MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

June 25, 1980

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 9:30 A.M. on Wednesday, June 25, 1980, at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation, 345 Park Avenue, New York City.

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

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

George M. Brooker
Eugene J. Keilin
Robert C. Weaver

The following Representatives were present:

John P. Holmes
Leonard Nadel

Richard D. Parsons
Bradford J. Race, Jr.
Robert W. Seavey

The following members of the Staff were present:

Robert F. Vagt
Stephen J. Weinstein
John G. Bove
H. Andrew Decker
Maxine H. Gillman

William J. Lithgow
Terri L. Posner
Joan Reetz
Christopher H. Richmond
Margaret F. Scott

Also present by invitation of the Board were: Allen L. Thomas, Stephen E. Fox and Paul S. Pearlman of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Donald J. Robinson and John J. Keohane of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Stephen Berger, Consultant to the Corporation; Sidney Schwartz and Abe Biderman of the Office of the State Special Deputy
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Comptroller; Alexandra Altman, Leslie Buch and Thomas DeRogatis of the City of New York; Gedale Horowitz and Robert Mabon of Salomon Brothers; Jack Bigel and Allen Brawer of Program Planners, Inc.; and Allen Kone of the United States Treasury Department.

Executive Session

The Board convened in Executive Session to discuss certain personnel matters.

Public Session

At this point, the Board ended its Executive Session and reconvened in Public Session.

Board Membership

Mr. Rohatyn welcomed as a new Director Mr. Kenneth J. Bialkin, a partner in the law firm of Willkie, Farr & Gallagher, who had been nominated by the Governor upon the written recommendation of the Mayor and confirmed by the State Senate, for a term ending in 1982. Mr. Rohatyn also congratulated Mr. Francis J. Barry upon his reappointment as a Director for a term ending in 1983, also by nomination of the Governor upon the written recommendation of the Mayor and also confirmed by the State Senate.
Adoption of Minutes

Mr. Rohatyn stated that the proposed minutes for the Board of Directors meeting of June 3, 1980 had been circulated to the Board to be considered for adoption.

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

RESOLVED, that the Minutes of the Special Meeting of the Board of Directors held on June 3, 1980 be and hereby are adopted.

Review of City Budget

Mr. Rohatyn reported that the Corporation had completed its required review of the Mayor's proposed Expense Budget for fiscal 1981, stated that copies of the report along with covering letters to the Governor and the Mayor had been distributed to the Board, and directed that copies of each of those documents be appended to the Minutes of the meeting. He noted that the report presented a continuity of views from the Corporation's previous City budget reports.

Mr. Berger stated that the report focused upon the expense items for fiscal 1981 and 1982, but observed that it also included a section on the City's capital spending, noting that there were serious questions about the City's capacity to manage its capital program although substantial progress was being made. He said that during the years 1976 to 1980, the City had drastically reduced its deficit due to both external factors and City cost controls. He stated
that the proposed 1981 City budget departed from that pattern, with reductions in State and Federal aid, an economic recession, higher cost labor contracts and an expenditure growth rate of 17 percent. Accordingly, Mr. Berger continued, there was no assurance that the City could meet its commendable goal of balancing its budget in accordance with Generally Accepted Accounting Principles ("GAAP") in fiscal 1981, one year earlier than required by law. Further, he stated, there was presently no plan available with regard to balancing the City's budget for 1982. He noted that the potential revenue shortfall for 1981 was approximately $300 million.

Mr. Berger emphasized that the City's Budget included a 1981 work force of 4,000 employees more than had been included in the City's February Financial Plan and 2,000 employees more than on the City's actual April payroll. He noted that the City also faced the problems of the Board of Education, with proposed 1981 expenditures increased by $330 million exclusive of labor settlement costs, and the Health and Hospitals Corporation, which appeared to have a budget balanced for 1981 but which posed major fiscal problems for 1982.

Mr. Berger concluded that the City's 1981 budget admirably aspired to but did not ensure a GAAP-balanced budget because the City had moved away from its cost reduction programs, had relied heavily upon nonrecurring revenues, and had incurred higher labor cost labor settlements. In light of these factors, he observed, the City might succeed in
balancing its budget in 1981, but its ability to do so in 1982 was questionable.

Mr. Vagt stated that, like last year's report, this year's review stressed the critical nature of balancing the City budget in fiscal 1982, but that there was now concern as to whether sufficient time remained to reach that goal.

Mr. Schwartz said that he agreed with the conclusions expressed in the Corporation's report, and stressed that there was not currently available any City plan for balancing the City's budget in 1982.

