MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

January 14, 1981

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation for The City of New York was held at 10:00 A.M. on Wednesday, January 14, 1981, at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation, 345 Park Avenue, New York City.

The following Directors were present, constituting a quorum of the Board:

Felix G. Rohatyn, Chairman
Edward M. Kresky, Vice Chairman
Francis M. Barry
Kenneth J. Bialkin

Eugene J. Keilin
Dick Netzer
Andrew P. Steffan
Robert C. Weaver

The following Representatives were present:

Jerome Belson

Bradford J. Race, Jr.

The following members of the Staff were present:

Heather L. Ruth
John C. Bove
Steven Kantor
Maxine H. Gillman

William J. Lithgow
Terri L. Posner
Joan Reetz
Lorenzo Bailey

Also present by invitation of the Board were: Allen L. Thomas, Stephen E. Fox and Paul S. Pearlman of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; John J. Keohane, Jack M. Schrager and Robert Paul of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Bernard Hecht, Michael Gibbons, and Abraham Biderman of the Office of the State Special Deputy Comptroller; Patricia Fry, Patricia Murray and Michael Zeno of the Financial Control Board; Gedale Horowitz and Robert Mabon of Salomon Brothers;
and Jack Bigel, consultant to the City municipal labor unions.

Ms. Gillman served as acting Secretary of the meeting.

Financing Plans

Mr. Rohatyn stated that the Corporation was developing a new financing package in response both to skepticism regarding the present and future Federal economic position and its effect on the financial markets and the likelihood that the Corporation would continue to issue debt on the City's behalf for another two to four years. Mr. Rohatyn discussed the desirability of the Corporation's utilizing as many financing techniques as possible, including those adapted from corporate finance, in order to provide the City with funds at the lowest possible cost.

Mr. Rohatyn stated that the new financing package would have two components: long-term bonds issued with warrants attached to purchase additional bonds at the same rate of interest and commercial paper.

With respect to long-term bonds issued with warrants, Mr. Rohatyn stated that the Corporation was considering an issuance of $100 million of bonds with warrants, which he estimated would save the Corporation between 50 and 100 basis points over an estimated 11% interest rate in the present market for a conventional long-term bond financing. Mr. Rohatyn discussed characteristics of such warrants
and praised Salomon Brothers for developing the technique and adapting it to use for the Corporation.

Mr. Rohatyn then described the second component of the proposed new financing package -- commercial paper. He emphasized that commercial paper was distinguishable from bond anticipation notes, the use of which contributed to the City's financial difficulties of the mid-1970's. He stated that the Corporation would expect to have between $200-250 million of notes outstanding at any given time throughout the life of the program and that the initial issuance would be approximately $100 million of notes. Mr. Rohatyn then discussed five possible methods of refinancing the notes: (1) using a letter of credit from a commercial bank which would convert the notes into a medium-term bond; (2) using proceeds from the sale of bonds with warrants; (3) selling conventional bonds and using the proceeds to refinance the notes; (4) rolling over the notes; and (5) using the Corporation's revenues to pay the notes at maturity. Mr. Rohatyn noted that work on the commercial paper component of the new financing package was ongoing, with business and legal issues yet to be resolved.

Mr. Rohatyn stated that he had had a meeting with Mayor Koch, along with the City's Budget Director and Corporation Counsel, during which the City's market access and the Corporation's proposed new financing package were discussed. Mr. Rohatyn stated that the Mayor had expressed his support of the package. Mr. Rohatyn stated that, in his opinion, the new financing package would have the effect of lowering
the City's cost of borrowing, which he believes is calculated at a certain spread over the Corporation's cost of borrowing.

Ms. Ruth discussed the proposed terms of the issuance of bonds with warrants. She stated that the Corporation would propose to issue $100 million of bonds due July 1, 2008 with warrants to purchase up to an additional $100 million of bonds due July 1, 2007. Both series of bonds would bear interest at the same rate. The warrants to purchase the second series of bonds would be exercisable within a two year period. The proceeds of both series would be used for identical purposes -- to finance capital expenditures of the City and to fund the Corporation's Capital Reserve Fund.

Mr. Horowitz discussed the proposed issuance of bonds with warrants from the investor's perspective. He stated that the investor, in essence, would be buying a two-year call on the municipal bond market, for which the investor would accept a coupon at a rate below the present market. Mr. Horowitz then stated that he could not estimate what the Corporation's cost of such issue would be, but that the underwriters would price it preliminarily and reserve the right to reprice. He estimated a sizeable investor interest, and opined that the new technique would attract first-time investors in Corporation paper; for example, trust departments charged with a fiduciary duty.

Mr. Bialkin questioned the income tax consequences with regard to original issue discount in relation to an issue of
bonds with warrants. Mr. Horowitz stated that he believed a value for the warrant would be assigned to the issuance of the bond together with the warrant which, since the unit would be issued at par, would result in original issue discount on the bond. He added that the value of the warrant should be added to the investor's basis in the second bond should the warrant be exercised. Mr. Bialkin inquired about the effect of original issue discount in the tax-exempt market. He stated that he was persuaded that the proposed issue of bonds with warrants would be well worth the effort to the Corporation.

Mr. Netzer expressed his skepticism over the Corporation's use of such a financing technique and its perception across the country. Mr. Keilin stated that the sale of bonds with warrants to purchase additional bonds should be seen as an innovative marketing device for the benefit of the Corporation and the City. Mr. Kresky added that the Corporation's country-wide perception would not be one of gimmickry.

Mr. Bigel expressed his support for the proposed new financing package because of the likelihood that it would widen the market for obligations of the Corporation. He questioned the impact of debt service on revenues to be made available to the City as well as the effect of the marketing of commercial paper on the market for the City's short-term obligations. Mr. Rohatyn stated that staff members of the Corporation would be happy to discuss Mr. Bigel's concerns.
MINUTES
January 14, 1981
Page Six

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Corporation's staff is directed to proceed with the development of the issuance of bonds with warrants and the issuance of commercial paper.

Adoption of Minutes

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Minutes of the Special Meeting of the Board of Directors held on September 30, 1980 be and hereby are adopted.

Adjournment

There being no further business before the meeting, it was upon motion duly made, seconded and unanimously carried, adjourned.

Maxine H. Gillman
Acting Secretary