MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

January 17, 1984

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 11:00 A.M. on Tuesday, January 17, 1984, 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
Kenneth J. Bialkin
George M. Brooker
Eugene J. Keilin
Andrew P. Steffan
Robert C. Weaver

The following Representatives were present:

Leonard Nadel
Carl H. Pforzheimer III
Robert W. Seavey

The following members of the Staff were present:

T. Dennis Sullivan II
Denise N. Dean
Frances N. Higgins
Steven J. Kantor
Susan A. Weil
Stephen J. Weinstein

Also present by invitation of the Board were: James M. Dubin and Ronald M. Sloiefer of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Donald J.
MINUTES
January 17, 1984
Page 2


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

RESOLVED, that the Minutes of the Annual Meeting of the Board of Directors held on September 29, 1983, be and hereby are adopted.

Debt Issuance Plan
Mr. Rohatyn summarized discussions during the past several months regarding future financing activities of the Corporation which had resulted in an agreement in principal with the City and the State. He stated that those discussions had begun when he pointed out that, through a
program of refundings and application of earnings, the Corporation was capable of generating approximately an additional $1 billion for the City over a five-year period.

He noted that several different proposals for the generation and utilization of additional monies had been presented by various public officials. As a result of the discussions, he reported, an agreement in principal among the Corporation, the City and the State had been developed.

Mr. Rohatyn described the proposed amended Debt Issuance Plan for the City and the Corporation through fiscal 1988. First, the Corporation would issue approximately $700 million for capital purposes through December 1984, including the $100 million issued in September 1983, and approximately $700 million of refunding obligations through fiscal 1987. Through fiscal 1988, the City would issue approximately $6.5 billion of bonds for capital purposes. Second, the Corporation's various funds, primarily its Capital Reserve Fund, would produce earnings of approximately $500 million, which would go to the City for two purposes -- $160 million for City operations and $340 million for economic development projects to be determined by mutual agreement between the City and the
State. Mr. Rohatyn explained that none of the monies made available to the City by the Corporation would be used to redeem Federally-guaranteed City bonds, and that he had requested and received a letter to that effect from the Mayor and the City Comptroller. Mr. Rohatyn concluded that the agreement represented a good compromise on a sound financing program for the City.

Mr. Sullivan reported that a detailed schedule of the flow of funds was still being developed.

Mr. Kresky observed that the plan was a significant improvement over an earlier proposal which had included substantially more financing by the Corporation over the plan period. He stressed that the Corporation could complete its financings under the plan within its present statutory issuance.

Mr. Rohatyn said that under the plan the Corporation will have issued approximately $9.5 billion of its authorized $10 billion when its capital financing authority expires at the end of calendar year 1984.

Mr. Keilin noted that the bulk of the money would go into bricks and mortar which would have a useful life much longer than that of the bonds financing the projects and
that the refunding program would level out the Corporation's
debt service. He stressed that the financings included in
the plan would depend on market conditions.

Mr. Bialkin said that Mr. Rohatyn's explanation of the
development and content of the plan had been very helpful,
and that it clarified the fact that the so-called "$1
billion surplus" was a misnomer.

Mr. Rohatyn stressed that the plan entailed an
ambitious financing schedule which would require the market
to absorb substantial amounts of City and Corporation debt
during the coming years, and that the plan would have to be
reexamined periodically in light of changing market
conditions. Mr. Keilin emphasized that City capital
financing would have to come solely from the City's own
financing after December 31, 1984.

Mr. Rohatyn noted that the City was in a sensitive
position with regard to upcoming budgeting and labor
negotiations, given the illusion of prosperity, stressing
that the City must try to lower the cost of doing business
here. He said that while it appeared that there would be no
new taxes in the 1985 City budget, the reduction of local
taxes was necessary.
Mr. Rohatyn noted that in November 1983 Moody's Investors Service, Inc. had raised its ratings of the Corporation's First and Second Resolution Bonds to "A," so that for the first time all of the Corporation's bonds had "A" ratings from each of the rating agencies. He also noted that Corporation's bonds had continued to be very well accepted in the marketplace.

After discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the amended Debt Issuance Plan, substantially in the form as presented to the meeting, be and hereby is adopted.

The Board directed that a copy of the amended Debt Issuance Plan be appended to the minutes of the meeting.

Proposed Financing

Mr. Sullivan pointed out that the new Debt Issuance Plan required the Corporation to sell approximately $400 million of bonds during the five months remaining in the current fiscal year, ending June 30, 1984. He stated that
MINUTES
January 17, 1984
Page 7

the staff and the Finance Committee recommended commencing a public sale on a negotiated basis for capital purposes immediately in an amount of at least $150 million.

In response to a question from Mr. Rohatyn, Mr. Horowitz projected that long-term bonds of the Corporation in the volume anticipated could probably be marketed with coupons of 9-7/8% to 9-3/4%. Mr. Rohatyn emphasized, with regard to increasing the size of such issuance, that the rate would be the deciding factor. He directed the staff to proceed with preparations for such an offering, and said that a meeting of the Board would be held later in the week to authorize the sale.

In response to an inquiry from Mr. Rohatyn, Mr. Sullivan summarized the status of a proposed new commercial paper program credit facility which would combine the two existing series into a single $250 million series, continuing until the expiration of the short-term borrowing program in June 1987. He reported that a commitment letter had been signed on December 16, 1983, calling for $150 million of a direct pay letter of credit to be provided by Citibank, N.A., and $100 million by Manufacturers Hanover Trust Co. at a fee of 7/8% for the first year and 3/4%
MINUTES
January 17, 1984
Page 8

annually thereafter, or less than half of the fee arrangement at the time the commercial paper program was begun in July 1982. Mr. Sullivan noted that the average rate on outstanding commercial paper notes was approximately 5-3/4% at present.

Appointment of Secretary

Mr. Sullivan stated that Maxine H. Gillman had resigned her position with the Corporation effective November 18, 1983, to join a law firm and that her letter of resignation and appreciation had been circulated to the Board. He further stated that the Corporation had been fortunate to attract to its staff Susan A. Weil, an attorney associated with the firm of Hawkins, Delafield & Wood for the past two and one-half years, who joined the staff as Assistant Counsel on December 19, 1983, and who he recommended for appointment by the Board as Secretary.

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

RESOLVED, that Susan A. Weil be and hereby is appointed to hold the position of Secretary of the Municipal Assistance Corporation For The City of New York.
The Board directed that a copy of Ms. Gillman's letter of resignation be appended to the minutes of the meeting, and that the minutes reflect its thanks for the four years of outstanding professional service which Ms. Gillman provided to the Corporation.

Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 12:15 P.M.

Susan A. Weil
Secretary
Date: 18 November 1983

To: Board of Directors
T. Dennis Sullivan, Executive Director

From: Maxine H. Gillman

Re: Resignation

As I have previously informed you, I hereby resign my position as Secretary and Associate Counsel to the Corporation, effective as of today. I intend to return to the private practice of law.

Words fail me when I try to express what a privilege and delight it has been to be a part of the Corporation for the last four years. It has been an experience I will treasure always. Thank you for having made this wonderful opportunity to serve New York possible.
Date: 16 January 1984

To: Board of Directors

From: Felix G. Rohatyn, Chairman
T. Dennis Sullivan, Executive Director

Re: Following the Annual Meeting of the Municipal Assistance Corporation in September 1983, Governor Cuomo requested that consideration be given to ways in which the Corporation might assist the City in efforts to strengthen its economy. With the Corporation's authority to issue additional capital bonds due to expire on December 31, 1984, this request came at a time when the Corporation had already initiated a review of what future purposes its financial capabilities might serve. Since then, there has been considerable public discussion of such a role for the Corporation. This memorandum reviews the developments of the past several months and summarizes the current status of discussions with City and State officials.

Origins of the "Billion Dollar Surplus"

The prospect that the Corporation might be capable of generating substantial resources to assist the City's economic development efforts arose as a direct result of the successes the Corporation had achieved in fulfilling its legislative mandate. The Corporation's 1983 Annual Report noted that the original purposes of the Corporation had been largely achieved, and barring unforeseeable developments, there was every reason to believe the City would be able to shoulder the full burden of financing its capital program when the Corporation's authority to raise new capital funds expires on December 31, 1984. In turn, the scheduled expiration of the Corporation's authority to issue new capital bonds provided opportunities with respect to the use of the Corporation's investment earnings and the nature of the Corporation's refunding program.

In responding to the Governor's request, it was suggested that the Corporation was uniquely positioned to finance a substantial program of investments intended to strengthen the City's economy and to finance its enormous infrastructure needs. It was estimated that the Corporation was capable of generating approximately $200 million per year, or approximately $1 billion during the next five years over and above what was already anticipated in the Four Year Financing Program developed jointly by the City and the Corporation. This estimate was the basis of what later became known as "MAC's billion dollar surplus."

The speech to the City Club (see Attachment A) tried to dispel the notion that such a sum represented an actual accumulated surplus. Rather, approximately $500 million could be realized from a decision by the Corporation's Board of Directors to
undertake a substantial program of refunding outstanding debt. Refunding opportunities are available to the Corporation as a result of two factors. First, during the early years of its life, the Corporation was limited by the marketplace and statute to selling shorter term obligations. Now that the Corporation has achieved excellent access to the long-term bond market, debt which would otherwise originally have been sold for longer maturities can now be refunded so as to provide for more level debt service. Second, the Corporation has sold a considerable amount of bonds at relatively high rates of interest. During fiscal years 1981 and 1982, the Corporation issued more than $1.3 billion of bonds with rates over 10%. Taken together, these factors provide the Corporation with the opportunity to consider an ambitious program of refundings. It is estimated that, depending on prevailing market conditions, such a program could produce approximately $100 million of debt service savings per year over a five year period. This would be in addition to the $155 million of debt service savings which the Corporation's previous refundings had already made available to the City for the FY 1983 through FY 1985 period.

In addition, the Corporation could produce approximately $500 million through its investment earnings and reserve activities. The Corporation is required to maintain reserves equivalent to the amount of debt service payable on its First and Second Resolution Bonds during the succeeding calendar year. These funds (which now exceed $1 billion) are carefully invested by the Corporation. Since the reserves currently exceed the present statutory requirements, portions of the interest earned on these funds would be available for debt service purposes without impairing the integrity of the reserves. Moreover, as the capital reserve requirements are lowered over the next several years as a result of the gradual paydown of the Corporation's debt, the reduced requirements of these accounts would further increase available resources. It is estimated that an additional $100 million per year over the next five years could be generated over and above the City's current expectations.

Agreement In Principle

The prospect that the Corporation's financial activities might be capable at generating $1 billion over a five year period precipitated a flurry of proposals and reactions. The written statements of the Governor, the Mayor and the State Comptroller are included as attachments to this memorandum (see Attachments D, E, and F). Throughout this period, every effort was made to focus attention on the need to develop a policy to guide consideration and use of the Corporation's
16 January 1984
Memo: Board of Directors

Page -3-

financial resources. Clearly, the City's economy required a program directed at maintaining and creating private-sector employment. While it was never intended that MAC become an economic development agency, it was argued that the Corporation's financial capabilities should be directed away from providing operating budget relief to the City and into efforts designed to improve the City's long-term economic prospects and to bolster its capital program.