Mr. Kresky said that there had been a continual scaling down of City actions to contain its costs which cummulatively constituted a significant problem, and observed that it was difficult to conceive of a City program to deal effectively with the potential 1982 expense budget deficit in the context of the current economy. Mr. Kresky suggested that the Corporation also continue to monitor the City's capital budget during the coming year.

Mr. Keilin reported that the State Legislature had enacted provisions to raise the Corporation's issuance authorization to $10 billion and to extend it to December 31, 1984, and that the Governor was expected to sign the legislation into law shortly. He observed that the market for the Corporation's bonds historically had been relatively unaffected by the City's budget situation, and that with the new State legislation, and with the standby guarantees which
he hoped the Secretary of the Treasury would authorize for use by the City in fiscal 1981 and 1982, there was a reasonable expectation that requisite financing for the City would be available for the next few years. However, Mr. Keilin also observed that the City's own market access still remained to be reestablished. Mr. Keilin emphasized that the City's decision to balance its budget in accordance GAAP in 1981, one year earlier than required by law, was a positive and strong step by the City in the right direction and that the positive impact of such a move upon the marketplace would be difficult to overestimate. However, he also stated that it was easy to underestimate the difficulties of actually balancing the budget in 1981 and 1982, noting that there was some question whether the City could do so in 1981 but that there was no assurance whatsoever that had been yet offered by the City with regard to 1982.

Mr. Rohatyn stressed that the City had made significant accomplishments since 1975, which had been made possible by an effective coalition of the City, State and Federal governments, as well as the labor and banking communities. With respect to financing, he stated that there would be sufficient monies available to the City through 1984 if the Federal government would issue the standby guarantees for use by the City in 1981 and 1982. He said noted that he was hopeful that the Treasury would so agree by Labor Day. With respect to the City budget, Mr. Rohatyn said that the
enormity of the potential deficit for 1982 and the proximity of the onset of that fiscal year precluded confidence in the City's ability to close that gap and to remain viable without outside help. He expressed the need for consideration of local tax increases, labor cost reductions and productivity increases. He observed further that the City's budget problems would be ongoing even after 1982, and that it was necessary to look beyond the City and the State to form a coalition with other cities and states for the necessary impact on Federal policies and actions to help the older cities of the Northeast and Midwest.

Mr. Bigel stated that he was speaking as a representative of the major investors in the City, with approximately $4 billion or one-quarter of the total City financing package. He stated that he objected to certain omissions from the Corporation's review of the City budget, such as no reference to the recent Transit Authority labor settlement which he believed to be reasonable at approximately 25.8 percent.

Mr. Rohatyn noted that the Corporation was not passing judgments on any labor contracts but only upon the budgetary impacts of labor settlements. He stated that he was aware that there were ongoing negotiations between the City and its uniformed unions, and stated that the City had been furnished copies of the Corporation's budget review.

Mr. Bigel stated that he had read the Chairman's letter transmitting the budget report as in fact deplored the
recent City labor agreements. He said that he did not agree that City personnel were increasing, but rather that there were 3,300 fewer employees of the City in April 1980 than in July 1979. He also noted that there were ongoing and meaningful productivity negotiations between the unions and several City departments. He indicated that he would like to discuss certain questions with regard to the Corporation's future financing proposals. He concluded that the ultimate solution to the City's budget problem was the establishment of a national coalition of labor and business from the major cities of the country. He urged the Corporation to take another look at the City budget and to reconsider its unjustified and harsh criticism which could not have any positive impact upon the City's market access.

Mr. Rohatyn noted the awkwardness of reviewing the City budget while certain City labor negotiations were in progress, but stated that the timing of the Corporation's review was constrained by statute.

Administrative Matters

Mr. Rohatyn announced that Mr. Vagt had indicated that he would resign as Executive Director on July 1, 1980, in order to take a position with the Madison Fund. He stated that Mr. Vagt had done an excellent job for the Corporation and that he had accepted the resignation with genuine regret.

Mr. Rohatyn announced that the Board of Directors had
selected Ms. Heather L. Ruth to succeed Mr. Vagt, and that he was confident that she would continue the tradition of excellence in that position. He noted that Ms. Ruth's husband was a Vice President of Merrill, Lynch White Weld Capital Markets Group, one of the Corporation's managing underwriters.

Mr. Rohatyn also announced that the Corporation's Treasurer, Mr. H. Andrew Decker, would be promoted to Deputy Executive Director for Finance, in which position he would have major responsibilities for the Corporation's financing activities.

