NEW YORK CITY COMPTROLLER
**BRAD LANDER**


## Spotlight

# Is Cash Really King in NYC?

**July 11th, 2023**

1 Centre Street, New York, NY 10007
(212) 669-3916
www.comptroller.nyc.gov
@NYCComptroller

# Contents

# Introduction

The City of New York's budget process is an annual rite of projections, proposals, debate, and ultimately adoption of plans for how much money will be collected by the City over a fiscal year and how that money will be spent. The Comptroller plays an important role in this process through multiple stages of independent review and commentary on the proposed and adopted Mayor's budgets. NYC is required to maintain a balanced budget not on a cash basis, but rather under Generally Accepted Accounting Principles (GAAP) with accrued revenues matching or exceeding accrued expenditures for the fiscal year (from July 1 through the following June 30).

While the appropriate annual focus is the NYC fiscal year budget, the City receives and disburses funds on a daily basis throughout the year. Within a fiscal year (or even across fiscal years), there are inevitably many times when revenues exceed expenditures, or vice-versa, and this causes fluctuation in the City's cash balances.

As noted in this newsletter over recent months, FY 2023 cash balances were running at historically high levels. This spotlight provides some background on the relevance of cash balances and how they compare to budgets, impacts of the pandemic on the cash balance and how we got to current levels, and finally where we expect cash balances to head over the course of FY 2024.

## Why Do We Care About Cash Balances?

NYC government cashflows need to be understood and managed to ensure that cash balances are available to cover expenses as they come up—a process not unlike how a household needs to keep track of and manage its checking account in advance of upcoming rent or credit card payments.

The business of managing cashflow in America's largest city is enormously complex. New York City's government holds thousands of bank accounts, containing billions of dollars, at institutions designated by the City's Banking Commission. Every day the City receives money from tax collections, non-tax revenues (i.e., fees, licenses, fines, and other sources), bond sales, and state and federal categorical grants. It then uses these funds to pay for the salary and benefits of government employees, contracts for the provision of goods and services, the execution of capital projects, pensions, and debt service on the City's bonds.

With such complexity, if New York City were at risk of running out of cash, who would know? This is not just an academic question: one of the causes of the New York City fiscal crisis of the 1970s (before the prevalence of computers and financial software) was a negligent lack of awareness of the mismatch between the cash in the City's many bank accounts and the financial obligations the City needed to cover. Among the important reforms of the Financial Emergency Act of 1975 were stronger requirements for monitoring and projecting the City's cash position as well as limits on short-term borrowing.

In addition to the City's Department of Finance and the Mayor's Office of Management and Budget, the Cash Division in the Bureau of Budget in the NYC Comptroller's Office keeps a watchful eye on all of the City's daily inflows and outflows and forecasts cash balances. This is in addition to work performed by the Banking Division within the Comptroller's Bureau of Accountancy, reconciling the City's central treasury and main bank accounts, and to the investment of the balances, which is the responsibility of the Comptroller's Bureau of Asset Management.

In part because of the close attention it pays to cash monitoring (in addition to other features of the Financial Emergency Act, including balanced budgets under GAAP), the City has been able to pay its bills for nearly 20 years without resorting to short-term borrowing. This record, and the underlying cash management and monitoring systems that it reflects, has a positive impact on the evaluation of the City's credit by bond investors and all the major rating agencies. This allows the City to borrow for long-term capital projects more easily and at better interest rates.

# How Do We Measure Cash?

Cash revenues are the inflows recorded on the exact day when the funds are received, and cash expenditures are outflows recorded on the day when payments are made. In some cases, incoming funds may precede specific future anticipated expenditures of those same funds, such as the receipt of NY State funding for NYC schools. In other cases, City expenditures may precede the expected future revenue funding part or all of the corresponding activity, such as a FEMA reimbursement for COVID-related expenses during the pandemic. Whether related to future revenues or expenses, the timing of cash inflows or outflows will temporarily increase or decrease City cash balances.

In contrast, budget appropriations are made on an accrual basis. This means that anticipated revenues are assigned to the fiscal year in which a tax liability is generated or state or federal grant requirements are met. Expenditures are recorded in the budget year in which the underlying activities are expected to occur, rather than when the payment for those expenses is issued. As a result of differences in timing, budgeted values and cash projections are frequently different and not always easy to compare. As an example, the first payment of NYC property tax for a given fiscal year is due by July 1 and therefore many of these tax payments come to the City in June, technically in the prior fiscal year. The budget counts these revenues as belonging to the later fiscal year, while cash accounting shows them as revenues in the year they are collected.