In early December, an agreement in principle was reached with the Governor and Mayor as to the general purposes which the Corporation's resources might serve:

(1) The budgetary savings to the City due to debt service savings as a result of the Corporation's refunding program would be applied to the City's capital program. This, in turn, would assist the City in meeting its obligations pursuant to the Federal New York City Loan Guarantee Act of 1978 without adversely impacting its capital improvement program. This Act mandated that beginning in 1983 the City use an amount equal to 15% of the net proceeds of City and MAC public bond sales for prepayment of Federally guaranteed City obligations. This requirement had not been fully provided for in the current Financing Program (see Attachment B). Without the use of additional MAC resources, the City was confronted with the prospect of a $550 million shortfall in its capital program;

(2) Of the estimated $500 million over a five year period to be generated from the Corporation's investment earnings and reserve funds, the City could anticipate $160 million in budget relief over a four year period to be provided in equal annual installments beginning in fiscal 1985; and

(3) The City could anticipate the balance of these monies for economic development projects, to be developed in consultations between City and State officials. It was never intended that the Corporation should involve itself in the specifics of these discussions. Rather, the Corporation would focus its energies on developing a prudent financial program to support the economic development initiatives agreed to by the appropriate elected officials.
Subsequently, negotiations between City and State officials have been and continue to be held with respect to the economic development projects envisioned by the agreement. Parallel to these discussions, the staffs of the Corporation and the City have been preparing the requisite revisions to the Financing Program.

1984-1988 Financing Program

The 1984-1988 Financing Program transmitted recently to the Corporation by the Mayor and the City Comptroller (see Attachment C) reflects the detailed discussions between Corporation staff members and City officials. It incorporates one important modification to earlier projections. Rather than refunding as much as $1.7 billion, this Program anticipates a $700 million refunding program and a $287 million increase in the amount of new capital that the Corporation intends to raise before December 31, 1984. Obviously, the refunding sales are subject to market conditions and the specifics of the refunding program will require further action by the Board.

As the letter from the Mayor and the City Comptroller makes clear, this Program anticipates that the refunding of Federally-guaranteed City Bonds will be completed in fiscal 1987, and that there are no current plans to accelerate this schedule. Moreover, the Mayor and Comptroller pledge "should circumstances change and the City consider an accelerated refunding schedule in the future, the resources of the Corporation will not be used to facilitate this purpose." It is our view that the combination of a relatively modest increase in the amount of new capital to be raised by the Corporation together with a refunding program of this scale is the best approach to assist the City in achieving its capital program and economic development objectives.
Address given by

FELIX G. ROHATYN

Chairman, Municipal Assistance Corporation

Before the

THE CITY CLUB OF NEW YORK

New York, N.Y.

December 2, 1983

Not for release before December 2, 1983
I welcome the opportunity to address the City Club today. New York City and the Municipal Assistance Corporation have both reached milestones recently. The City, after three consecutively balanced budgets, received an initial investment grade credit rating from Moody's (Baa) and, in my judgement, now enjoys full and free access to the public markets for its capital requirements. At the same time, MAC's credit rating was increased to A by Moody's (much overdue but nonetheless welcome) which, together with our A+/A rating from Standard and Poor, recognizes the strength and security of our credit. We are proud to have participated in the enormous effort in which business and labor joined with government to produce the results which were recognized this month.

Since those dark days in 1975 when the words "City" and "credit" were mutually exclusive, MAC has raised almost $9 billion for the City, both to refinance past deficits as well as to provide for its capital needs. Since the current debate about MAC's "surplus" is generating more heat than light, I have to take a few minutes to remind all of you about the genesis of MAC.
I will also have to bore you with a number of financial facts and figures. It is imperative to do so to understand what we are talking about.

MAC was created in 1975, by a courageous governor and equally courageous legislative leaders together with a small group of labor and business leaders for whom a city bankruptcy was unacceptable. It was created with a legislative mandate and an independent, non-political board of directors to borrow, on a long-term basis, $6 billion which the City had overspent during the previous decade. The fact that we were able to do so means that we have an elected Mayor running the City today instead of a judge in bankruptcy; it does not relieve us, however, of the obligations to pay back these past deficits. In the years 1985-1990, MAC's annual debt service payments will increase from about $900 million next year to $1 billion annually in 1986 and beyond. This represents the principal and interest payments required to service the $9 billion of MAC long-term obligations. That is why we have carefully and gradually built up capital reserve funds, as our bond resolutions require us to do, which have to equal or exceed our next year's debt service. We could not have sold bonds without it nor could we have obtained the necessary credit ratings.

In my letter to Governor Cuomo dated September 14, 1983, submitting MAC's 1983 Annual Report, I stated:
"Slightly more than eight years ago, MAC was created to provide financing assistance and fiscal oversight for the City of New York. The Corporation's basic mandate was to confront the City's immediate financial problems and then to secure over time the opportunity and the resources for the City to regain full market access...It can now be concluded that the original purposes of the Corporation have been largely accomplished".

The Municipal Assistance Corporation's authority to issue additional debt expires on December 31, 1984 when we will have issued approximately $9 billion in long-term bonds; this gives us over a year to phase-in larger amounts of City financings as MAC phases down, and to leave the City self-sufficient in the financial markets in 1985. It gives us an opportunity to review alternative policy options available to MAC to assist the City in the future, within the context of our primary obligation, namely protecting the strength of our credit rating and the security of our bondholders. Such an opportunity is a luxury rarely afforded in these days of fiscal scarcity; it must not be wasted.

Despite the euphoria justifiably created by the recent upgradings of City and MAC bonds, there are some serious issues we have to face over the next few years. They involve the future of business and private employment in the
City, the City's ability to finance the enormous infrastructure investments required to enhance the quality-of-life, the City's ability to continue control of its expenditures and the State's continued ability to support the City. These are all interrelated.

The City has gone through several business cycles over the last twenty years and has adapted to changes in its economy. In the 1960s, it lost over 500,000 manufacturing jobs to the Sunbelt and to foreign competition; this loss was partly offset by a significant increase in public sector jobs. In the 1970s, the fiscal crisis took away the growth in public sector employment; it was more than made up by service industries heavily concentrated in the financial service sector. This rapidly growing sector, combined with a real estate boom, provided the City with the strong tax revenue growth of the years 1978-1982. In looking ahead, however, one can see clear signs of danger to our employment base.

Although the local economy exhibits different patterns than national trends (the steep national downturn was relatively mild in the City; the equally strong national recovery is equally milder here), City OMB stated recently:
"It is assumed that services and the banking industries will lead the recovery and that manufacturing and wholesaling will provide a diminishing share of the job base". This assumption is not without risk.

Technology, as well as the cost of doing business in New York, has created a potential for mobility in the financial service sector which has only begun to be felt. Telecommunications and satellites, computers and automation make it possible to make do with less people and to locate the people a great distance away. We have witnessed Citibank's credit card move to South Dakota, American Express to Utah. Delaware expects to take over a significant portion of our banking employment within five years and I would not bet against it. The Morgan Bank has just acquired 125 acres of land in Delaware; I doubt if it is for the purpose of holding Board of Directors' picnic outings.

New Jersey is raiding our back offices by offering lower power costs, lower taxes and cheaper rents. For the first time ever, I have heard of law firms studying moves to Westchester and advertising agencies moving across the Hudson.
Taxes, high rents and high power costs are not the only factors. Continuously increasing costs, with little or no offsetting productivity improvements, are relentlessly driving transit fares upwards. Having to pay a dollar for subway and bus fares in order to be provided with poor and unsafe service, is as much of a danger to the future of the City's economy as high taxes and high rents.

Standard and Poor's, in maintaining their triple-B rating on city bonds, expressed concern about the City's financial condition. That rating agency stated that, in view of significant past increases in state aid, the State's capacity or willingness to provide Medicaid support plus additional aid is an open question. The agency also noted that while recent economic trends were favorable, boroughs other than Manhattan need further economic diversification, and concluded that "the pressure of flight to the suburbs remains, with New York City competing for employment and residency". It concluded that the City's financial condition "remains weak".

The challenge to the City, for the next decade, is to maintain its tax and employment base in the face of this relentless competition from suburbs and other states. The City has an ambitious capital program to catch up on
infrastructure investment neglected during the fiscal crisis and regularly starved to pay for operating expenses before the crisis. The City is currently investing about $1.3 billion per annum, as opposed to $500 million five years ago, and projects a $35 billion need over the next ten years. This creates two imperatives:

a) That the City must have market access for as much as $2 billion per annum of bond sales over the foreseeable future;

b) That the City’s economy must be capable of sustaining the resulting level of indebtedness.

The City’s ability to service debt has dramatically improved over the last five years, but the future challenge is enormous both in terms of market access and in terms of the City’s economy. The requirement to raise up to $2 billion per annum in the market must be compared with current City/MAC long-term financing of slightly over $1 billion per annum. It must also be remembered that, as a result of changes in tax laws, the overall size of the municipal market will probably not keep pace with the overall needs of all issuers.

The State, the Municipal Assistance Corporation and the City all have one overriding common interest: That New York
City have a strong economy and a stable social environment. That is why I have recommended, and Governor Cuomo has proposed a possible new role for MAC's considerable resources in helping the City's economy.

In weighing these policy options, it may be useful to look at what MAC has done for the City in the past and what it may be able to do in the future. Our enormous financial strength gives us significant possibilities; our fiduciary obligations pose some obvious restraints.

Over the past few years, MAC has assisted the City by providing $9 billion of long-term financing; as part of this, we have raised $850 million, of which $620 million remain in escrow, to provide a cushion for the City for its future capital needs; we have also provided significant assistance to the City's budget by providing it with excess income from our capital reserves and other funds, and by refunding (stretching out by rescheduling on a longer-term basis) maturing series of MAC bonds which had been sold over the past several years. The amounts of budget relief have been significant and less attention has been given to this side of our activities than to our capital financings. From FY1982 through FY1986, MAC has provided, and is committed to provide, a total of almost $600 million in budget relief, of which $155 million from refunding operations, the balance
from interest income on our capital reserve funds. The City, in its current financial plan, has requested a further $120 million of budget assistance, for FY1985-1987.

As the City struggled to attain and then maintain budget balance, while continuing to deliver vital public services, it was appropriate, within reasonable limits, for MAC to support the City's budget. This we did. The City's economic well-being and its financial viability are of direct benefit to the MAC bondholders and the results show that we were justified. I question, however, whether it is appropriate or desirable to continue this aspect of budget support beyond the commitments we have made to the City through FY1986. In general, supporting an operating budget with borrowed money is unsound; this practice, on a large scale, led to our problems in 1975. Now that major budget relief is being provided by the State through phased assumption of Medicaid costs, additional budgetary support from MAC can actually lead to perverse results. Let me cite just one example:

Last year, at this time, the City faced a budget gap which it estimated at over $1 billion, as a result of recession, Federal cutbacks and a new labor contract. We agreed with that estimate and stated our own concerns with the rate of expenditure growth. Thousands of layoffs were
anticipated by the City and, in January 1983, MAC was requested by the City to proceed with an immediate refunding of $210 million of our bonds (the second such refunding in the fiscal year 1983) to avoid even greater layoffs. The budgetary relief which we provided, coupled with increased State aid and a strong upturn in the economy, ultimately created a City surplus of over $500 million, without the drastic cuts which were feared previously. This abrupt switch from deficit to surplus created the appearance of sudden prosperity and relaxed previous commitments to fiscal discipline. The municipal labor unions, which had committed themselves to $50 million of productivity improvements when a deficit was predicted, believed themselves released from their commitment, and the City lost a $50 million recurring expenditure reduction as a result. This is what I mean by the perverse result of borrowing for operating purposes. There is no further need, nor should we be asked, to repeat this kind of operation.

Since MAC will no longer be required to finance the City's capital projects after 1984, and since further pure budget support would appear to be undesirable, what are our other options? They are essentially twofold:

a) We can pay down our debt on an accelerated schedule;
b) We can invest our so-called excess available funds in the City's economy.

From MAC's point of view, the no-risk and almost orthodox course would clearly be the former. The latter involves real risks, which may, nonetheless, be justifiable.

Over the next five years, MAC is in a position to generate up to $1 billion from two different sources, without adding to its total debt: Interest income and refunding. How could those benefit the City's economy as well as our bondholders?

Recent public reference to these funds as "MAC surplus funds" creates a misimpression. These are not funds lying around like so many gold bars in a bank vault. They are funds which can be created by various actions of MAC, which are a reflection of MAC's financial strength and market access, and for which MAC has perfectly valid purposes.