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

RESOLVED, that Heather L. Ruth be and hereby is appointed Executive Director, effective July 1, 1980; and

FURTHER RESOLVED, that H. Andrew Decker be and hereby is appointed Deputy Executive Director for Finance, effective June 25, 1980.

Mr. Barry recommended that the Board adopt a resolution expressing its gratitude to Mr. Vagt.

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

RESOLVED, that the Board of Directors hereby expresses its sincere appreciation to Robert F. Vagt for the service which he rendered to the Corporation as its Executive Director.
Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 10:45 A.M.

Stephen J. Weinstein
Secretary
June 24, 1980

The Honorable Edward I. Koch
Mayor of the City of New York
City Hall
New York, NY 10007

Dear Mayor Koch:

Attached you will find our review of the City's budget for the 1981 fiscal year, as well as our assessment of the outlook for fiscal year 1982. The budget which you submitted, as modified in the adoption process, represents the most significant advance made by the City since this period began in 1975. That the budget is balanced according to generally accepted accounting principles a year before it is statutorily required is vital to obtaining access to the debt markets. The process of achieving full credit market acceptance will require a succession of such balanced budgets.

While we applaud its intent and believe that it can be implemented as adopted, there are several potentialities which place this ambitious plan squarely in jeopardy. One of these is the tentative labor settlement announced last week which includes wage increases at a level likely to match the rate of inflation over the term of the contract. While this agreement may in fact represent a reasonable rate increase as could be negotiated, and while it may be a fair settlement given the level of the last two contracts, one thing is certain—the cost is clearly more than the City can afford, given the resources presently available.

In 1976 we started with a no-cost labor contract, moved to a limited-cost contract with productivity goals in 1978, and have now reached a full-cost contract with no productivity in 1980. The reality of the situation is a City still far from fiscal strength whose recovery will be hurt, not helped, by the trend of these settlements.
As it now stands, the tentative labor settlement and other expenditure decisions made by the City have resulted in a projected FY 1982 gap of $1 billion. That year has the clear potential for the kind of drastic actions not required since FY 1976, and there is an urgent need for a plan to deal with it.

The situation is exacerbated by the lack of any agreement on labor productivity measures in the proposed contract. If an impoverished city agrees to increase the wages of its employees at full market-rate levels, it requires a demonstrable increase in efficiency. The efforts of both the City and the Unions to date have not been successful in identifying areas of real savings and meeting productivity goals measured in dollars. For New York City, increased productivity is no longer a matter of choice, it is a matter of survival. It is a challenge which both the City managers and Union leaders should be expected to meet. The Productivity Council should be called upon immediately to develop a plan on an agency by agency basis.

Yet another threat to stability and balance over the next two years is the possible lack of Federal Guarantees. Should the Department of the Treasury fail to issue Guaraneees in fiscal years 1981 and 1982, as outlined in our proposal to the Treasury dated June 6, additional costs in the range of $60 to $90 million will have to be borne by the City. In addition, without Guarantees, more of MAC's borrowing authority will be exhausted, making post 1982 financing more difficult.

These items, when added to the problems of intergovernmental aid which lags the Plan, expenditure reductions which have proven difficult to implement, and the effects of the recession on the City's revenues, creates a risk for FY 1981 balance, and reaffirm our deep concern about FY 1982. Indeed, as the Special State Deputy Comptroller pointed out, had the City adhered to its February Financial Plan, it would now be almost $200 million closer to true balance in 1982.

However, there is evidence that the City is moving in the opposite direction. A year ago this Corporation recommended a resumption of the attrition program as one way to gradually pare baseline costs. Instead, the City predicts that by the close of FY 1981, it will have 4000 more employees than were projected in its February Financial Plan. While externally imposed mandates may demand additional staff in selected areas, the idea of a larger overall workforce is not realistic.
The solution to this problem cannot await the arrival of the 1982 budget. In order to avoid substantial layoffs, significant new taxes and service cuts which further erode the quality of life, a plan of action must be chosen soon. No doubt it will require reliance on each of these to some degree but only by beginning now will it stay within tolerable limits.

The course which the City has chosen is clearly fraught with risk for FY 1981 as well as FY 1982. It is our judgement that it requires frequent review and early action should the City's assumptions fail to materialize. For this reason we will ask the Special State Deputy Comptroller to report to this Board at the close of the first quarter of fiscal 1981. We will then be able to assess more completely the operating results to that date, the provision by the Federal budget as adopted of funds for the City, the decision by the Department of the Treasury with regard to issuing Guarantees in FY 1981 and 1982, and the final labor settlements. By that time the City should adopt and the Control Board should approve a plan which assures budget balance in FY 1981 and completely funds the $1 billion imbalance which it currently projects for FY 1982. We would expect the Financial Control Board to assist the City in the formulation of any new actions which may be decided upon, and to provide support and direction as the City carries out any such plans.

