EXECUTIVE SUMMARY

In New York City, a recession comparable to the last two would result in cumulative tax revenue shortfalls of $15 billion to $20 billion over three years, compared to the current financial plan. During prior recessions, New York City has cut services and enacted tax increases to balance its budget.

Rainy Day Funds (RDFs) are prudent fiscal management tools that provide stability during recessions by setting aside funds during good times to smooth out potential spending reductions during contractions. Current law, put in place in the wake of the City's mid-1970s fiscal crisis, prevents the City from using an RDF. Amending the law to permit an RDF would further enhance the City's fiscal management.

Absent an RDF, New York City officials have turned to alternative mechanisms to set aside resources: annual budget reserves, a surplus roll, and reduced deposits to from the Retiree Health Benefit Trust (RHBT). However, these alternatives are deficient—they are not large enough, are discretionary and not tied to the economy, and support imprudent use of the RHBT. An RDF would be superior.

CBC recommends that the City and State authorize the City to use an RDF by codifying its parameters and amending State law and the City Charter to permit it. Legislation to establish the RDF should specify the target size, required deposits, and permitted withdrawals.

- The target size of the RDF is 17.2 percent of the pre-recession year tax revenue. The target is designed to cover two years of recessionary tax revenue reductions and provide for modest 2 percent annual spending growth. In fiscal year 2020, the recommended RDF target size would be $10.8 billion.
- Minimum required deposits should capture more revenue in years with faster growth, while also allowing sufficient revenue to fund City services. A clear approach that meets both objectives is to deposit at least 75 percent of the annual tax revenue growth in excess of 3 percent. If the RDF had been in place with this deposit requirement during the current nine-year expansion, the balance would now be $8.5 billion.
- Withdrawals should be permitted during an economic contraction or a severe emergency. Withdrawal criteria should be specific to ensure the fund is used appropriately.

A well-funded and structured RDF would help New York City weather future recessions without harmful service cuts or counterproductive tax increases. While establishing the fund will require changes to State statute and the City Charter, such changes could be made in a way that would not undercut the beneficial legal requirements for sound budgeting that have served the City well since the 1970s fiscal crisis. City and State officials should work to establish a meaningful RDF in order to secure the City's long-term fiscal future in the face of economic uncertainty.