Capital reserve funds, amounting to about $1 billion, have been established for each of the Corporation's two bond resolutions, under which we are required to maintain minimum reserves equivalent to the amount of debt service payable during the succeeding calendar year. These funds are
carefully invested by MAC and, since the reserves are presently fully funded, a portion of the interest earned on these funds is available while maintaining the total integrity of the reserves. As our debt service requirements begin to decline after 1990, portions of the reserves themselves will become available. For the near term, however, MAC debt service next year will be almost $900 million and will be at a level approximately $1 billion per annum from 1985 to 1990. That is what our capital reserve funds are for. It is well to remember that capital reserve funds as well as moneys generated by refundings are essentially "borrowed money". Our $1 billion of capital reserves was funded by sales of $600 million of MAC bonds, $300 million of interest income on our funds and only $160 million from sales tax and state aid claims. As you can see, in the main, they were not created by withholding sales tax revenues from the City, and we have turned back to the City several times that amount in the past few years.

These funds are held for the benefit of our bondholders, who look to the MAC Board as their trustee. The MAC Board is also solely responsible for decisions regarding refunding of the Corporation's bonds. We have clear legal opinions from our counsel on these matters, and I will also quote Comptroller
Regan's report which states: "Under the MAC Statute and other provisions of State law, MAC has complete control over when and how such funds are passed to the City". However, the fact that we are clearly and legally responsible for these funds does not mean that we live in a cocoon. The MAC Board lives in the real world and the views of the Governor, the legislative leaders and the Mayor properly carry considerable weight and influence in our deliberations on this subject as on every matter of public policy. The real issue here is not: "Whose money is it?". The real issue to determine what are the most appropriate uses that can be made of funds that MAC is able to generate, within the framework of MAC's legislative authority and bond convenants.

"Economic development", like modern art, is often in the eye of the beholder. To me, it means actions directed at maintaining or creating private jobs. In the City, these actions could include tax reductions and/or power cost reductions aimed at lowering the cost of doing business for particular industries. They could include inducing back office development in Brooklyn or Queens by combining efforts of the City, the State and private capital. They could include training and education, as well as "pay-as-you-go" infrastructure investment related to employment needs. MAC's excess resources might be used in any or all of these areas.
From the perspective of Chairman of MAC, I believe the following principles to be valid:

1) MAC's first responsibility is to maintain the highest possible credit ratings and to assure the protection of its bondholders;

2) MAC's capacity to accelerate paydown of its debt, in the light of the City's present ability to finance itself as well as to maintain budget balance, is considerable. We believe that, if we stop all refundings and apply all of our excess reserve funds to debt repayment, we can bring total MAC debt down from over $8 billion in 1984 to about $4 billion in 1990. The future reduction in debt service to the City would be considerable. The reduction of the State's Moral Obligation credit is equally large. Use of MAC funds for any other purpose has to be weighed against that alternative;

3) Justification for an alternative strategy must be based on the ability to strengthen the City's economy and tax base, and therefore the security of those MAC bondholders looking to the long-term future of the City. Even on a most optimistic debt repayment schedule, over $4 billion of MAC bonds will be outstanding after 1990 with the
last present maturities going out to 1998. The long-term strength of the City's tax base is clearly relevant to those bondholders;

4) MAC has neither the capacity nor the desire to become a development agency. We do not aspire to any role other than our present one. Any funds generated by MAC for investment purposes should be turned over to the appropriate agencies for disposition. MAC should have nothing to do with what happens to the funds after they are turned over.

5) Ideally, the funds should be leveraged, and funds made available by MAC should be matched, at the very least, dollar for dollar by other funds, private or public;

6) MAC should seek legislative approval in Albany for any new policy coming out of the current debate. We have come too far and too successfully on the principle of bi-partisan legislative support to depart from that principle now.

As I stated earlier, over the next five years, MAC can generate approximately $500 million as a result of income from our various reserve funds (over and above what we have already planned to provide to the City), and another $500 million as the result of refunding MAC maturities coming due
during this period. The total amount of MAC bonds to be refunded, to produce this kind of result would be about $1.7 billion; it could be accomplished over a period of time given decent market conditions.

Governor Cuomo's proposal to create a New York City Development Fund meets the criteria that I believe desirable insofar as MAC is concerned. It would leave the disposition of these funds under the control of elected public officials (where they belong) under standards legislatively approved, which would meet our fiduciary obligations to our bondholders. All of our funds would be directly invested in the City's economy. Our total MAC debt would still be paid down regularly, although more slowly than the present schedule. I personally support such an approach, although I recognize that it involves risk.

State Comptroller Regan's support for a policy of accelerated pay-down of our debt is completely understandable from his own point-of-view. It is clearly a viable and, in many ways, the simplest and therefore, a very attractive alternative. It will clearly be an important option in our deliberations.

Mayor Koch has proposed to bring MAC's total debt up to its maximum of $10 billion in order to enable the City to
retire its Federally-guaranteed debt, to use some of our income from reserve funds to support the City's budget and to use the balance for economic development. Increasing MAC debt, and the State's credit involvement, to pay off the City's Federally-guaranteed debt raises a number of difficult financial policy issues for MAC and the State. All of these proposals will be diligently studied in the very near future.

There have been suggestions made to use the so-called MAC funds to complete the Convention Center, and many others will surely come along. These have perfectly valid reasons to be considered, but we should not put the cart before the horse. Before we can talk about specific projects, we have to have a general policy framework. We can then decide whether the specific projects fit within the framework. This requires an agreement between the Mayor and the Governor, the City and the State on a policy that is consistent with MAC's fiduciary obligations. This policy will hopefully evolve out of discussions and compromise between the City and the State, in which we will participate, and which have already begun this week. Absent such agreement, the policy of simply accelerating the paydown of our debt, will probably be the only viable alternative, and it would also greatly benefit the City and the State.
It is difficult to quantify the alternatives I have suggested. As a crude yardstick one might consider the following: accelerated debt paydown will bring MAC debt to about $4 billion in 1990. Our current schedule calls for about $5 billion to be outstanding at that time. A program of economic development with maximum refunding of MAC debt, would leave MAC debt at about $6 billion in 1990. Assuming a 9% interest rate, the additional expense burden on the $2 billion of additional MAC debt (between the extremes of $6 billion and $4 billion) amounts to about $180 million per annum. A judgement must be made, therefore, whether the extra $1 billion which could become available within five years, can be invested in the City's economy to provide at least an equivalent return. This would be done by creating new jobs, protecting existing ones, or enabling the City to make vital capital investments otherwise beyond its ability. Any number of combinations or permutations of these elements can be constructed.

As you can see, these are not easy alternatives, but the ultimate decisions can have a significant impact on the City and the State. I believe that the City's economy is in reality more fragile than it appears to be and that additional near-term support of the type MAC can provide would be appropriate. Quite apart from this, the City and
the State must work together more forcefully to create new opportunities. For instance, the enormous purchasing power of the MTA has never been properly harnessed to encourage the location of a bus plant, or a subway manufacturing facility (and/or their subcontractors) in the state, possibly in a duty-free zone. The need to protect our existing manufacturing base, wherever possible as well as to provide job opportunities to young inner-city blacks and Hispanics has to have very high priority. It is the responsibility of the business leadership to join with labor and government to help this process along; the New York City partnership, for instance, must translate its great potential into more concrete, sustained actions to improve the City's economy.

Very few people would have predicted eight years ago that New York City would be winding up its third straight year with a balanced budget, no year-end short-term debt and investment-grade credit ratings on its long-term bonds. These things happened because of grinding, continued efforts on the part of all concerned and the ability to negotiate our differences within the context of a common goal. It reflects great credit unto Mayor Koch and his administration. The same thing must now happen over the next eight years to 1990 regarding the City's economic base and employment opportunities. It is a subtler, but infinitely important struggle.
The Municipal Assistance Corporation is proud to have played its part as a participant and catalyst in the efforts to bring the City back to solvency. We would like to make a similar contribution to this new effort within a framework that is prudent and responsible. The State and the City must take the lead, however, and we will join the effort.

I know that, today, I have raised more questions than I have provided answers. Reducing our debt service and interest costs for the 1990s has to be weighed against the City's urgent needs to protect its private sector, employment and tax base. Those needs are real. Putting decals on burnt-out buildings in the South Bronx may or may not be good public policy; it does, however, reflect the reality that parts of the City continue to die. MAC is reaching a crossroad just as the City has. It would be ironic if it turned out that the City, the State and MAC were able to function in adversity, but not in good times; if we were able to allocate pain, but not pleasure. We have the luxury of reflection and debate on issues that are valid public policy issues, serious in nature and far reaching in their impact. I am far from certain, however, that the process will be successful. When I suggested to Governor Cuomo that MAC's financial strength, as well as the cap on our borrowings, had created an opportunity to create a
billion dollar pool to be invested in the City's economy, the Governor supported that suggestion, and came forward with a proposal. Since then a great deal has happened to suggest that we have become involved in a massive political struggle involving entirely different issues. It is a melancholy truth that the partnership of business, labor and government which was able to coalesce around the City in a crisis no longer exists. It could not survive even a hint of prosperity. I have to accept this reality which tends to make the safe alternative policy more attractive each day: To pay our debts down and enable MAC to go out of existence as soon as possible, with the City deriving all of the benefits that will flow therefrom in the later years. It may be a missed opportunity for the City in the 1980s, but it would be totally appropriate for MAC and the State.

* * *
PART 5—DEBT ISSUANCE PLAN

In November 1978, the Corporation in conjunction with the City developed the Debt Issuance Plan to provide long-term financing for the City during the 1979 through 1982 fiscal years. The Debt Issuance Plan has been supplemented from time to time to include subsequent fiscal years and to adjust projections regarding the issuance of long-term obligations to the public and the City’s capital needs.

### DEBT ISSUANCE PLAN

(Dollars in Thousands)

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>FY 1984</th>
<th>FY 1985</th>
<th>FY 1986</th>
<th>FY 1987</th>
<th>Total</th>
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<tr>
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<td>$300,000</td>
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<td>330,000</td>
<td>350,000</td>
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<td>$1,315,000</td>
<td>$1,430,000</td>
<td>$1,625,000</td>
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<table>
<thead>
<tr>
<th>Uses of Funds</th>
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<tr>
<td>City Capital Improvements</td>
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<td>$1,390,000</td>
<td>$1,430,000</td>
<td>$1,625,000</td>
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<td>Capital Reserve Fund of the Corporation</td>
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<td>—</td>
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<tr>
<td>Refunding (b)</td>
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<td>—</td>
<td>—</td>
<td>250,000</td>
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<tr>
<td>Prepayment of Federally Guaranteed City Obligations (c)</td>
<td>119,000</td>
<td>—</td>
<td>—</td>
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<td>119,000</td>
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<tr>
<td>Total Uses (d)</td>
<td>$1,726,000</td>
<td>$1,390,000</td>
<td>$1,430,000</td>
<td>$1,625,000</td>
<td>$6,171,000</td>
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</table>

(a) Contingent upon the City developing a program for the financing of water and sewer projects through the issuance of revenue bonds.

(b) All proposed refundings are subject to market conditions.

(c) See discussion of Federally guaranteed City bonds in this Part 5.

(d) Differences between total sources and uses are a result of the deposit or withdrawal of funds held by the Corporation from the proceeds of sales of its bonds in prior fiscal years for use in fiscal year 1984 and thereafter or transfers from the City’s general fund for capital purposes. The Sources of Funds reflects the principal amount of obligations issued and the Uses of Funds reflects the receipt of such monies without giving effect to the costs of issuance. =

The current Debt Issuance Plan is intended to enable the Corporation to assist the City in financing the City’s capital needs which the City currently projects to be approximately $1.3 billion to $1.6 billion during each of its 1984 through 1987 fiscal years. Substantial portions of the Debt Issuance Plan have been completed to date. To complete the Debt Issuance Plan, the Corporation intends to sell publicly $650 million of its obligations through December 31, 1984 of which the Series 46 Bonds are a portion, and the City plans to sell publicly $3.55 billion of its bonds through its 1987 fiscal year of which $150 million have been sold. The Plan assumes that the City will be able to meet, through sales of its bonds, its full capital needs after its 1985 fiscal year.