Sincerely,

Felix G. Rohatyn
June 24, 1980

The Honorable Hugh L. Carey  
Governor of the State of New York  
1350 Avenue of the Americas  
New York, NY 10019

Dear Governor Carey:

Enclosed is the Municipal Assistance Corporation's report on New York City's 1981 budget and my covering letter to Mayor Koch.

As I wrote to the Mayor, balancing the City's budget one year ahead of schedule is an extremely significant step but we remain concerned about the City's ability to keep the budget balanced in 1981 and repeat that feat in 1982. The difficult task of balancing the budget in 1982 has become more difficult by the recently concluded labor settlement with the non-uniformed employees and may be made harder still by future settlements with the uniformed employees, by failure to obtain federal guarantees, and by the continuing deterioration of the economy and the diminished prospect of inter-governmental assistance.

We believe the City must immediately prepare a plan to fund the budget gap it now projects for 1982, which totals approximately $1 billion. This plan should take account of the City's final labor settlement, the Treasury's decision on guarantees, and the latest trends of revenues and expenditures. This plan should be submitted to and acted upon by the Financial Control Board no later than September 30, 1980. Early development of the plan for 1982 is essential because the Control Board may determine that some of this plan should be implemented immediately in order to lessen the impact of drastic cuts made all at once at the beginning of the 1982 fiscal year.
It is obvious that, in the long run, the City will need additional streams of permanent revenues. Certainly part of those should come from Federal assumption of local costs, such as welfare and medicaid, that are national responsibilities. The shift of wealth to our oil producing states as a result of price decontrol will make the problem more acute. Economic development measures which benefit the Northeast and Midwest, including the creation of an RFC, will be required to prevent the further drain of industry away from this region and this country.

There is urgent need for coordinated political action throughout the whole Northeast-Midwest region if we are to succeed. I know that you recognize the urgency of this task and I will, as always, be delighted to assist you in your leadership of this effort.

Sincerely,

Felix G. Rohatyn
Press Release

The Municipal Assistance Corporation announced today the appointment of Ms. Heather Ruth as Executive Director to succeed Robert Vagt who will be leaving that position.

MAC also announced the promotion of Harris A. Decker to the position of Deputy Executive Director and Treasurer.

Mr. Vagt, who has worked for New York State and State agencies since 1975, came to MAC in 1979. He will be joining the Madison Fund, a regulated investment company headed by George Gould, former Board member and Chairman of MAC.

Ms. Ruth, a graduate of Duke University with an M.P.A. from the Woodrow Wilson School at Princeton, was formerly a program planner with the New York City Budget Bureau, an Assistant Administrator of the City's Environmental Protection Administration and a Vice President of Mathematica Policy Research, Inc., the Princeton-based research and consulting firm. Since 1978, Ms. Ruth has been a consultant to government and private clients in New York, New Jersey and Pennsylvania. Ms. Ruth who is 36, married and has one child, lives near Princeton, New Jersey and will be moving to New York after assuming her duties at MAC. Her Husband, James M. Ruth, Jr. is a Vice-President of Merrill Lynch, Pierce, Fenner & Smith Inc., which he joined in 1978. Merrill Lynch has been a managing underwriter of MAC's since 1975.

Mr. Decker will be responsible to the Executive Director and the Board for the conduct of the Corporation's financial transactions. Mr. Decker, who is currently the Treasurer of MAC, joined the Corporation in 1977.

June 25, 1980
June 24, 1980

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Governor of the State of New York
1350 Avenue of the Americas
New York, NY 10019

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We believe the City must immediately prepare a plan to fund the budget gap it now projects for 1982, which totals approximately $1 billion. This plan should take account of the City's final labor settlement, the Treasury's decision on guarantees, and the latest trends of revenues and expenditures. This plan should be submitted to and acted upon by the Financial Control Board no later than September 30, 1980. Early development of the plan for 1982 is essential because the Control Board may determine that some of this plan should be implemented immediately in order to lessen the impact of drastic cuts made all at once at the beginning of the 1982 fiscal year.
It is obvious that, in the long run, the City will need additional streams of permanent revenues. Certainly part of those should come from Federal assumption of local costs, such as welfare and medicaid, that are national responsibilities. The shift of wealth to our oil producing states as a result of price decontrol will make the problem more acute. Economic development measures which benefit the Northeast and Midwest, including the creation of an RPC, will be required to prevent the further drain of industry away from this region and this country.