The City's cash generally comes in and goes out following a familiar cycle, year-after-year, since many payment dates are predetermined. For example, most owners of the highest value properties in the city pay property tax bills semi-annually before July 1st and January 1st deadlines.

Intentionally, the City's largest General Obligation (GO) debt service payments to bondholders are scheduled for the last day in July and on the last day in January, when the City's cash balances are expected to be high. Cash balances fluctuate significantly month-to-month because of large and lumpy cash receipts and payments, and it's therefore best to compare cash balances on a year-over-year basis.[1]

But despite the fog of timing, it is possible to observe meaningful economic or fiscal developments for NYC by watching its cash balances. The City's cash position is generally procyclical; it tends to increase in expansions and tends to decrease in recessions; and it's also affected by policy and legislative changes, emergencies, and natural disasters. Forecasted cash balances are based on historical seasonal patterns, budget plans, and projected economic and other fiscally relevant conditions. It is usually when cashflow deviates from this forecast that we are able to learn something new about emerging trends in the City.

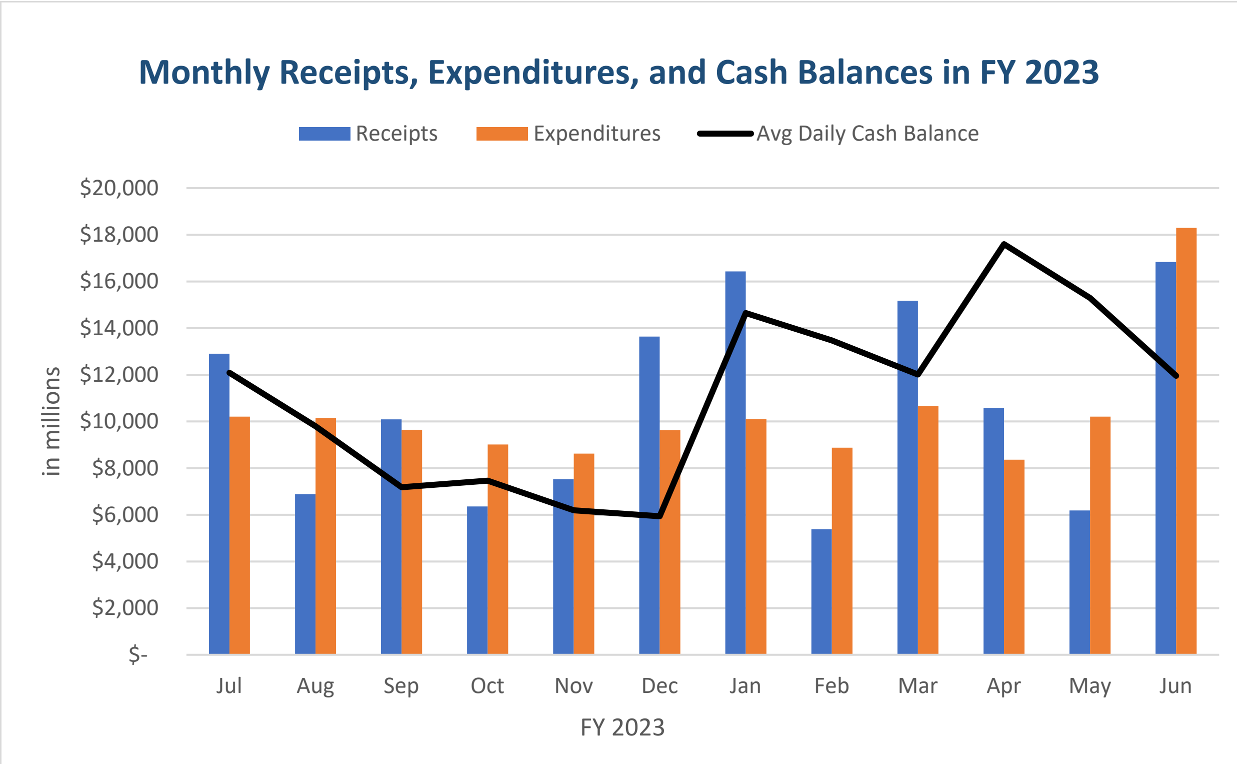
# How Do Cash Balances Inform the City's Level of Liquidity?