The actual amount of the Corporation’s obligations to be issued during each fiscal year will depend upon the City’s actual capital requirements, the amount which can be raised through public sales of City bonds on reasonable terms, the Corporation’s requirements and other factors.

In connection with the Debt Issuance Plan, the City issued an aggregate of $1.65 billion of Federally guaranteed bonds from fiscal 1978 through 1982. The Agreement to Guarantee providing for such Federal
January 11, 1984

Chairman and Members of the Board
Municipal Assistance Corporation
for the City of New York
One World Trade Center
Suite 8901
New York, New York 10048

Dear Mr. Chairman and Members of the Board:

We are pleased to transmit to the Board of the Municipal Assistance Corporation for the City of New York the 1984-1988 Financing Program to be funded by the City and the Corporation.

As you will see, the Program anticipates that the refunding schedule respecting Federally-guaranteed City Bonds will be completed in fiscal year 1987. The City has no current plans to accelerate this schedule. In any event, should circumstances change and the City consider an accelerated refunding schedule in the future, the resources of the Corporation will not be used to facilitate this purpose.

Sincerely,

[Signature]
Harrison J. Goldin
Comptroller

[Signature]
Edward I. Koch
Mayor
<table>
<thead>
<tr>
<th></th>
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<tr>
<td>City General Obligation Bonds</td>
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<td>100</td>
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<td>315</td>
<td>330</td>
<td>350</td>
<td>375</td>
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<td>Sub-total</td>
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<td>755</td>
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<td>MAC Escrow Funded After 7/1/83</td>
<td>(196)</td>
<td>196</td>
<td></td>
<td></td>
<td></td>
<td>755</td>
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<tr>
<td>Other Sources(1)</td>
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<td>46</td>
<td>247</td>
<td>28</td>
<td></td>
<td>349</td>
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<tr>
<td><strong>Total</strong></td>
<td>$1,695</td>
<td>$1,742</td>
<td>$2,027</td>
<td>$1,753</td>
<td>$1,740</td>
<td>$8,957</td>
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</table>

<table>
<thead>
<tr>
<th>Uses</th>
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</thead>
<tbody>
<tr>
<td>City - Capital Improvements</td>
<td>$1,334</td>
<td>$1,390</td>
<td>$1,430</td>
<td>$1,625</td>
<td>$1,740</td>
<td>$7,519</td>
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<tr>
<td>- Guaranteed Bond Prepayments</td>
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<td>247</td>
<td>28</td>
<td></td>
<td>700</td>
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<td>- Refunding(2)</td>
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<td>125</td>
<td>350</td>
<td>100</td>
<td></td>
<td>700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,695</td>
<td>$1,742</td>
<td>$2,027</td>
<td>$1,753</td>
<td>$1,740</td>
<td>$8,957</td>
</tr>
</tbody>
</table>

(1) Other sources include primarily debt service savings resulting from MAC refundings during 1984-1987, and changes in City general fund advances and restricted cash.

(2) The timing of refunding sales is subject to market conditions.
November 22, 1983

Dear Ed:

During the past few months, I have been encouraged by the close and productive relationship we have developed with respect to a number of important issues -- the Rebuild New York Program, the Forty-Second Street Project, and most recently the Port Authority’s Waterfront Development Program. We now have before us an opportunity to build on this record of cooperation, and to create still another new partnership through which we can invest in New York City’s economic future.

As you know, members of my staff and I have had several conversations with Felix Rohatyn and his associates at the Municipal Assistance Corporation, and with members of the Council on Fiscal and Economic Priorities, about how we can use the Corporation's enormous financial resources to strengthen the economy of the City. We estimate that during the next five years, MAC could make approximately $1.0 billion dollars available for this purpose. These surplus funds could be generated in three ways: the accrual of interest on MAC's reserve funds; the refinancing of outstanding MAC bonds, to take advantage of lower interest rates and to level out debt service requirements; and reduction in the size of required reserves, as debt service requirements decline.

There appear to be three options for the use of these resources. The first would be to reduce the amount
of City sales tax revenue allocated to the Corporation to cover debt service and operating expenses. This option, which could be negotiated between the Corporation and the City, could provide substantial budget relief to the City.

The second option would be for MAC to accelerate the repayment of its outstanding debt. This would have obvious benefits for both the City and the State; and like the first option, it could be done under existing law.

The third option is more complicated, and would require state legislation. Surplus MAC resources could be used to invest in programs and projects that would build the City's economic base. To this end, we have been discussing a proposal for creation of a New York City Development Fund, a new public benefit corporation jointly controlled by the City and the State, and authorized to act as a channel for investment of surplus MAC funds.

Under this proposal, MAC would be authorized to transfer interest earnings, excess reserves, and annual debt service savings resulting from refunding, to the City Development Fund. The Fund would not itself be a development agency. Instead, it would be a development "bank" from which existing agencies could draw funds for specific programs and projects. The Fund's investments could take the form of either grants or loans.

The fund's charter would be drawn as broadly as possible, so that its resources could be used flexibly to provide the "missing ingredient" needed to solve a variety of economic development projects. Its purposes could include:

- Public capital improvements, such as infrastructure for a new industrial park, or subway station improvements needed in conjunction with back office development.

- Financing land acquisition for economic development projects.

- Financing real estate development, such as "back office" parks outside Manhattan.
• Funding the establishment of major research and development facilities.

• Investments of human resources, such as on-the-job training for people in information processing occupations in the back office sector.

• Energy cost reduction, either in the form of financing conservation improvements and alternative energy production systems, or in the form of temporary, targeted utility tax rebates.

• Other carefully targeted tax rebates.

The Fund's resources would only be committed to a specific project when they could leverage significant private investments at a ratio of at least one-to-one. Moreover, where an individual firm or establishment was directly or indirectly the beneficiary of subsidies, grants or rebates provided by the Fund, that firm or establishment would be contractually bound to maintain or expand operations and employment in a City for a specified period, subject to recapture provisions.

As we envision the program, MAC's authorization to transfer surplus resources to the Fund would expire after five years; and the Fund itself would go out of existence in ten years. Any outstanding balances held by the Fund would then revert to the Municipal Assistance Corporation.

What I have sketched out here is of course only the barest outline of what will have to be a very carefully developed and carefully designed program. I am eager to hear your reactions, and to work with you to develop a proposal that best meets the City's needs, and most effectively strengthens its economy.

Let me make clear in closing that I am not opposed in principle to using surplus resources simply to pay down
the Corporation's existing debt. That would by any measure be a prudent and responsible course of action. But I am convinced that we now have a chance to use these resources more creatively and more effectively on behalf of the people of the City. I look forward to working with you to turn that opportunity into a reality.

I ask that we meet shortly to review this idea -- and your views on the use of MAC resources.

Sincerely,

Mario M. Cuomo
Governor

Honorable Edward I. Koch
Mayor
City of New York
City Hall
New York, New York 10007
Dear Governor Cuomo:

Thank you for your letter of November 22 describing your thoughts on use of the money that could be made available by the Municipal Assistance Corporation. I do appreciate your involvement and your concerns.

I believe three key principles should guide the approach we take toward the use of revenues generated by MAC:

First, whatever is done must be and appear to be fiscally prudent and sound.

Second, these dollars are the City's dollars. This has already been attested to by the State's chief fiscal officer, Comptroller Ned Regan. More than that, it is consistent with the reason MAC was created in the first place—to make possible an orderly return of self-government to the City.

Third, the dollars should be used in a way that relates to the City's long-term fiscal, economic, social, and physical needs.

I believe we have developed an alternative proposal which is guided by all three principles and which also assures the City's capacity to fund its ongoing $35 billion capital program. The key elements of my proposal are the following:

1) Retire fully all federally guaranteed debt by the end of calendar year 1984;
2) Devote a portion of the resources available from MAC's excess capital reserves to satisfy debt service savings already assumed in the City's Four-Year Financial Plan as approved by the Financial Control Board; and
3) Devote the remainder of the excess capital reserves to long-term economic development.
Use of MAC's Market Access To Assist in Eliminating Federally Guaranteed Debt

I believe that MAC should use its market access through December 1984 to raise capital funds for the City so that the City, by the end of calendar 1984, can use its borrowings over the same period to repay totally the federally guaranteed debt. This would be a crucial investment in the City's long-term economic health, and would be a financially prudent and conservative action to take. My plan would use the remaining $1 billion of legislatively authorized MAC market access--before that authorization expires on December 31, 1984--to finance the specific projects defined in the City's capital program.

This approach would have a number of advantages. It would add greater certainty to our capital program in future years when we otherwise would have to dedicate part of our borrowing proceeds--up to $190 million per year--to repay this debt. It would save money for the City's taxpayers because we would replace federally guaranteed bonds with interest rates as high as 15.9 percent with lower coupon City bonds. For this reason and because the guaranteed debt was originally structured for less than the useful life of the capital projects it financed, the City would reduce its debt service costs by approximately $100 million over the next five years. Because under federal law the State is ultimately responsible for this debt should the City be unable to pay, it would remove the possibility of federal withholding of aid to the State to meet guarantee payments. And it would be another milestone in the City's recovery from the fiscal crisis and improve our status with the United States Congress.

Federal law requires that, unless the Secretary of the Treasury specifically waives the provision, the City must devote scarce capital proceeds to an accelerated repayment of the federally guaranteed debt. Our present financing plan does not provide for this accelerated repayment, but it now appears that, as a result of our improved financial condition, a waiver is unlikely to be granted. This means that over the 1985-1986 financing plan period, the City must either raise an additional $555 million or cut its capital program by a similar amount. Our reliance on market access for City bonds in that period is already ambitious without issuing an additional $555 million. And after December 1984, MAC's ability to help with our capital financing will be over.

The condition of our infrastructure requires that every dollar of available City financing go for capital investment
in future years, and not to refinance federal guarantees. We and our financial advisor, The First Boston Corporation, believe that market conditions, combined with the City's recent investment grade rating from Moody's and Standard and Poor's and MAC's simultaneous rating upgrading, now provide the first opportunity for the City to refund entirely the federally guaranteed debt before the end of 1984.

In effect, we are requesting that MAC devote its remaining borrowing capacity authorized by statute to the most important purpose for which it was created, namely, raising funds for the City's capital program. Our financing plan presently assumes that prior to December 31, 1984, MAC will issue $300 million in bonds for City capital purposes and $250 million for refunding. We are requesting that instead, MAC issue $1 billion for City capital purposes.

You have raised for discussion the use of $1 billion in resources from MAC over the next five years: $500 million from accumulated investment earnings on MAC's capital reserves, and $500 million from refunding of about $1 billion in MAC debt.

We believe that our proposed use of MAC's market access prior to December 31, 1984 is the best possible use of MAC's borrowing ability. Refunding MAC debt would involve replacing lower interest MAC debt with higher interest MAC debt, deferring principal payments and stretching the repayment period. We, like you, believe this could raise some questions from a financial point of view which are not now necessary to resolve in light of our proposal.

Use of MAC Excess Capital Reserves: Investing in the City's Future

MAC's approach to reserve requirements, coupled with investment income, has permitted MAC to accumulate resources in its capital reserves in excess of the amount required by law and at direct cost to the City's sales tax revenue. In the past, MAC has from time to time made available to the City some portion of this excess for operating expenses. The funds are made available to the City by reducing the amount of sales tax MAC takes for its debt service, and the freed-up sales tax dollars are appropriated through the regular budget process involving me, the City Council, and the Board of Estimate. And of course, the budget has been reviewed by the Financial Control Board.

The Financial Plan approved by the Financial Control Board on June 29, 1983 and modified by the Board on November 23, 1983 already incorporates $40 million in debt service savings including MAC's debt service as gap-closing
funds in each year. The most likely source of these funds is, as it has been in the past, excess interest earnings on the MAC capital reserve fund.

