

COURT OF APPEALS OF THE STATE OF NEW YORK

Local Government Assistance Corp. v. Sales Tax Asset Receivable Corp.

2 N.Y.3d 524 (2004) · Decided May 13, 2004

SUMMARY

The New York Court of Appeals upheld the Municipal Assistance Corporation Refinancing Act against challenges under the New York Constitution's debt and appropriation provisions and the United States Constitution's Contract Clause. The court held that the required payments remained subject to annual legislative appropriations, the City's assignment of payment rights did not create unconstitutional municipal debt, and the Act did not impair LGAC bondholders' contractual rights.

CASE DETAILS

COURT	Court of Appeals of the State of New York
WRITING FOR THE COURT	G.B. Smith, J.; Chief Judge Kaye; Judge Ciparick; Judge Rosenblatt; Judge Graffeo; Judge Read
JURISDICTION	New York
DECIDED	May 13, 2004
DISPOSITION	affirmed
PROCEDURAL POSTURE	LGAC appealed and STARC and the City cross-appealed from the Appellate Division's order concerning constitutional challenges to the Municipal Assistance Corporation Refinancing Act. The Court of Appeals modified the Appellate Division's order, reinstated Supreme Court's order granting defendants summary judgment, and declared the Act constitutional.
STANDARD OF REVIEW	Statutes, particularly public financing statutes, carry a strong presumption of constitutionality; a challenger must prove beyond a reasonable doubt that the enactment suffers wholesale constitutional impairment in any degree and in every conceivable application. Summary judgment was reviewed in the context of the parties' constitutional declaratory judgment claims.
PRECEDENTIAL VALUE	Published precedential opinion of the New York Court of Appeals
PARTIES	Local Government Assistance Corporation v. Sales Tax Asset Receivable Corporation, City of New York

TOPICS

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QUESTIONS PRESENTED

1. Whether the Municipal Assistance Corporation Refinancing Act violated New York Constitution article VII, § 11 by requiring multiyear payments without a public referendum or annual legislative appropriations.
2. Whether the City's assignment of its right to receive LGAC payments to STARC constituted municipal debt under New York Constitution article VIII, § 2 without a pledge of the City's faith and credit.
3. Whether the Act impaired LGAC bondholders' contractual rights in violation of United States Constitution article I, § 10.

HOLDINGS

1. The Act did not violate New York Constitution article VII, § 11 because its required annual \$170 million payments remained subject to annual legislative appropriation.
2. The assignment did not create municipal debt subject to New York Constitution article VIII, § 2 because the City incurred no legal obligation to STARC or its bondholders if LGAC failed to make the payments.
3. The Act did not violate the Contracts Clause because it did not expressly or impliedly repeal or modify the State's pledge to honor LGAC bondholders' prior lien and contractual remedies.

KEY QUOTATIONS

“LGAC must prove beyond a reasonable doubt that “in any degree and in every conceivable application the [legislative enactment] suffers wholesale constitutional impairment”” (at 535)

“Indeed, appropriation remains, as it must, ultimately discretionary.” (at 538)

“The terms of the assignment between the City and STARC cannot be clearer on this point—the City has no obligation to STARC with regard to LGAC's payments and has no liability to STARC's bondholders in the event that STARC defaults.” (at 541)

“To be sure, if for whatever reason there were not enough money appropriated to LGAC to meet all of its payment obligations, the LGAC bondholders would have first priority on the appropriated funds and the right of STARC to receive payment would be subordinate.” (at 546)

FACTUAL BACKGROUND

The Municipal Assistance Corporation had financed New York City's earlier fiscal crisis through bonds supported by diverted state sales-tax revenue, with approximately \$2.5 billion remaining due in 2003. The Municipal Assistance Corporation Refinancing Act required LGAC to make annual \$170 million payments to

the City through 2034, allowing the City to assign those payments to STARC so STARC could issue bonds and retire the remaining MAC debt. LGAC's bond resolutions gave its bondholders first priority on funds available for debt service and prohibited equal or prior liens. LGAC challenged the refinancing scheme after its directors resolved not to participate in the STARC transaction pending resolution of the legal issues.

PROCEDURAL HISTORY

LGAC commenced a declaratory action in Supreme Court, Albany County, challenging the Act under the New York and United States Constitutions and seeking a preliminary injunction against STARC's bond issuance. Supreme Court denied the preliminary injunction, later granted STARC and the City's motion for summary judgment, denied LGAC's cross-motion, and declared the Act constitutional. The Appellate Division severed and invalidated an amendment to Public Authorities Law § 3240 (5), while rejecting the other constitutional challenges. The Court of Appeals modified that order by reinstating Supreme Court's judgment.

DISPOSITION

affirmed

CASES CITED

- Schulz v. State of New York, 84 N.Y.2d 231 (1994)
- Hotel Dorset Co. v. Trust for Cultural Resources, 46 N.Y.2d 358 (1978)
- Comereski v. City of Elmira, 308 N.Y. 248 (1955)
- Matter of Moran Towing Corp. v. Urbach, 99 N.Y.2d 443 (2003)
- Flushing National Bank v. Municipal Assistance Corp., 40 N.Y.2d 731 (1976)
- Wein v. City of New York, 36 N.Y.2d 610 (1975)
- Iazzetti v. City of New York, 94 N.Y.2d 183 (1999)
- Matter of Consolidated Edison Co. of N.Y. v. Department of Environmental Conservation, 71 N.Y.2d 186 (1988)
- Besser v. E.R. Squibb & Sons, 146 A.D.2d 107 (1st Dep't 1989), aff'd, 75 N.Y.2d 847 (1990)
- Alweis v. Evans, 69 N.Y.2d 199 (1987)
- People v. Newman, 32 N.Y.2d 379 (1973)