Analysts who evaluate a city's creditworthiness for rating or investing in their municipal bonds often look at various measures that capture the extent to which government's readily available funds could pay for their expected upcoming expenses. While these liquidity analyses usually also look at other types of liquid assets (e.g., tax receivables and assets in employee benefit funds), cash balances are always a major component of such an evaluation.

Chart S.1 shows the relationship of cash balances to City revenues and expenses monthly over FY 2023. Over the course of the fiscal year, cash balances have averaged $11.1 billion, which is more than one month's worth of expenditures ($9.9 billion, on average).

NYC's cash balances notably include money in the City's Revenue Stabilization Fund, also known as the City's "rainy-day fund." Unlike the City's other cash accounts, which are expected to receive and spend receipts within the annual cycle (i.e. like a checking account), the Revenue Stabilization Fund allows the City to deposit revenues over time, and draw them down at a future date (i.e. like a savings account). But because this is a deviation from GAAP budgeting, it required a change in state law that was enacted in 2020. In practice, a deposit into RSF equals the general fund surplus at the end of the fiscal year, and, therefore, its $1.95 billion balance to date is part of ongoing cash balances.[2] See the Comptroller's Report for policy proposals regarding deposits and the November 2022 spotlight for guidelines on withdrawals.

## Chart S.1.




SOURCE: Office of the New York City Comptroller

# How are Cash Balances Affected by Capital Expenditures and Capital Transfers?

NYC's capital projects (i.e. construction of schools, roads, bridges, sewers, parks, etc.) are financed by the issuance of long-term bonds. Capital expenditures are initially paid from New York City's cash balances and are subsequently reimbursed from separate capital accounts and additional funding sources that are held under State control, as part of the bond covenants. Reimbursements for capital expenditures take place twice per month, according to a predefined schedule. Inflows from capital accounts are usually high immediately following the closing of new bond sales and they can significantly increase the City's cash balance in the short-term. But over time, capital expenditures and their respective reimbursements should offset each other.

Although considered an expense within the NYC budget, General Obligation (GO) debt service expenditures for bond repayments are not paid directly out of City cash balances but rather out of a separate fund maintained by the NYS Comptroller. Pursuant to the NYS Financial Emergency Act of 1975, as extended through bond covenants, payments of the NYC property tax are first deposited into a general debt service fund. Similarly, revenues from NYC's personal income tax (PIT) and the newly created NYC Pass-Through Entity Tax (PTET), created as a work-around to diminish the impact of the Federal "State and Local Tax" (SALT) deduction limit adopted during the Trump Administration, are first retained for debt service payments by the Transitional Finance Authority (TFA), which was established in 1997 to increase the City's financing capacity of its capital program.[3] Property tax and PIT/PTET receipts net of amounts retained for GO and TFA debt service are then deposited into the City's cash accounts.

# What has been the Recent History of Cash Balances?

## Cash Balances During the Pandemic Shutdown

At the start of the COVID-19 pandemic, there was great concern for NYC finances, leading to extraordinary measures like a pause in capital spending. However, the City's cash position remained relatively healthy through the first three months of the stay-at-home orders and recovered above its pre-pandemic levels in the remainder of the year (see Chart S.2). The resilience of NYC cashflows through this period was partially a result of unprecedented steps taken by the Federal Government to mitigate the effects of the pandemic, providing fiscal stimulus and various forms of direct relief to governments, individuals, and businesses.

While the shutdowns did cause certain NYC tax bases to plummet—including sales tax and real estate transaction taxes—receipts of major taxes such as property tax, business taxes, and PIT did not suffer in the same way. Federal aid received directly by New Yorkers including three rounds of stimulus checks, food benefits, and expanded unemployment benefits, as well as Paycheck Protection Program (PPP) loans, were instrumental in supporting tax revenues and increasing total personal income.