A careful review of excess amounts held by MAC indicates that the amounts are larger than had been anticipated in the Financial Plan. The excess amount for 1984-88 is $410 million, after accounting for increased reserve requirements MAC will have by using its full authorized borrowing capacity for City capital purposes as proposed above. The Financial Plan assumes only $160 million in debt service savings -- leaving a difference of about $250 million in diverted sales tax which would otherwise come to the City over the five-year period.

We are cognizant of the importance of a strong and healthy New York City to the economic well-being of the entire State, and consequently have devoted and will continue to devote our most careful planning and management efforts to this end. Our fundamental concern, of course, must be to assure balanced budgets and to do so without destructive levels of taxation or counterproductive service reductions. We believe our fiscal outlook is more stable than it has been since the early 1970's, in part because of the strict control we have maintained over spending and the sacrifices we have made. But there will be budgetary gaps to be closed for at least the next several years. And so, at least the $160 million in debt service savings presently included in the Financial Plan will be required for this purpose.

The remaining $250 million should be devoted to long-term economic development, including targeted tax reductions, to foster the City's competitiveness and ability to create jobs for residents. Examples of these initiatives to be administered by the City might include:

1) Development of the Queens, Bronx, Brooklyn and Staten Island downtown areas, with particular emphasis on back-office space and high technology in order to keep jobs and to create new ones for City residents;

2) Creation of financial service high schools, and other vocational schools, in cooperation with the private sector. Such training will give our residents necessary skills to obtain the jobs available in our growing service sector economy and should help reduce the high school drop-out rate;

3) Assistance in the relocation and expansion of manufacturing facilities within the five boroughs by use of leveraged low-cost loans; and,

4) Targeted tax reductions, such as in the utility tax area, where we must narrow the regional disparities in energy-related costs for commercial and industrial enterprises.
In summary, my plan would use the resources provided by excess capital reserves and additional MAC borrowing capacity to:

1) Refund, at lower interest rates, the City's federally guaranteed debt, thus providing $550 million in additional resources for our capital budget and, as noted above, some expense budget savings over the next five years;

2) Fully satisfy the $160 million in MAC debt service savings as approved by the Financial Control Board; and,

3) Provide $250 million over a five-year period for long term economic development.

The program fulfills our joint desire to use the unique opportunity presented by the availability of MAC resources to meet the City's long-term needs. At the same time, it satisfies agreed-to budgetary commitments and reduces the contingent liability of the State. It is a balanced, forward-looking plan.

I have enclosed exhibits that discuss some of the technical details. Because of my desire to respond promptly to your letter, I have not had the opportunity to fully brief and consult with members of the City Council and the Board of Estimate concerning the details of my proposal. I will have those consultations over the next few days and will certainly keep you apprised of the results of those discussions.

I look forward to meeting with you to further discuss these matters. I know you share my concerns that these funds, all of which are derived from the City's sales tax, be used in a way which will provide the most benefits for the City of New York and its residents and which will continue to demonstrate our commitment to fiscal prudence and financing integrity.

Sincerely,

Edward I. Koch
Mayor
November 25, 1983

Mr. Felix Rohatyn
Chairman, Municipal Assistance Corporation
1 World Trade Center - Rm 8901
New York, New York

Dear Mr. Rohatyn:

I have discussed with you, Governor Cuomo, and Mayor Koch the matter of the additional funds that the Municipal Assistance Corporation can generate for the benefit of New York City. MAC has stated that it could provide New York City with $1 billion in additional funds over five years. The statement has received a great deal of attention in the press, and there has been much discussion in its wake. The discussion has centered on the interrelated questions of the best use for these funds -- you and the Governor advocating that they be used for the City's economic development -- and who should decide their use -- Mayor Koch believing that since the funds are basically City revenues it is the City that should decide.

I am writing to put forward my own view on this matter, which is that there is a simple solution that can cut through the mounting controversy: MAC should use the funds to accelerate the repayment of its own debt. The $7.5 billion in outstanding MAC debt borne by the City's taxpayers in 1983 is the residue of the budget deficits of the 1960's and '70's. Stretching out MAC's debt by refunding, as some have suggested, would load more of that burden onto the shoulders of the taxpayers of the next century. Using MAC's earnings to speed repayment, as I am proposing, could eliminate that debt in the 1990's, rather than continuing it out to the year 2003.

The attraction of the approach I am advocating lies in the way in which it would meet any number of important objectives:

- It would serve to improve the credit standing of both the City and the State.
- The savings on the paid-down debt would flow to the City automatically, without any State involvement in City managerial decisions.
While discussions have focused on the idea of MAC's providing $1 billion to the City over five years, in the long run the City will realize more money, our analysis shows, by paying down the MAC debt -- about $4.8 billion over 25 years.

Most importantly, repaying MAC debt would create a relatively even stream of benefits, in contrast with other strategies for using the MAC funds, which would result in wide year-to-year fluctuations in the level of benefits to the City. The benefits under my proposal would be more in the nature of a recurring revenue, meaning that MAC debt repayment is consistent with a policy advocated by you and two other members of the MAC Board in a February 9, 1983 letter to the Governor urging that additional MAC funds made available to the City should "be dedicated to the maximum extent possible to obtaining recurring budget balance for fiscal 1984 and beyond."

Finally, these objectives can be readily accomplished under existing law, without any need for negotiated deals or legislative amendments. It seems to me, therefore, that my proposal presents considerable advantages that no other proposal can match.

My recommendation that MAC should apply its available resources to the repayment of its debt is based on the analysis done at my request by Elinor B. Bachrach, the Special Deputy Comptroller for New York City. Enclosed is a copy of a memorandum setting forth the results of the analysis.

I am sending this same letter to Governor Cuomo and Mayor Koch.

Very truly yours,

Edward V. Regan

cc: Senator Warren Anderson
    Assemblyman Stanley Fink
OFFICE OF THE STATE COMPTROLLER

INTER-OFFICE MEMORANDUM

To: Edward V. Regan

Date: November 25, 1983

From: Elinor B. Bachrach

Subject: MAC Funds and Potential Uses

Elinor B. Bachrach

You requested additional information about recent public statements regarding the capacity of the New York State Municipal Assistance Corporation (MAC) to provide $1 billion in additional funding to New York City over the next five years. This Office has examined and assessed the issues surrounding such funding. This memorandum discusses the magnitude of the resources potentially available, the authority governing the use of those resources, and the implications of various potential uses for the City's financial outlook over the near and long term.

Our analysis confirms that MAC could make $1 billion available to the City over the next five years: $500 million or more from current resources, including earnings on its capital reserve, debt service and guarantee funds; and $500 million from refunding of outstanding bonds. This analysis focuses only on the use of MAC's current resources because, since refunding must take into consideration future market conditions, it resists advance analysis. Furthermore, how much refunding MAC will actually do hinges on the strategy that is adopted for using the additional MAC funds, which is the very issue at hand.

We have compared the merits of three strategies for issuing the additional MAC resources: providing the money directly to the City; accelerating the repayment of Federally guaranteed City bonds; or repaying MAC debt. Based on our analysis, the strategy promising the most benefit to the City is to repay MAC's debt. This can readily be done under existing law, and we believe that it is in the best interests of both the City and the State. By eliminating more rapidly the overhanging burden of the MAC debt, it would improve both the State's and the City's credit standing. The debt service savings would flow to the City automatically, thus obviating the question of who controls the use of the funds. There would be more funds provided to the City in the long run, and the funds would be more in the nature of a recurring revenue. Therefore, this approach is consistent with the policy advocated by three members of the MAC Board in a February 1983 letter to the Governor urging that additional funds made available to the City "be dedicated to the maximum extent possible to obtaining recurring budget balance for fiscal year 1984 and beyond."
As the State's chief financial officer, you have a direct interest in MAC's resources and how they are applied. First, although the debt service on MAC bonds is paid before all else out of City monies, those bonds are also backed by the State's moral obligation. Thus, although it is well secured, the MAC debt still affects the State's credit standing. A recent rating agency report shows that the contingent debt on account of MAC constitutes more than one-third of all State debt. Second, in order to give greater assurance to MAC's bondholders, you are required by the MAC statute to hold the revenues backing the bonds in special custodial accounts until the Corporation certifies the amounts it needs to take out of those accounts for payment of debt service and other corporate purposes.

Your concern with MAC debt is long-standing. For example, in 1980, when an increase in MAC's authority to borrow was being proposed, you expressed your concern that following such a course could potentially impair both the City's autonomy and the credit of the State. At your recommendation, the legislation that was adopted, which authorized MAC to borrow up to $10 billion through December 31, 1984, included a declaration by the Legislature of its intention not to authorize in the future any further increase in the Corporation's borrowing capacity.

Background

In early October, Governor Cuomo reappointed Felix Rohatyn as Chairman of MAC and asked that he "begin charting a new role for MAC in assisting the City in its efforts to stimulate its economy and fiscal base." Mr. Rohatyn responded that MAC could provide about $1 billion to the City over a five-year period. He suggested that those funds be used to promote the City's economic development: the examples he gave included tax reductions, capital construction, and subsidies to create or maintain jobs. Other potential uses identified in subsequent discussions include providing more funds for general City use, repaying the outstanding Federally guaranteed City debt, or repaying the outstanding MAC debt.

Since 1975, when MAC was established by New York State to provide financing assistance to the City, the Corporation has issued $8.9 billion in bonds (exclusive of refunding bonds), of which $7.5 billion is presently outstanding. MAC's statutory authority to issue new debt expires on December 31, 1984, but it can continue to refund outstanding bonds, so long as the maturities do not extend beyond July 1, 2008.

In past years, MAC has provided some expense budget support to the City out of earnings on invested funds. It has also issued refunding bonds for the purpose of evening out its debt structure and lowering near-term debt service costs, which likewise has the effect of providing budget relief to the City.
The current initiative has its origin in events which occurred back at the beginning of this year, when the outlook for the City's budget had worsened. In January 1983, the Mayor proposed a MAC refunding to reduce debt service costs in fiscal year 1983, arguing that this was needed to avoid further budget retrenchment beyond what was already called for in the December 1982 Financial Plan. The letter from the MAC Board members in February 1983 stated that they had undertaken the refunding reluctantly because, given market conditions at the time, it resulted in a present-value cost. It went on to stress that MAC's refundings should have a long-range purpose -- recurring budget balance -- and should not be used as a stop-gap solution to immediate budgetary problems.

Largely because of the experience with the January refunding, MAC officials are insisting that the estimated $1 billion should be made available only in accordance with a well-thought-out plan that takes into account the interests of MAC's bondholders and of the City and State. We have been informed that MAC does not intend to develop its own proposal for using these funds. Instead, it is encouraging those involved at the City and the State level to offer their own proposals. We understand that there is extensive debate on this issue within the City and also some discussion among State officials involved in financial planning and economic development.

Who Should Decide the Use of the MAC Resources?

Much of the public discussion of this matter has centered on the question of who is to decide the use of the resources available from MAC: the State (via MAC) or the City. Under the MAC statute and other provisions of State law, MAC has complete control over when and how such funds are made available to the City. However, once the funds are passed to the City, the City has complete control over their use. The following explains these points in more detail.

Under State law, MAC has first call on the revenues designated as backing for its bonds (sales tax, per capita aid and stock transfer tax), and it draws upon those monies as needed to fund its operations, including payment of debt service on its bonds, maintenance of its various required reserve funds, and administrative expenses. An examination of the steps involved in this "MAC take-out" demonstrates that the State retains control of the funds until MAC's needs are met. This process is described in Appendix A.

State law does not restrict the amount of the MAC take-out, nor does it require the transfer to the City of any amounts in excess of MAC's minimum statutory needs (which include maintenance of a capital reserve fund equal to the next year's debt service). In fact, the MAC statute provides that the capital reserve fund may be funded at least up to the
full amount of bonds and notes outstanding plus accrued interest thereon. (Federal tax law, on the other hand, may preclude this from happening.)