There is urgent need for coordinated political action throughout the whole Northeast-Midwest region if we are to succeed. I know that you recognize the urgency of this task and I will, as always, be delighted to assist you in your leadership of this effort.

Sincerely,

Felix G. Rohatyn
ANNUAL BUDGET REPORT

June 25, 1980
The Municipal Assistance Corporation
For The City of New York

ANNUAL BUDGET REPORT: June 25, 1980

SUMMARY

The City's submission on May 11, 1980 of the 1981 Executive Budget is balanced according to generally accepted accounting principles (GAAP). Although the City is not legally required to balance its budget according to GAAP until 1982, the decision to accelerate this timetable to include fiscal 1981 is a positive step toward reentry to the long-term credit markets.

From FY 1976-1979 the City steadily reduced the accounting deficit from $1.8 billion in FY 1976 to $422 million in FY 1979. The City's greatest success during this period was in controlling its expenditure growth. It is commendable that the net expenditures for City operations only grew approximately 3% during fiscal years 1976 through 1979. In addition, there have been external factors which MAC has cited in previous reports which contributed to the City's accomplishments during this period, including significant growth in City tax revenues, increased Federal and State budget-balancing aid, nonrecurring revenues, reduced debt service costs and the availability of financing. These events combined to provide the City with a foundation for meeting its fiscal as well as statutory goals.
The budget for FY 1981 reflects a departure from the trends evidenced in budgets since 1976 in that those resources and events which have assisted the City in the past appear to be largely exhausted. The economic growth in City tax revenues will be restricted during the current recession and the upcoming years of recovery through 1983. Federal and State budget-balancing aid has been reduced from prior years' levels and remains constant throughout the financial plan period. The FY 1981 budget contains about $204 million of nonrecurring revenues, some of which are not even assured for that year, and there are few prospects for other such revenues to be identified for succeeding years. In addition, the use of year-end cash to prefund a portion of the labor settlement perpetuates the illusion that the City's revenue base can support these higher expenditure levels on an ongoing basis.

* * *

Based on our review of the FY 1981 budget we have concluded the following:

--The City has reduced the impact of expenditure reductions proposed in the February Plan by allocating increased revenues to fund greater expenditures. In some areas, expenditure cuts were actually restored. The use of greater-than-anticipated revenues and other available funds to offset expenditure increases may be a short-term expedient, but this practice only exacerbates the problem of a balanced budget in FY 1982 and beyond. As funds to offset new expenditures become more scarce, the City will not be prepared to address the reality of basic expenditure levels which exceed recurring revenue sources.

--The budget provides little margin to cover the potential revenue shortfalls and expenditure overruns that appear imminent. Indeed, the City will be several months into the 1981 fiscal year before the impact of these uncertainties can be accurately measured. Meanwhile, the City has no contingency plan to offset the substantial uncertainties already identified. The City's general reserve of $100 million may be depleted early in the year leaving the City to look elsewhere for savings.
--The City’s financial plan already reflects the fact that the recurring value of its FY 1981 budget-balancing actions, even with the addition of planned incremental actions, will not balance FY 1982. Further, even the estimated FY 1982 deficit assumes the receipt of Federal and State aid which is far from certain, and the attainability of savings from expenditure programs which have yet to be tested.

--The tentative agreement recently reached by the City and the municipal unions adds substantially more costs than those provided for in FYs 1981 and 1982, without providing any savings from productivity measures. Assuming that the uniformed coalition, which is still in the process of negotiating, reaches a similar settlement, we estimate that approximately $141 million in additional costs will have to be funded in FY 1981, and over $459 million will be added to the gap in FY 1982. This tentative settlement, therefore, threatens the projected budget balance in FY 1981 and creates a gap in FY 1982 which now totals nearly $1 billion.

--In the absence of increasing Federal and State aid, significant local revenue growth and debt service decline, which have contributed to the City’s progress in the past five years, the City must take steps to reduce its expenditure base. The tentative labor settlement, coupled with the dwindling alternatives for closing the budget gap, may force the City to take drastic actions to balance its FY 1982 budget. The need for such additional fiscal retrenchment while continuing to provide services to the people of the City of New York will be extremely difficult and will require structural and institutional reforms that enable the City to maintain essential programs while achieving new levels of productivity.