The NYC government also received several forms of direct funding and flexibility from the Federal Government:

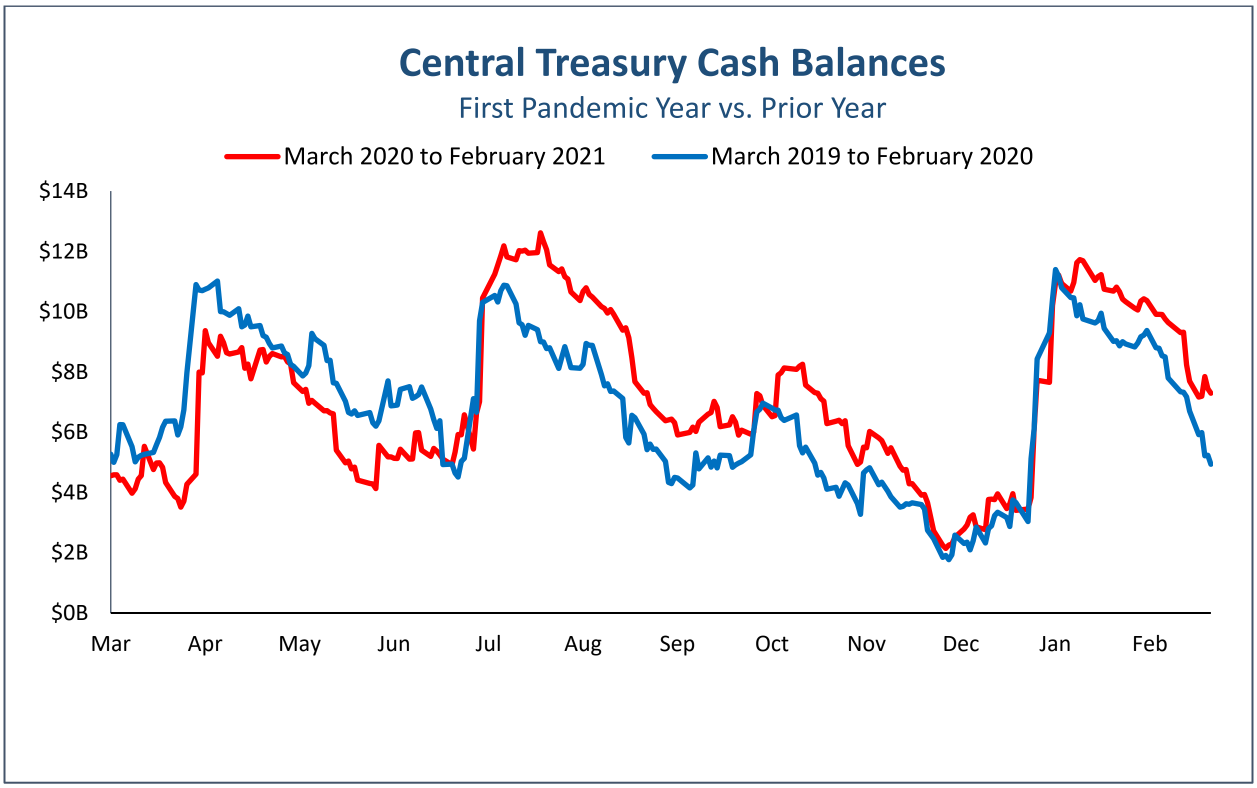
- On April 20, 2020, the City received $1.455 billion through the Coronavirus Relief Fund, established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act for expenditures incurred due to the public health emergency.
- Taking advantage of another provision in the federal CARES Act, the City deferred payment of its payroll taxes from April 2020 through December 2020, which led to a net improvement in the City's cash balances of approximately $1.35 billion. This provision required that the deferred employment tax be paid over the following two years—on January 3, 2022 and January 3, 2023, coinciding with high points in the expected seasonal cycle for City cash.

- The City also received the Coronavirus State and Local Recovery Funds (SLFRF), a part of the American Rescue Plan Act of 2021. The money arrived in 4 payments in 2021 and 2022 totaling $5.8 billion. Local governments received SLFRF funds as advances with broad flexibility in deciding what expenses to fund, rather than going through a claiming process.

In addition, NYC took other measures on its own to manage its financial position in uncertain times:

- In March 2020, the City halted most capital projects with the exception of those related to the COVID-19 pandemic or other health, life and safety issues (or those required by legal mandates). The capital program was restored one year later in March 2021.
- In FY 2021, The City reached agreements with the United Federation of Teachers, District Council 37, and other smaller unions, deferring the payment of about $730 million until FY 2022.