When the MAC take-out is completed, however, the remaining revenues are transferred to the City with no strings attached. Thus MAC can make additional funds available to the City by reducing the amount of its take-out. It can accomplish this reduction either (a) by paying part of its debt service with money held in its various funds in excess of minimum statutory requirements, or (b) by refunding certain of its bonds so as to reduce its annual debt service costs in the near term.

Once funds are made available to the City, MAC has no further statutory control over them; the City then has full authority to decide their use. The current debate has arisen because MAC has indicated that, as a condition of making additional funds available, it would like some assurances as to how they will be used. It is unclear whether MAC could secure an enforceable commitment from the City on the use of those funds, except through an amendment to the MAC Act.

Funds Potentially Available from MAC

As indicated in public statements and confirmed in subsequent discussions, MAC could provide an estimated $1 billion in additional funds to the City over five years: $500 million from current resources and $500 million from refunding of outstanding MAC bonds. Our estimates support these figures. MAC officials reviewed our estimates and indicated that they were reasonable, while at the same time pointing out that a number of factors such as the timing of payments, could affect the results.

Table I shows the major sources of the additional funds generated by MAC (the capital reserve funds, the debt service funds, and the guarantee fund) and our estimates of the total amounts which could be made available to the City from those sources through fiscal year 2009. Appendix B describes these sources and the assumptions underlying the estimates of the amounts which could be made available in each year from each source.

The estimates shown in Table I do not take into account the potential impact of any MAC bond refunding, even though the City's current financing program shows some $250 million in such refundings. This is because refunding is done wholly at the discretion of MAC and the question of how much refunding MAC will do is tied not only to market conditions but also to the issue at hand of what would be done with the funds thus generated. These funds could potentially be quite large in the early years, but the amounts available in the later years would then
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<tr>
<th>Available in Fiscal Year</th>
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<th>Debt Service Funds(b)</th>
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</tbody>
</table>

(a) Assumes that federally guaranteed bonds will be prepaid pursuant to the formula in Section 11A of the Loan Guarantee Act.

(b) Based on an estimate of fiscal year 1983 earnings, which were increased or decreased each year based on the projected level of the funding requirement for such year.

(c) Since MAC is already committed to provide $75 million of these amounts to the City in each of fiscal years 1985 and 1986, the net additional amounts available in those years would be $108 million and $53 million, respectively. These are the amounts carried over to Table II.
be reduced due to additional debt service costs.

Our analysis indicates that considerably more than $250 million in refundings would be required in order to generate $500 million in additional funds for the City over the next five years. These points are illustrated in Appendix C, which shows how the $250 million in refundings contemplated in the City's current financing program could affect the amounts of available funds in each year, assuming that the primary purpose of such refundings would be to maximize resources available in the early years.

**Potential Uses of the MAC Funds**

Discussions with City and MAC officials with respect to potential uses of the MAC funds shown in Table I have identified the following options:

1. Provide those funds directly to the City, either for (a) its general purposes, or (b) any specific purpose which might be agreed to as a condition of the City's receiving the money.

2. Accelerate the repayment of outstanding federally guaranteed City bonds, with resultant savings in debt service costs and guarantee fees.

3. Accelerate the repayment of outstanding MAC bonds, with resultant savings in MAC debt service costs and corresponding reductions in the MAC take-out.

Table II gives estimates of the amounts of money that would be made available to the City from applying the additional funds to each of the potential uses identified. Option 1 simply shows the pass-through to the City of the total amount of funds identified in Table I (net of the $75 million already committed to the City in each of fiscal years 1985 and 1986). Option 2 applies those funds initially to the repayment of outstanding federally guaranteed bonds, assuming that bonds with the longest maturities would be repaid first, and then passes the remaining funds on to the City as in Option 1. Option 3 applies the funds to the repayment of outstanding MAC bonds, showing two alternative approaches. Alternative A has the objective of maximizing budget relief to the City in the early years; Alternative B has the objective of repaying the MAC bonds as rapidly as possible.

With respect to Option 3, it should be stressed that the figures shown are illustrative: they indicate the amounts that could be generated year-by-year based on certain assumptions as to which MAC bonds might be repaid, and without making any allowance for potential bond
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>-Option 1- Provided Directly to City</th>
<th>-Option 2- Repay Federally Guar. Bonds</th>
<th>-Option 3- Repay MAC Bonds Alt.A</th>
<th>Alt.B</th>
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<td>$3,670</td>
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(a) Does not include estimated amounts from potential MAC refundings.
(b) MAC available funds used to supplement the City's 15% prepayment program. After repayment is completed, available funds are applied as in Option 1.
(c) First bonds prepaid are generally those which would make additional funds available to the City in the early years.
(d) First bonds prepaid are those having longest maturities.
(e) Amounts shown for fiscal years 1985 and 1986 are net of $75 million in funds already included in the City's Financial Plan. Amounts shown for succeeding years match those in the "Total" column of Table I.

Note: For additional assumptions regarding this table, see appendix B.
refundings. Since MAC would have complete discretion with respect to which bonds it would repay, we have no reason to suppose that the assumptions we have made for the purposes of our illustrations are more likely to represent what would in fact happen than any other consistent set of assumptions. To suggest just one more possibility, MAC might structure its repayments to establish a recurring source of support with as little yearly variation as possible except for a growth factor to allow for inflation. Regardless of the criteria used by MAC, we feel that the aggregate funds made available to the City will not differ materially from the results shown in our examples.

Under Options 1 and 2, the City would receive about $3.3 billion over the next 25 years. More funds would be made available in the first five years than under Option 3, but there would be less in the later years. Under both Options 1 and 2, the benefits stream would be extremely uneven, varying up and down each year largely in concert with MAC's debt service payments. The additional funds provided to the City under Options 1 and 2 in the first five years could be increased through MAC bond refundings. However, there would then be higher debt service costs in the later years, which would offset and possibly exceed the amounts shown in Table II for those later years. See Appendix C.

Under Option 3 -- repaying MAC bonds -- the aggregate amount provided to the City would be $3.7 billion and $4.8 billion under Alternatives A and B, respectively. The amounts would generally be less over the short term than under the other two options but significantly more over the long term: greater by $400 million under Alternative A and by $1.5 billion under Alternative B. Under either alternative, the benefits stream would be comparatively level, thus providing the City with a relatively stable and predictable source of additional funds.

We have done a present value analysis of the benefits to the City under each of these options. As in any such analysis, the results depend on the interest rate chosen to discount the future flow of funds. Using the City's current borrowing costs -- about 9.5 percent -- as a proxy for its "cost of capital" shows that repaying MAC debt as rapidly as possible (Option 3, Alternative B) offers the most benefit to the City. However, our analysis further shows that if the City's cost of capital were to exceed about 10 percent, Options 1 and 2 would begin to yield the highest present value. This present value analysis continues to assume the absence of refundings. If refundings are undertaken, this would alter the stream of benefits and accordingly could affect the outcome of a present value analysis. The effect of refundings is discussed further in Appendix C.

Table III further illustrates the effects of repaying the MAC bonds. It compares, by fiscal year, the projected level of outstanding MAC debt if payments were to be made as currently scheduled or in accordance with Alternatives A and B. Significantly, if the goal of such a repayment program were to accelerate debt retirement (Alternative B), then
Table III

Schedule of Outstanding MAC Debt
Under Various Repayment Alternatives
(in millions)

<table>
<thead>
<tr>
<th>year</th>
<th>Redemptions Scheduled</th>
<th>Accelerated MAC Repayments</th>
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<th>Alternative B</th>
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<td>695</td>
<td>411</td>
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<tr>
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<td>534</td>
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<tr>
<td>2007</td>
<td>366</td>
<td>220</td>
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<tr>
<td>2008</td>
<td>186</td>
<td>127</td>
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</tr>
<tr>
<td>2009</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Alternative A: First bonds repaid are generally those maximizing additional resources available in early years.

Alternative B: First bonds repaid are those having longest maturities, thereby providing the fastest liquidation of MAC's outstanding debt.

* See Appendix B.
virtually all of MAC's debt could be redeemed by the mid-1990's. However, if the goal were to provide more funds to the City in the near term (Alternative A), the MAC debt would be repaid a decade later. Even under the latter alternative, the amounts outstanding in the final years would be minimal and could conceivably be repaid earlier.

Discussion and Conclusions

In discussing the various options for the use of the MAC resources, it is important to note that they are not mutually exclusive. It would be quite possible to devise a combination of uses, e.g., providing funds directly to the City and repayment of MAC bonds. However, for purposes of discussion, this memorandum considers the options separately as an aid in identifying the advantages and disadvantages offered by each.

Option 1: Funds provided directly to the City

Option 1 has the potential to provide the largest amount of additional funds to the City in the first five years. However, as Table II shows, those amounts vary significantly year-to-year and drop off sharply in the later years. The amounts made available could be further increased through refundings -- presumably at least up to the MAC figure of $500 million. Refundings also have the potential to smooth out the year-to-year variations to some extent. However, because of the additional debt service costs that refunding would entail in the later years, the City would realize less in those years.

The advantages and disadvantages of MAC's acting to provide larger amounts of money to the City in the next five years can only be weighed by considering how those funds would be used. The basis for MAC's concern on this score, which we share, is evident from Table II. Clearly the proceeds of MAC's current resources, and by extension its bond refundings, do not constitute a stable and recurring revenue. If all these funds were used, as some have suggested, for immediate expense budget purposes -- e.g., to employ more workers, pay higher salaries or institute new programs, -- the City's ability to sustain this higher level of spending in later years would be open to question.

Option 2: Repayment of the Federally Guaranteed Bonds

Option 2 would accomplish the repayment of the outstanding federally guaranteed bonds by fiscal year 1986 and would thus relieve the City of the interest costs and guarantee fees associated with those bonds after that date. Compared with Option 1, the amounts provided in the early
years would be somewhat lower, those in the later years somewhat higher. Aside from these considerations, both options would have basically the same effect.

Option 3: Repayment of the MAC Bonds

Option 3 also makes additional funds available to the City, but it differs from Options 1 and 2 in doing this by means of permanent reductions in debt service costs. The amounts provided under Option 3 are somewhat less in the first five years under Alternative A and considerably less under Alternative B, but in both cases they are substantially more after that point. The benefits stream under Option 3 is more level than under the other two options, and it is more persisting.

Based on our analysis, we see clear advantages to both the City and the State in using the MAC resources to pay down the outstanding MAC debt -- advantages which we believe have not been adequately considered thus far in the debate:

- It would be a prudent and straightforward approach. MAC is already authorized under present law to use its resources to pay down its outstanding debt.

- Repaying the MAC debt creates a relatively even stream of benefits to the City, thus minimizing the wide year-to-year fluctuations in funding that characterize the other approaches. Benefits under Option 3 would be more in the nature of a recurring revenue, which would aid the City in carrying out sound financial planning and in providing services.

- This approach would make the most aggregate funds available to the City, while at the same time relieving it more quickly of the burden of the $7.5 billion in outstanding MAC debt.

- The establishment of a program to pay down that debt more rapidly will strengthen the City's credit standing, and it could potentially expand the market for the City's own bonds. This would allow the City to expand or accelerate its capital program by selling more of its own bonds, and in turn those bonds could be supported with the resources generated through the repayment of the MAC bonds.

- This approach could enhance the State's credit standing as well, since it would bring much closer that day when the State would be relieved of its moral obligation backing the MAC debt. While that debt is well secured, its elimination
would be a positive signal to investors that the City's fiscal problems have receded and the potential threat to the State's fiscal condition has been alleviated.

Given your responsibility for overseeing the State's credit and the City's finances, we think this is the option you should advocate.
Appendix A

How the MAC "Take-out" Works

1) In support of its corporate purposes, MAC can call on the State for revenue derived from three sources:

   a. revenue from the City's portion of the sales tax imposed in New York City by the State.

   b. revenue from the State-imposed stock transfer tax.

   c. per-capita aid otherwise allocable to New York City.