Thus, the budget for FY 1981 aspires to, but does not guarantee, the goal of a GAAP-balanced budget. The City’s operations must be closely monitored on a timely basis by the Financial Control Board. New programs must be designed in FY 1981 to strengthen the City’s position for FY 1982. We look to the Financial Control Board to assist the City in the formulation of these plans, and to provide support and direction as the City carries out these actions.
As required by Section 3040 of the Municipal Assistance Corporation For The City of New York Act, we have reviewed the City's budget submission for the 1981 fiscal year. In accordance with the act, we present our initial findings and determinations. Our report reviews the Mayor's Executive Budget and subsequent modifications adopted by the City Council and Board of Estimate for FY 1981 based on our own studies and the staff analyses of the Financial Control Board ("FCB") and the Office of Special Deputy Comptroller ("OSDC"), as well as discussions with representatives of the City. Although the budget as submitted reflects a balance of revenues and expenditures in accordance with generally accepted accounting principles ("GAAP") there are a number of uncertainties which might threaten this delicate balance.

In reviewing the Executive Budget for FY 1979 last June, and in various reports since that time, we expressed concern regarding the impact of the following: a largely unpredictable economy on City tax revenues and related human services costs; a trend toward Federal and State budgetary retrenchment; a wage settlement in excess of that which is provided for by the City; the need to provide increasing City subsidies for certain covered organizations; and policy decisions on the part of the City to use additional revenues to either increase spending levels or to reduce the level of budget reduction programs originally proposed. In all of these areas, our concern continues and, in many cases, is heightened.

I. REVENUES

City forecasts for FY 1981 tax revenues assume that the mild recession in calendar year 1980 will be followed by a period of gradual recovery through FY 1983. Local prices are expected to increase more slowly than national prices, employment is expected to fall off slightly in 1981 and 1982, repeating the lag observed in the last recession, and the City's average inflation rate (8.4% from 1980-1984) is projected to be significantly lower (by 1.4%) than that of the nation as a whole. These assumptions are consistent with patterns experienced since the recession of 1974, and are comparable to scenarios developed by the major economic forecasting services.

Although the major economic indicators have recently reflected a more severe recession than economists had predicted earlier, the City's revenue projections are sufficiently conservative so as to be attainable even under these revised assumptions. Should the City's assumptions bear out, tax revenues may exceed the Plan slightly; however, the potential for substantial revenues in excess of current estimates along the lines of FY 1980 is vastly diminished. Thus, the City cannot
afford to depend on that potential in order to increase expenditure levels or to reduce the value of planned expenditure cuts.

Of particular concern is the City's inclusion of the anticipated receipt of $100 million of Federal aid and $72 million of State aid, beyond the levels already assumed in the estimates of Federal and State grants and unrestricted aid. These amounts had formerly been part of the City's program to eliminate the gap (PEG). The receipt of these revenues is far from assured. Currently, the Federal budget provides none of the anticipated $100 million, and there is a consensus that legislative, as opposed to administrative actions will be required to provide this aid. The prospects for successful legislative initiatives which would provide the bulk of this aid are doubtful at this time.

Conversely, while the State has proposed certain actions that it would be willing to take to provide aid in accordance with the City's expectations, there is an ongoing dispute between the State and the City regarding the treatment of certain State actions as gap-closing aid beyond that already reflected elsewhere in the City's Plan. For example, the State's share of the Medicaid rate appeal settlement recently negotiated by the Health and Hospitals Corporation ("HHC") (totaling $110 million, of which the State's share is $78 million) has been included in the HHC's financial plan for FY 1981, and, in large part, provided the additional revenues necessary for HHC's submission of a balanced plan for that year. While the State maintains that such payment would constitute gap-closing aid, the City contends that the payment should not be applied against the discrete additional State aid of $72 million which the City requires because the payment has already been reflected in the HHC plan. Similar disputes involve proposed State actions which would generate savings for the City, and have already been included within the estimates for State grants and related expenditures. Until the State and City reach an agreement on the treatment of the proposed actions, it will be difficult to determine how much of the $72 million will actually be received.

Further, the City's estimate of State revenue sharing aid for FY 1981 includes $49 million of aid which has been rolled forward annually over the past few fiscal years. Since the State's five-year projection of General Fund expenditures calls for the continuation of this rollover, there may be a shortfall in State revenue-sharing aid assumed in the budget. Thus, it appears at this time that the City should be prepared to cover the potential shortfall of a significant amount of the $172 million in anticipated State and Federal aid.
Also included in the budget are additional anticipated revenues of $175 million resulting from new revenue proposals including increases in certain City taxes, transfers and charges. These proposals had previously been part of FY 1981 PEG, which has now been incorporated into the budget. In the closing weeks of the State legislative session, the City was granted the authority to obtain nearly all of the proposed increases requiring legislative approval. The City Council and Board of Estimate subsequently moved to adopt substantially all of the revenue proposals anticipated in the Executive Budget, thereby increasing City tax and miscellaneous revenues accordingly.

