



Legislation Text

File #: Res 0416-2018, **Version:** *

Res. No. 416

Resolution calling upon the New York State Legislature to pass, and the Governor to sign, legislation permitting the City of New York to establish a “rainy day” fund.

By Council Members Gjonaj, Yeger, Holden and R. Diaz

Whereas, Following the City's fiscal crisis in 1975, the State enacted the New York State Financial Emergency Act for The City of New York (“FEA”) to address some of the City's financial management shortcomings which led to or exacerbated the crisis; and

Whereas, One of the requirements of the FEA was that the City must balance its operating budget each fiscal year according to generally accepted accounting principles (“GAAP”) which mandate that revenues in a given year must equal or exceed expenditures in the General Fund in that year; and

Whereas, In 2005, this requirement was incorporated into section 258 of the New York City Charter which states that “[f]or each fiscal year, the city’s budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with [GAAP]”; and

Whereas, While GAAP budgeting has been successful in eliminating the large operating deficits that precipitated the financial crisis of the 1970’s, it prevents the City from being able to carry funds forward from one year to the next; and

Whereas, The City should be able to carry forward funds from one year to the next to respond to the cyclical nature of its revenues and to save in good times for spending during bad times; and

Whereas, According to an April 2006 report issued by Dall Forsythe of Baruch College entitled “*Cyclical Budget Management in New York City*,” the City experiences cyclical deficits and surpluses because it

relies on a variety of economically sensitive sources of revenue that fluctuate quickly in response to the state of the City's economy; and

Whereas, About half of the City's tax revenue is economically sensitive sometimes with extreme results; and

Whereas, For example, the \$1.2 billion dollar Banking Corporation Tax has risen in some years by as much as 85 percent and fallen in others by 45 percent; and

Whereas, In order to smooth out these inevitable ups and downs in the City's budget from year-to-year, the City has developed certain budget management mechanisms, including the "surplus roll" to prepay certain expenses coming due in the following year so as to move surplus funds from one fiscal year to the next without violating the GAAP requirements; and

Whereas, However use of the "surplus roll" is not transparent because it makes it difficult for the public to understand the City's true budget condition in any given year by obscuring which revenues were actually generated in that fiscal year and which were merely rolled over from prior years; and

Whereas, The City has also created several other budget tools to accumulate resources for the outyears which similarly lack transparency or are inappropriate tools for this purpose; and

Whereas, For example, at the end of Fiscal 2006, the City created the Retiree Health Benefits Trust Fund ("RHBT") to fund the health and welfare benefits of future and current City retirees and their dependents which at the end of Fiscal 2014 represented an approximately \$95 billion dollar unfunded liability; and

Whereas, The intention of the RHBT was that the City would use it to pay the costs of the retiree benefits incurred each year and then replenish the fund by at least the same amount so that over time funds could be accumulated towards the unfunded liability; and

Whereas, In practice, the RHBT has been used as short-term budget relief tool because for a period of several years after the Great Recession the City deposited less in the RHBT than it paid out in retiree health benefits; and

Whereas, According to an August 2015 report by the New York City Comptroller entitled “*Measuring New York City’s Budgetary Cushion: How Much is Needed to Weather the Next Fiscal Storm?*,” in Fiscal 2010 through Fiscal 2013, the City used \$2.1 billion dollars in RHBT assets for budget relief; and

Whereas, In Fiscal 2016, the City created another way to use current revenues for future budgetary relief in the form of the Capital Stabilization Reserve (“CSR”) whose primary purpose is to fund initial non-capital eligible design and planning for capital projects in an effort to speed up the capital process; and

Whereas, Funds within the CSR can also be used to defease bonds to produce outyear savings and any funds that are not used by the end of each fiscal year can be rolled over to the next fiscal year to prepay expenses; and

Whereas, Rather than forcing the City to adopt these types of artificial budget cushions, in order to address the issues of transparency and accountability, the City should be authorized to establish a “rainy day” fund, formally referred to as a revenue stabilization account; and

Whereas, A “rainy day” fund would allow the City to openly set aside a certain amount of revenues during periods of strong growth in a separate account and carry those funds over to future fiscal years to finance expenditures during times of recessions; and

Whereas, Allowing the City to create a true “rainy day” fund would make the budget process more transparent and permit an accurate measure of the City’s surpluses and budget condition in each year; now, therefore, be it

Resolved, That the Council of the City of New York calls upon the New York State Legislature to pass, and the Governor to sign, legislation permitting the City of New York to establish a “rainy day” fund.

RKC
LS #7213
5/31/2018