2) These funds are held by the State Comptroller, as custodian, in special accounts.

3) State law provides that the Legislature shall appropriate the revenues from these three sources for the benefit of MAC. Absent an appropriation, the funds cannot be paid out.

4) MAC certifies to the State Comptroller and the Mayor the amount and timing of its cash requirements for meeting its debt service and other corporate needs.

5) The Comptroller makes payment to MAC in accordance with its certification out of the revenues appropriated for MAC's benefit.

6) Revenues remaining after the payment to MAC are paid to the City or, in the case of the stock transfer tax, rebated to the taxpayer. As with the payments to MAC, these payments or rebates are subject to appropriation by the Legislature.
Appendix B

Major Sources of Additional MAC Funds and Assumptions Employed to Generate the Estimated Amounts

Capital Reserve Fund - MAC is required by law to maintain a reserve fund sufficient to cover the following year's debt service. The amounts currently held in that fund exceed this minimum requirement. Amounts in excess of minimum annual requirements, including interest earnings at an assumed interest rate of 10 percent, represent available funds in each year.

Debt Service Fund - MAC is able to generate excess earnings in this fund largely because of the lag between the time MAC receives the monies it uses to pay bondholders and when the bondholders are paid. The amount earned in this fund will generally vary with the annual level of MAC's debt service payments. Our projections of the amounts available from this source are based on our estimate of fiscal year 1983 earnings adjusted for future changes in the level of the MAC funding requirement. Additional resources could be made available should MAC decide to purchase at a discount some of its outstanding obligations, as it has done in the past. Our estimate does not include amounts from this source.

Guarantee Fund - The guarantee fund, required by the New York City Loan Guarantee Act, is maintained by MAC and currently contains the amount required by the Act. As Federally guaranteed debt is retired, the amount required in the fund is reduced and available funds are generated. We have assumed that the City will not receive a waiver of the 15 percent refunding requirement of the Loan Guarantee Act, even though the City is assuming this in its financing program that a waiver will be granted. The City has requested such a waiver in the past and its request has been denied.

The estimates shown in Tables I through III are based on the following additional assumptions:

MAC will provide $75 million to the City for general budget purposes in each of fiscal years 1984 through 1986. This amount does not include some $40 million in debt service savings shown in the Financial Plan as part of the gap-closing actions for fiscal years 1985 - 1987. MAC may
be requested to provide some or all of this amount, but as yet it has made no commitment to do so.

MAC will issue new bonds under its existing authority prior to the December 31, 1994 expiration date only up to the amounts projected in the City's current financing program, except that we have taken out of the financing program the scheduled issuance of $250 million of refunding bonds.

If MAC repays outstanding debt with the additional resources, the funds would be reserved to cover future debt service payments so that the repaid bonds would not be immediately retired but rather would be extinguished as scheduled through either mandatory sinking fund payments or redemption. This would allow MAC to select any bond issues for repayment, regardless of call provisions or any other potential restrictions.
Appendix C

Effect of MAC Refundings on Additional MAC Funds

A MAC refunding program would affect the level and timing of additional MAC funds. The following table shows the results of a hypothetical $250 million refunding program (as now assumed in the City's financing program) which would maximize resources to the City in the early years. The increase in additional funds from this refunding program totals $202 million over the first three years. However, after that point, the debt service costs arising from the refunding bonds reduce future additional funds. This illustrative refunding program, although providing substantial early additional funds, has a present-value cost and therefore may not be viable, since MAC has expressed a reluctance to carry out such a program. However, it seems likely that a program with a present-value savings would produce less in additional funds up-front.
Potential Impact of Illustrative MAC Bond Refunding on Amounts of Additional MAC Funds Fiscal Years 1985 through 2009

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<th>Adjusted MAC Additional Funds</th>
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<tr>
<td>2009</td>
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<td>(29)</td>
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January 19, 1984
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

January 19, 1984

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 4:00 P.M. on Thursday, January 19, 1984, at the offices of Lazard Freres & Co., Financial Advisor to the Corporation, 1 Rockefeller Plaza, New York City.

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

Felix G. Rohatyn, Chairman
Edward M. Kresky, Vice-Chairman
Francis J. Barry
Eugene J. Keilin
Andrew P. Steffan

Messrs. Barry and Keilin participated in the meeting by means of telephone, in accordance with Section 5.6 of the Corporation's By-Laws.

No Representatives were present.

The following members of the Staff were present:

T. Dennis Sullivan II
Denise N. Dean
Frances N. Higgins
Steven J. Kantor
Susan A. Weil
Stephen J. Weinstein

Also present by invitation of the Board were: James M. Dubin of Paul, Weiss, Rifkind, Wharton & Garrison, General
Counsel to the Corporation; Donald J. Robinson and Jack M. Schrager of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Bernard J. Kabak of the Office of the State Special Deputy Comptroller; Brian Moore of the City of New York Office of Management and Budget; David H. Blair of White & Case; and Gedale B. Horowitz, Eugene Crowley and William B. James of Salomon Brothers Inc.

Adoption of Guidelines

Mr. Sullivan reviewed the requirements of state legislation effective January 1, 1984, that public authorities and public benefit corporations of the State of New York, including the Corporation, adopt and annually review comprehensive guidelines which detail its operative policy and instructions regarding (1) the investing, monitoring and reporting of funds and (2) the use, awarding, monitoring and reporting of personal services contracts (Sections 2925 and 2879, respectively, of the Public Authorities Law). He reported that the staff had drafted and circulated to the Board proposed guidelines to meet each of these requirements, which he recommended for adoption substantially in the form presented to the meeting.

After discussion, upon motion duly made, seconded and unanimously carried, it was:
RESOLVED, that the Investment Guidelines, effective as of January 1, 1984, be and hereby are adopted; and

FURTHER RESOLVED, that the Personal Services Contract Guidelines, effective as of January 1, 1984, be and hereby are adopted.

The Board directed that copies of each of the guidelines as adopted be appended to the minutes of the meeting.

Series 48 Bond Sale

Mr. Sullivan noted that a Preliminary Official Statement for the sale of the Corporation's Series 48 Bonds had been circulated on January 18, 1984. He described the principal amounts, rates and maturities of the bonds proposed to be issued. Mr. Robinson summarized the principal provisions of the proposed resolution authorizing the issuance of $206,260,000 of the Corporation's Series 48 Bonds. Mr. Horowitz stated that an underwriting group represented by Salomon Brothers Inc was proposing to purchase the Series 48 Bonds for $202,029,880.20, or approximately 98.052% of the aggregate principal amount, which would result in a net interest cost of 9.45795% for the issuance.
After discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Series 48 Resolution, substantially in the form as presented to the meeting, with such non-substantive changes as General Counsel and Bond Counsel may in their discretion require, be and hereby is adopted.

Series 42 Bonds

Mr. Sullivan reported that Warrants to purchase $19,405,000 of Series 42 Bonds of the Corporation had been exercised on January 18, 1984, the expiration date of those Warrants, which had been issued with the Corporation's Series 41 Bonds in November 1982. He said that the delivery of those bonds would take place on January 25, 1984, bringing the final total of Series 42 Bonds issued to approximately $20 million.

Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 4:30 P.M.

Susan A. Weil
Secretary
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

PERSONAL SERVICES CONTRACT GUIDELINES

AS OF JANUARY 1, 1984

Adopted January 19, 1984

I. Purpose

A. Adoption. These Guidelines are adopted by the Board of Directors of the Municipal Assistance Corporation for the City of New York, effective as of January 1, 1984, pursuant to Section 2879 of the Public Authorities Law of the State of New York.

B. Scope. These Guidelines specify the policies and procedures relating to the use, selection, monitoring and reporting of contracts to provide personal services to the Municipal Assistance Corporation entered into on or after January 1, 1984. For purposes of these Guidelines, a personal services contract is an agreement for a person or persons who are not providing such service as officers or employees of the Corporation or of any other public corporation or agency of the State of New York to provide to the Corporation a service including but not limited to the performance of legal, accounting, management consulting, investment banking, planning, training, statistical, research, public relations, architectural, engineering, surveying or other personal services of a consulting, professional or technical nature for a fee, commission or other compensation.

C. Review and Amendment. These Guidelines shall be reviewed and approved by the Board of Directors annually and may be amended by the Board of Directors from time to time.
II. Use and Selection

A. Use

1. Primary ongoing functions of the Corporation are to be performed by employees of the Corporation to the greatest extent possible.

2. Certain services, however, are to be provided on a regular basis by outside firms possessing special expertise, experience or resources, including those services specified in Section II(B)(2)(d) of these Guidelines and such other services as may be determined by the Board of Directors from time to time.

3. Additionally, personal services contracts may be used upon determination by the Executive Director, taking into account such factors as the short-term or infrequent need for the services, the nature of the services to be rendered, and their costs, that it is substantially more beneficial for such services to be contracted for than performed by employees of the Corporation.

B. Selection

1. Contractors shall be selected on a competitive basis except when competition is not required by these Guidelines. When competition is required, price quotations shall be requested by letter or telephone and the contractor, if any, selected from among those submitting quotations. The Executive Director or a Deputy Executive Director shall select personal services contractors following evaluation of quotations received, giving strong consideration to the respective price quotations, but also considering the experience, capabilities and reputations of each of the firms and other relevant priorities or policies, in order to best satisfy the needs of the Corporation in the circumstances.
2. Selection of contractors for personal services contracts on a competitive basis shall not be required in the following instances:

a. When the services are obtainable from one source only;

b. When the exigencies of time or other circumstances make competition impracticable or inappropriate;

c. When the provider of the services has unique qualifications to provide a particular service at a particular time;

d. Legal, accounting, financial advisory, investment advisory, underwriting, securities printing, graphic design, banking, credit and trustee and related custodian services; and

e. In such other instances as may be determined by the Board of Directors from time to time.

III. Procedures

A. Authorization

1. The Board of Directors shall annually review and authorize all fee arrangements with the firms providing the services specified in Section II(B)(2)(d) of these Guidelines.

2. The Board of Directors shall authorize all personal services contracts with firms whose charges to the Corporation are expected to exceed $100,000 within the fiscal year of the Corporation and shall authorize and annually review all personal services contracts involving services to be provided over a greater than one-year period.

3. All personal services contracts with firms whose charges to the Corporation are not expected to exceed $100,000 within the fiscal year of the Corporation and involving personal services to be provided over a period no greater than one year shall be
authorized by the Executive Director or a Deputy Executive Director.

B. **Contracts.** All contracts for personal services shall be in writing and executed by the Executive Director or a Deputy Executive Director except if authorized by resolution of the Board of Directors. However, such officer may give verbal authorization to contractors to commence performance where prior written agreement is impracticable, provided that the contract shall be reduced to writing as soon as practicable.

C. **Provisions.** All personal services contracts shall contain the following provisions: description of services; terms of compensation; provision for payment; duration; monitoring of performance; use of corporation personnel, supplies and facilities; and other provisions applicable to the particular services being provided. All personal services contractors shall be responsible for performance in accordance with the terms contained in their respective contracts.

**IV. Special Provisions**

A. **Minority Businesses.** The Corporation shall use its best efforts to maximize the utilization of minority business enterprises for performance of personal services in all areas in which personal services contracts are used. A minority business enterprise is a business which is at least fifty-one percent owned by Blacks, Hispanics, Asians, American Indians or women.

B. **Former Personnel.** A former officer or employee of the Corporation shall not be permitted, for a period of two years following termination of Corporation employment, to perform personal services for the Corporation, either as an individual or as an officer or employee of a private business entity. However, this restriction may be waived by the Executive Director upon determination that: (1) such former officer or employee has no financial or professional interest in the Corporation's activities related to the results of the particular personal services; and (2) such person's performance of the personal service is a substantial benefit to the Corporation.
V. Reports

A. Quarterly. The Executive Director shall prepare and deliver to the Board of Directors once for each quarter of the Corporation's fiscal year a report on the status of the Corporation's personal services contracts at the end of such quarter. Such reports shall describe any new personal services contracts entered into during the quarter, their terms and the selection process for each and, if not selected competitively, the reason that competition was not utilized. Existing contracts shall also be reported.