## Chart S.2.




SOURCE: Office of the New York City Comptroller

NOTE: Cash balances shown are end-of-day balances, rather than starting balances.

# Growing Cash Balances in the Past Fiscal Year

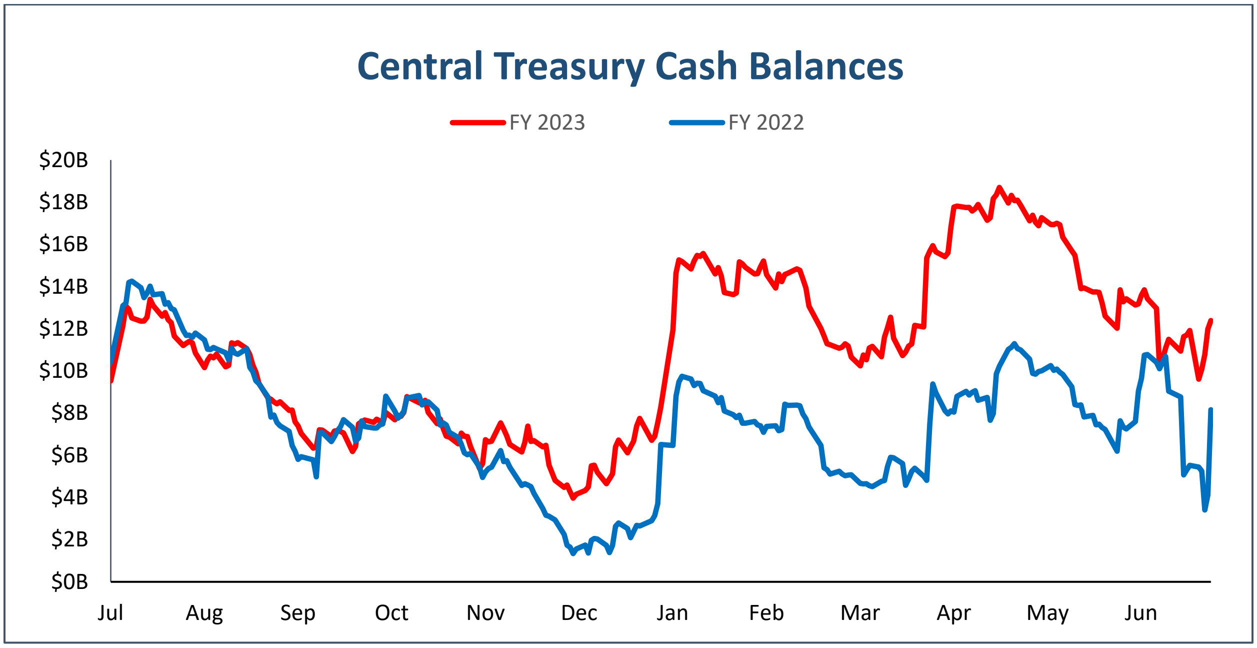
In November 2022, the City's cash balances started to increase rapidly and significantly above FY 2022 levels (see Chart S.3). For most of January through June of 2023, cash balances were $6 billion to $7 billion higher than one year prior. On April 21, 2023 the cash balance reached $18.7 billion, the highest on record.

The City's cash balances benefited from robust tax collections. From December 2022 through June 2023, combined property tax receipts were about $1.1 billion higher than the prior year, and combined sales tax receipts were more than $490 million higher than in the prior year. Banking corporation tax receipts were roughly $400 million higher than usual because of recent audits. And pass-through entity tax (PTET) payments for tax year 2022 of $1.8 billion were collected from December through March; while ultimately budget-neutral, most of these inflows came months in advance of the matching revenue reductions from PTET credits taken on PIT returns.

Federal COVID-19 relief funding also bolstered the City's cash position. On January 3rd, 2023 the City received $2.3 billion in American Rescue Plan-State and Local Fiscal Recovery Funds (ARP-SLFRF) and reimbursements from the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) education grants. From December through June, the City also received almost $2 billion in Federal Emergency Management Agency (FEMA) reimbursements for COVID-19 related expenditures that the City incurred in prior years, signaling an improvement in the claiming process.