As in the budgets of several previous years, the FY 1981 budget estimate for miscellaneous revenues includes the receipt of two nonrecurring items: $100 million for the conveyance of right-of-way for the Westway project; and $55 million of proceeds from a bond issuance by the Educational Construction Fund ("ECF"). Both these items have appeared in the budgets for several fiscal years, and have later been postponed. Although the timing of bond issuance would be influenced by the prevailing market conditions, the City has discretion to obtain the ECF revenue. Whether or not the Westway revenue will be received, however, is not under the City's control, but rather a function of the outcome of various environmental studies and hearings. Because of the complexity of the environmental requirements, it is entirely possible that the $100 million will not be received during FY 1981.

In the foregoing, we have identified a number of significant revenues, the receipt of which must be considered to be uncertain at this time. Failure to receive even a relatively small portion of these revenues will have to be offset elsewhere in order to preserve a balanced budget.

II. SALARIES AND WAGES

Salaries and wages have been estimated in the budget based on a projected work force as of June 30, 1981 which is approximately 4,000 positions greater than the estimated work force for FY 1981 in the Plan approved in February 1980. This increase comes about because of the City's identification of about 3,000 positions required to meet new needs within the agencies (of which over 2,000 positions were added for the Board of Education ("BoE"); and a reduction of about 1,000 in the number of positions proposed to be eliminated during FY 1981 in the City's PEG Plan approved in February 1980. (About 875 positions originally planned to be cut were reinstated for the Board of Education, primarily as a result of increased State funding for mandated programs in special education.) The significantly higher estimate for the
FY 1981 work force represents both an increase in expenditure levels as well as a reduction in the level of savings from the PEG. In the past, the City has consistently increased expenditures and abandoned planned attrition programs as offsetting revenues became available. The FY 1981 budget reflects a continuation of this pattern.

The Executive Budget for FY 1981 incorporated within the agencies amounts sufficient to pay salary increases of 4% on October 1, 1980 based on employee salary levels as of June 30, 1980. In addition, the reserve for collective bargaining in FY 1981 included $21 million which will fund a similar wage increase for employees of the HHC. The adopted budget includes an additional $90 million in the reserve for collective bargaining in order to provide funding for additional labor costs pursuant to recent City wage offers. Furthermore, the City has set aside a substantial portion of the projected budgetary surplus for FY 1980 to increase the reserve for collective bargaining to $301 million for that year. This would be sufficient to continue the payment during FYs 1981 and 1982 of nonpensionable cash bonuses of $750 per annum, which had been included as part of the labor settlement in prior years. With approval of the City's outside auditors, this reserve will fund the full cost of the cash bonuses for FYs 1981 and 1982 ($150 million annually).

On June 19, 1980, it was announced that the City had reached a tentative wage settlement with the non-uniformed municipal employee unions. The wage increase that had been negotiated is double the wage increase provided for in the May 12 financial plan. The agreement also provides for the continuation of the annual cash bonus payment of $750 during FYs 1981 and 1982. Under these assumptions, we estimate that the City will have to fund additional labor costs in FY 1981 of about $141 million and over $459 million in FY 1982. These estimates assume that the uniformed City employees, still negotiating at this time, will reach a similar agreement.

The terms negotiated in the tentative wage agreement are very costly for the City. By 1982 the wage agreement will have increased the City's budget gap to approximately $1 billion which will have to be closed through very substantial expenditure reductions or tax increases. In addition, the agreement also calls for converting the current $750 annual nonpensionable cash payment into a pensionable base wage cost for fiscal 1983. This will significantly increase salary costs in that year before the effect of any settlement that will have to be negotiated between the City and the municipal unions in June 1982. In addition to the sizeable budget impact of the wage agreement, particularly in 1982, we are very concerned that no productivity savings are contained in this agreement that could offset
some the cost impact of the settlement. If the City is
going to maintain adequate service levels without large
expenditure reductions, the City work force must become more
efficient. In the absence of significant productivity
savings in the tentative wage agreement, the City faces
having to take drastic actions to balance its 1982 budget as
required by law.