B. Annually. Annually, the Executive Director shall prepare and the Board of Directors shall review and approve a Personal Services Contract Report, covering the fiscal year of the Corporation, which shall include:

1. The Personal Services Contract Guidelines;

2. An explanation of the Guidelines and any amendments made during the fiscal year;

3. A list of the personal services contractors performing services during the fiscal year; and

4. A list of fees, commissions or other charges paid to personal services contractors during the fiscal year.

The Personal Services Contract Report shall be submitted to the New York State Division of the Budget, and copies shall be sent to the New York State Department of Audit and Control, and the Senate Finance Committee and Assembly Ways and Means Committee of the State of New York. Copies of the annual report shall also be made available to the public upon reasonable request.

VI. Applicability. These Guidelines shall govern all personal services contracts entered into by the Municipal Assistance Corporation on and after January 1, 1984, and shall not apply to personal services contracts entered into by the Corporation prior to January 1, 1984. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract or agreement entered into in violation of, or without compliance with, the provisions of these Guidelines.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

INVESTMENT GUIDELINES

AS OF JANUARY 1, 1984

Adopted January 19, 1984

I. Purpose

A. Adoption. These Guidelines are adopted by the Board of Directors of the Municipal Assistance Corporation For The City of New York, effective as of January 1, 1984, pursuant to Section 2925 of the Public Authorities Law of the State of New York.

B. Scope. These Guidelines specify the policies and procedures relating to the investment, monitoring and reporting of funds of the Municipal Assistance Corporation on and after January 1, 1984. For purposes of these Guidelines, funds of the Corporation are all monies and other financial resources available for investment by the Corporation on its own behalf or on behalf of any other entity or individual. All such monies shall be invested at all times to the fullest extent practicable, and in accordance with the yield, maturity, diversification and other requirements and restrictions set forth in these Guidelines.

C. Review and Amendment. These Guidelines shall be reviewed and approved by the Board of Directors annually and may be amended by the Board of Directors from time to time.

II. Permitted Obligations

A. First and Second Resolution Funds. Article VI of the First General Bond Resolution of the Municipal Assistance Corporation, adopted July 2, 1975, established an Operating Fund, Debt Service Fund and Capital Reserve Fund. Article VI of the Second General Bond Resolution of the Municipal Assistance Corporation, adopted November 25, 1975, established a Bond Service Fund and Capital Reserve Fund. Pursuant to Section 702(1) of the
First and Second General Bond Resolutions, monies in the funds established by such resolutions may be invested in the following:

1. Direct obligations of the United States of America, direct obligations of the State of New York or obligations the principal of and interest on which are guaranteed by the United States of America or the State of New York;

2. Any bond, debenture, note, participation or other similar obligation issued by any of the following Federal agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Farm Credit Banks, Tennessee Valley Authority, Farmers' Home Administration and Export-Import Bank;

3. If permitted by law, any bond, debenture, note, participation or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association; and

4. Any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State of New York or held in the treasury of the State of New York.

5. Interest bearing time deposits or similar investment arrangements, including but not limited to repurchase agreements covering obligations of issuers enumerated in Subsections (1) through (4) above, provided that all such investments are continuously and fully secured by obligations of issuers enumerated above at a market value at all times at least equal to the amount of the investment. The market value of such collateral shall be evaluated on a daily basis as quoted by a broker or dealer qualified under these Guidelines.
B. **Other Funds.** Other funds and accounts may be established by the Corporation from time to time which are not established by either the First or Second General Bond Resolution. Monies in such other funds and accounts of the Corporation may be invested in:

1. Obligations of the United States of America or the State of New York or the City of New York;

2. Obligations the principal of and interest on which are guaranteed by the United States of America, the State of New York or the City of New York;

3. Obligations of agencies of the United States of America, the State of New York or the City of New York which may be legally purchased by savings banks of the State of New York; and

4. Secured time deposits or other interest bearing accounts secured by the obligations enumerated in Subsections (1), (2) and (3) above.

III. **Security for Investments.** Monies in the funds of the Corporation which are invested in permitted time deposits or other interest bearing accounts or similar investment arrangements must be fully secured as required by Section II above.

IV. **Conditions of Investment**

A. The monies of the Corporation shall be invested pursuant to the following conditions:

1. **Yields.** Investments (excluding assets held under restriction) are to be made in permitted obligations at yields equal to or greater than yields available on United States Treasury obligations of comparable maturity.

2. **Maturities.** The maturity structure of investments are to reflect both current and anticipated market yields in an effort to maximize total returns over the investment
horizon given the anticipated distribution of funds, and taking into consideration the dates and times when such monies will be required. No investment shall be made which has a maturity date subsequent to July 1, 2008.

3. Capital Reserve Funds. A minimum of 40% of the long term investments held in each of the First and Second General Bond Resolution Capital Reserve Funds shall be invested in United States Treasury obligations or obligations guaranteed by the United States of America. An amount in each of the Capital Reserve Funds equal to at least 50% of the total principal and interest payable during the following 12 month period under each respective resolution shall be invested in obligations which mature within five years. The amount of monies in repurchase agreements in the Capital Reserve Funds shall be limited to 1/2 of the total par value of the combined accounts.

4. Commercial Paper Proceeds. No more than 60% of the total proceeds of sales of the Corporation's commercial paper notes shall be invested in securities with maturities longer than those of the notes and consistent with other applicable provisions of these Guidelines. At least 40% shall be invested in securities with maturities corresponding to the maturities of the notes.

B. Sales of Securities. A security may be sold, provided that:

1. If at a profit, at any time; or

2. If at a loss, if the incremental principal and income to be achieved through the reinvestment of the proceeds of such sale will be equal to or greater than the loss incurred in such sale during the remaining time to the maturity of the original investment; or

3. If at a loss, offsetting profits are realized through the sale of other obligations; or
4. If at a loss, the proceeds are invested in shorter or longer maturity investments in anticipation of significant changes in interest rates such that expected total rate of return on the purchased item will exceed that of the item sold over a one year period.

5. If at a loss, if the resulting proceeds are invested in shorter maturities as a result of (a) adjustments in the expected schedule of disbursements or (b) an effort to reduce the market impairment of the account.

6. Notwithstanding the standards set forth in Subsections (1) through (5) above, no security which is an investment in one of the Capital Reserve Funds may be sold if as a result of such sale the aggregate amortized cost of the investments of either of the Capital Reserve Funds would be reduced to an amount less than the respective Capital Reserve Fund Requirement.

7. Notwithstanding any of the above, in the event that monies on deposit in either of the Capital Reserve Funds are required for corporate purposes in accordance with the respective resolutions, obligations may be sold to the extent required in the following order:

a. Obligations in which the present market value exceeds the amortized cost carrying basis;

b. Obligations in which the present market value equals the amortized cost carrying basis;

c. Obligations in which the present market value is less than the amortized cost carrying basis.

C. Puts. Put agreements may be entered into with dealers and dealer banks who are firms which report their activities regularly to the Federal Reserve Bank of New York, and have been approved by the Corporation and the Trustee. Puts on no
more than $250 million of securities will be entered into with a single dealer.

D. **SLGS.** Investments may be made in United States Treasury Obligations--State and Local Government Series ("SLGS") to comply with the arbitrage regulations promulgated under Section 103(c) of the Internal Revenue Code as required.

E. **Competition.** Whenever prudent, securities transactions should be completed on a competitive bid basis.

F. **Parties.** The following are the standards for the qualifications of brokers, agents, dealers, investment advisors and custodians:

1. **Brokers, Agents, Dealers**
   a. **In Government Securities:** any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York (included in the then current "List of the Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York").

   b. **In Municipal Securities:** any broker, agent or dealer registered with the Municipal Securities Rulemaking Board.

2. **Investment Advisors:** any bank or trust company organized under the laws of any state of the United States of America or any national banking association, and any firm or person which is registered with the Securities and Exchange Commission under the Investment Advisor Act of 1940.

3. **Custodians:** any bank or trust company organized under the laws of any state of the
United States of America or any national banking association.

G. **Contracts.** Written contracts between purchasers and sellers are not standard business practice in securities transactions. Notwithstanding that practice, the Corporation shall, in the case of repurchase agreements, seek to implement written contracts with the permitted dealers.

H. **Repurchase Agreements**

1. The Corporation shall be limited to entering into repurchase agreements which require repurchase of securities on the next business day. The Corporation shall not enter into reverse repurchase agreements. However, for the required 20 day period preceding the subscription by the Corporation for Obligations of United States Treasury--State and Local Government Series, the Corporation shall enter into 20 day repurchase agreements with a permitted dealer, if no permitted obligations are available.

2. The Corporation shall not have, at any one time, an amount greater than $250 million placed in repurchase agreements with any single permitted dealer.

3. The list of permitted dealers consists of the following commercial banks:

   Bank of America, N.T. & S.A.
   Bankers Trust Company
   Chase Manhattan Bank, N.A.
   Chemical Bank
   Citibank, N.A.
   Manufacturers Hanover Trust Company
   Mellon Bank, N.A.
   Morgan Guaranty Trust Company of New York

4. For funds established by the Second General Bond Resolution, broker dealers obtaining a letter of credit from one of the permitted banks, assuring the Corporation cash in exchange for securities on demand, may be added to the Corporation's list of permitted
dealers, upon approval of the Investment Committee.

5. The amount of monies in repurchase agreements in the Debt Service, Bond Service, Operating, Bond Proceeds, NYC Bond, and Municipal Trust (Sinking Fund) Accounts shall not exceed 25% of the par value of the total assets of such accounts.

6. The amount of monies in repurchase agreements in the Capital Reserve Funds shall be limited to 1% of the total par value of the combined accounts.

7. The custodian of the repurchase agreement shall not be the agent of the other party contracting to the repurchase agreement.

I. Payments. Payment for investments shall be made by the Corporation's custodian only upon presentation of the physical security accompanied by the necessary collateral in the case of time deposits and repurchase agreements. In the case of book entry form securities payment may be made only when credited for the custodian's account at the Federal Reserve Bank of the purchased securities received. The custodian may act on verbal instructions from an authorized person, such instructions to be confirmed in writing by an authorized officer.

V. Reports

A. Quarterly. The Executive Director shall prepare and deliver to the Board of Directors once for each quarter of the Corporation's fiscal year a report setting forth all investments made during that quarter, the inventory of existing investments and the selection of investment bankers, brokers, agents, dealers, custodians, investment advisors and auditors used by the Corporation in making or holding investments during such quarter.
B. Annually.

1. Audit Report. The Corporation’s independent accountants shall prepare an annual audit report of the Corporation’s investments for each fiscal year of the Corporation and submit such report to the Board of Directors at the time its annual audit of the financial reports and books and records is made.

2. Investment Report. Annually, the Executive Director shall prepare and the Board of Directors shall review and approve an Investment Report, covering the fiscal year of the Corporation, which shall include:

   a. The Investment Guidelines;

   b. An explanation of the Guidelines and any amendments made during the fiscal year;

   c. The independent audit report required by Subsection (1) above;

   d. The investment income record of the Corporation for the fiscal year;

   e. A list of fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the Corporation during the fiscal year.

   The Investment Report shall be submitted to the New York State Division of the Budget, and copies shall be sent to the New York State Department of Audit and Control, and the Senate Finance Committee and the Assembly Ways and Means Committee of the State of New York. Copies of the annual report shall also be made available to the public upon reasonable request.

VI. Applicability. These guidelines shall govern all investments initiated by the Municipal Assistance Corporation on and after January 1, 1984 and shall not apply to any investments initiated by the Corporation prior to January 1, 1984. Nothing contained in these
Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.