The growth in cash balances can also be explained in part by expenditures which have not risen as fast as receipts over the past year. Price inflation accelerated in 2022, with the Consumer Price Index (CPI) for the NYC metro area rising a cumulative 10.0% in the two years ending in May 2023. But multi-year labor contracts for NYC employees do not contain automatic adjustments for cost-of-living increases, and the cash outflows from retroactive and future payments tied to the latest round of collective bargaining are just beginning to take place, as outlined below.

## Chart S.3.




SOURCE: Office of the New York City Comptroller

NOTE: Cash balances shown are end-of-day balances, rather than starting balances.

# What is the Forecast for Cash Balances in FY 2024?

As part of the FY 2024 Adopted Budget, the City increased the amount allocated towards the prepayment of FY 2024 expenses by $2.444 billion to a total of $5.479 billion, slightly more than the Comptroller's Office had projected in its June 1st forecast. The June Financial Plan increased City revenue estimates by $2.052 billion for FY 2023 from the April Financial Plan, enabling the larger prepayments. These prepayments were made on June 14th and 30th, and as shown in Chart S.3, and the cash balance dropped accordingly. FY 2023 ended with a cash balance of $12.39 billion, compared to $8.159 billion in FY 2022 and $8.469 billion in FY 2021.

Tax revenue inflows, which were a large contributor to the late FY 2023 cash buildup, are expected to slow in FY 2024 in line with the Comptroller's most recent published budget forecast (from May 2023), which expects that total NYC tax revenue in FY 2024 will decline by 1.0% from FY 2023. This decrease is driven by projected reductions in PIT and business taxes—resulting from an expected cooling of the economy—as well as a drop in audits that resulted in inflated collections last year due to one-time events.[4]

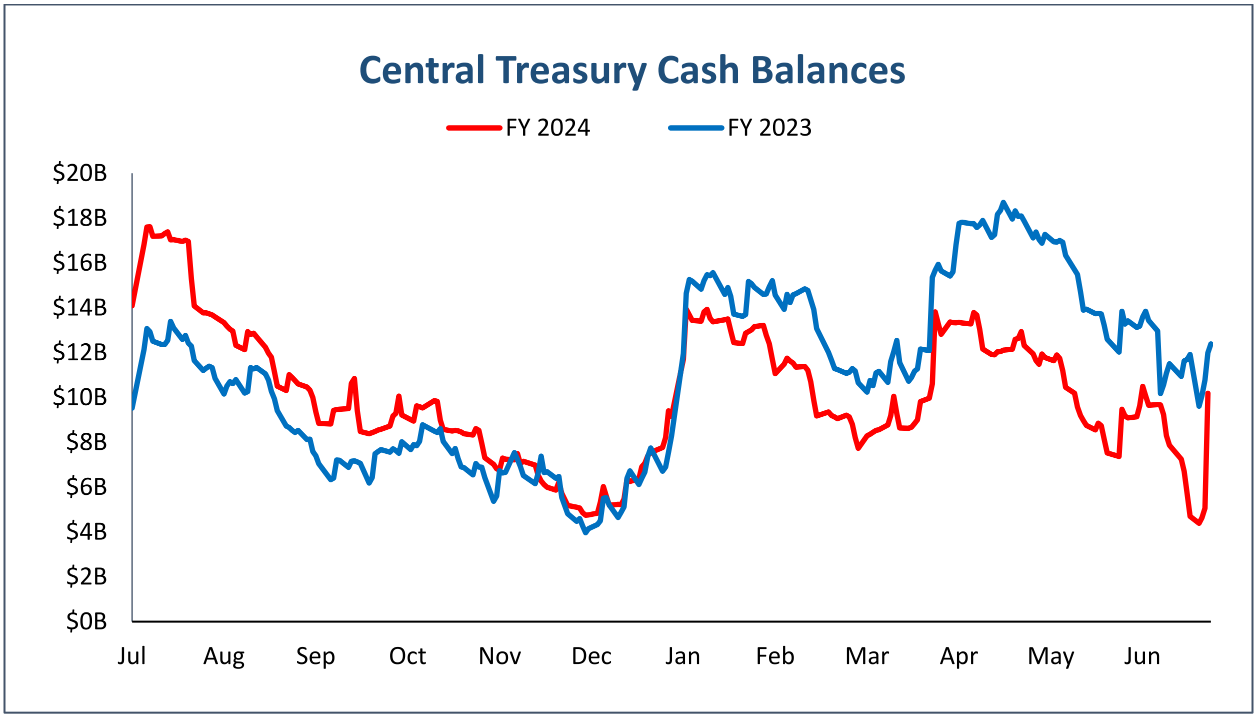
On the expenditure side, NYC recently reached labor agreements with the City's largest unions: the District Council 37 (DC 37), the United Federation of Teachers, and the Patrolmen's Benevolent Association and is expected to settle others following a similar multiyear pattern of pay increases. Although DC 37 members received their ratification bonus and retrospective payments for 2021 – 2023 in April and May of FY 2023, the City will likely pay out most of the remaining retrospective amounts in FY 2024. These lump sum payments, in addition to the increased wages going forward, will increase the City's spending on payroll in FY 2024 by an estimated $3.5 billion relative to FY 2023.

