further modifying the Fiscal 2018 Expense Budget.

Circumstances have changed since the Council last amended the Fiscal 2018 Expense Budget.

Section 107(e) provides one mechanism for the Mayor and the Council to amend the Expense Budget and related revenue estimate to reflect changes in circumstances that occur after adoption of a budget. Section 107(e) permits the modification of the budget in order to create new units of appropriation, to appropriate new revenues from any source other than categorical federal, state and private funding, or to use previously unappropriated funds received from any source.

Discussion of Above-captioned Resolution. The above-captioned resolution would authorize the modifications to the Fiscal 2018 Expense Budget and related revenue estimate requested in the communication.

This modification (MN-7) seeks to increase revenues in the net amount of \$783.8 million compared to the Fiscal 2018 Adoption Plan. This represents an increase in City funds of approximately 1.3 percent.

MN-7 is the first revenue modification of Fiscal 2018 and it reflects changes since the Adoption Plan, which are outlined in the February Plan.

MN-7 recognizes \$783.8 million in increased revenues, including \$493.7 million in tax revenue, \$190.1 million in miscellaneous revenues, and \$100 million in reduced disallowances.

Tax revenues increased by \$493.7 million. The increase primarily reflects two administrative actions – audits and property tax reserves. Audit collections increased by \$449 million since Adoption. \$400 million of the increase came from a small group of banks paying the bank corporation tax, which is now merged into the general corporation tax. Real property tax collections increased by \$268 million, and were largely attributed to a \$188 million takedown of a reserve held for the nonpayment of property tax. The reserve is usually taken down over the course of the year. There was also \$78.1 million in additional revenues from PILOTs (Payments in Lieu of Taxes), with the lion's share (\$49 million) from the Battery Park City Authority. Offsetting the increases was a steep \$480 million reduction in general corporation tax collections. The corporation tax has experienced weak collections since Fiscal 2016. There remains uncertainty as to how much of the decline was due to past economic conditions and how much from the City's business tax reforms of 2015. There was also \$86.6 million in additional revenue posted under Tax Reduction Program. This represents no actual change in revenue, but simply a change in bookkeeping. The revenue loss from expanding the Senior Home Exemption, the Disability Home Exemption and Veterans Exemption has been moved from a separate line called Tax Reduction Program, to being incorporated in net property tax collections.

For Fiscal 2018, miscellaneous revenues increased by \$190.1 million. This included a \$55 million increase from licenses, permits, and franchises. It also includes a \$53 million increase from fines and forfeitures.

There is also a one-time \$100 million addition in the Revenue Budget from the reduction of a liability set up to cover any disallowances of State and Federal categorical grants. An example of such disallowance is a 2009 settlement with the Federal government in which New York State returned \$540 million, \$100 million of which was paid back by the City. This reduction of disallowances represents a judgement by OMB and the Comptroller that the risk posed by these categorical grants is no longer great enough to require all of the \$553 million liability currently on the City's balance sheet.

This budget modification adds \$2.58 billion to the Budget Stabilization Account, which will prepay debt service for Fiscal 2019. This addition is funded by a \$400 million reduction in Prior Year Payables, and a \$1.4 billion reduction of the General Reserve. Prior to MN-6 at Adoption, the General Reserve contained \$1.2 billion. MN-6 added \$500 million to the General Reserve for a total of \$1.7 billion. After MN-7, \$300 million will remain in the General Reserve.

The resolution would also direct the City Clerk to forward a certified copy thereof to the Mayor and the Comptroller so that the Mayor, the Comptroller and the City Clerk may certify the Fiscal 2018 Expense Budget as amended thereby as the budget for the remainder of the fiscal year. The above-captioned resolution would take effect as of the date adopted.