The City has also experienced an influx of people seeking asylum over the last year. NYC is currently providing shelter to approximately 52,000 asylum seekers. There is a great level of uncertainty about how many additional people will arrive in the coming months and how much it will cost to pay for their shelter, food, laundry, and other necessities. From a cash perspective, we estimate that the City will spend around $1.5 billion more on public assistance and other social services in FY 2024 than the prior year due to the arrival of asylum seekers, somewhat less than the budget forecast due to an expected payment lag.

The Office of the Comptroller publishes quarterly a 4-month forecast of cash balances. Chart S.4. shows a forecast of the entire Fiscal Year 2024. While the longer time horizon implies a larger degree of uncertainty, it also provides an initial benchmark against which to analyze future revisions. The projection is closely aligned with Office of the Comptroller's budget forecast, which includes risks and offsets not accounted for in the Adopted Budget. For example, the City historically underbudgets certain expenditure categories, such as uniformed overtime, charter school tuition, and public assistance. The cash forecast is aligned with the Comptroller's assumptions that these expenditures are likely to continue or even grow from current levels.

FY 2024 is starting off with higher-than-normal cash balances – a good place for the City to be, but unlikely to last: the average cash balance in FY 2024 is projected at $10.188 billion, roughly $935 million below the FY 2023 average. More importantly, the cash balance is projected to fall below FY 2023 levels in the second half of the fiscal year by a daily average of $3.455 billion, reflecting the waning of the temporary factors discussed above. While returning to levels more in line with historical norms, the cash balance is nonetheless expected to remain more than sufficient to avoid the need for short-term adjustments to cover expenses through the year.

## Chart S.4.




SOURCE: Office of the New York City Comptroller

NOTE: Cash balances shown are end-of-day balances, rather than starting balances.

**Prepared by Irina Livshits and Jonathan Siegel with assistance from the cash team—Andrew Rosenthal, Alex Huang, and Michele Griffin**.

# Endnotes

[1] NYC's budget includes a few tools which are intended to protect the City somewhat from unexpected fluctuations in revenues and expenditures, including short-term reserves such as the General Reserve and the Capital Stabilization Reserve, which can be used to address unanticipated needs within the fiscal year; the ability to accumulate a budget surplus within the year and prepay debt service and/or retiree health benefits; and long-term reserves such as the Revenue Stabilization Fund (RSF) and Retiree Health Benefit Trust. These mechanisms can allow the City to balance its budget, despite actual variances between expenditures and receipts. For a fuller discussion of reserves, see https://comptroller.nyc.gov/reports/preparing-for-the-next-fiscal-storm.

[2] The legislation allowed to consider the general fund surplus accumulated through the years (nearly $500 million) as a deposit into RSF, therefore making it available for spending at a future time. The City's Retiree Health Benefit Trust, which has also been used as a rainy-day fund with a balance currently of $4.58 billion, is instead a separate fund and is excluded from cash balances.

[3] Revenues from the NYC sales and use taxes are also required to be available for payment on TFA bonds should PIT fall below 150% of the maximum annual debt service on the outstanding bonds. (However, such transfer of sales tax revenues to the TFA has never been required to date.)

[4] These FY 2024 tax revenue forecasts by the Comptroller's Office are expected to be revised somewhat in the upcoming review of the FY 2023 Adopted Budget.

·SIGILLUM·CIVITATIS·NOVI·EBORACI·

·1625·

NEW YORK CITY COMPTROLLER
BRAD LANDER

1 Centre Street, New York, NY 10007
www.comptroller.nyc.gov
@NYCComptroller
(212) 669-3916