III. OTHER EXPENDITURES

The City's estimated pension costs for FY 1981 reflect a
number of revised actuarial assumptions to effect compliance
with GAAP. Chief among these is the City's inclusion of
$126 million to properly accrue pension costs (largely
attributable to the Fire Department Pension Fund).

The City has also changed the method of calculating pension
costs so that such costs for a current fiscal year are
computed based on salary levels as of June of the preceding
fiscal year. Thus, the pension costs estimated for FY 1981
do not reflect the added pension costs resulting from the
wage settlement. (This method saves the City about $20
million in FY 1981 assuming a 4% wage settlement.)

The City's projection of administrative other than personal
services ("OTPS") expenditures, appear reasonable. During
FY 1981, the City may continue to benefit from underspending
in this category which occurred during FYS 1979 and 1980.
The City's projections for public and medical assistance
costs during FY 1981 assume a levelling off of the decline
experienced in recent years and are considered reasonable
and consistent with the City's economic assumptions.

IV. COVERED ORGANIZATIONS

Board of Education

For FY 1981, the appropriation contained in the Executive
Budget for the Board of Education (BoE) is $344 million greater
than the amount provided in the FY 1980 modified budget.
The primary reasons for this increase are (1) collective
bargaining costs ($92 million at 4%), (2) program enhancements
and register increases for special education ($117 million),
(3) energy costs ($31 million), and (4) increased fringe
benefits ($19 million). In order to fund these additional
needs, the City has increased its funding of the BoE by $96
million (not including pensions and debt service which are
accounted for elsewhere in the budget), State aid for educa-
tion will increase by about $131 million, and the BoE will
offset $98 million of these new needs through attainment of
the planned PEG. Federal aid, estimated to be $281 million,
has decreased from the FY 1980 level, largely due to the
elimination of impact aid and reductions in other entitlements.
A significant portion of Federal and State aid is designated to help offset the rapidly rising costs of providing Federally mandated programs such as special education. Full-time personnel levels in FY 1981 are projected to increase by over 1,000 positions from the FY 1980 level, chiefly for the special education program. In addition, the incidental costs of providing education for handicapped students, such as transportation, escort services, and contracts with private schools for services that the BoE cannot provide, have increased rapidly in keeping with greater enrollments in the program. Although intergovernmental aid has grown, the escalating costs of providing the mandated educational programs create an ever-increasing strain on City-funded expenditures.

The Board of Education faces major uncertainties in the coming years. As with other City agencies, the BoE's budget probably will have to be increased to fund a labor settlement in excess of the costs currently provided for in the budget. The BoE's PEG for FY 1981 includes savings to be derived from declining enrollments ($21 million), cutbacks in administrative staffing ($54 million), elimination of pedagogical employees through attrition ($8 million), and from other areas for a total agency savings of $98 million. This represents the largest portion of PEG savings assigned to any one City agency. It is important to recognize that City-funded support for the Board of Education is $96 million higher than the level of support contained in the FY 1980 modified budget, even after considering the impact of the BoE's PEG plan. The reason for the increased funding is that the Board of Education's PEG plan was reduced from $111 million contained in the February plan, to the currently proposed $98 million, and new needs were increased from $55 million to $69 million. Net savings to the BoE resulting from PEG are now expected to provide only $30 million for FY 1981. Moreover, the adopted budget now includes additional City funding of $22 million for the BoE in FY 1981. The experience has been, therefore, that new needs for the BoE continue to be identified while PEG savings are reduced, causing ever-increasing City support. Thus, the BoE's potential to substantially increase the projected FY 1982 deficit has been well established.

In looking ahead to FY 1982, the BoE's budget will continue to grow due to the lag inherent in achieving savings from enrollment declines, mandated educational programs and increasing salary costs from the new labor contract. While some savings can be achieved from the proposed expenditure reductions, long-term plans that will effect tangible reductions in the basic expenditure pattern of the BoE do not appear realizable at this time. Even if such plans were to be developed, the semi-autonomous nature of the BoE makes it
difficult for the City to impose expenditure reductions and savings programs, and to insure that the targets are met. A system of financial controls is currently being formulated by the City and the BoE to improve the monitoring capacity and enhance the prospects of attaining savings goals, but such controls are not yet in place. At best, the urgent need to redirect the policies of both the City and the BoE toward tighter fiscal control and concrete, far-sighted fiscal planning has not yet been fulfilled.

Health and Hospitals Corporation

Another covered organization which has been receiving increased City funding to offset looming budget gaps is the Health and Hospitals Corporation (HHC). For FY 1981, however, the HHC is projected to have a balanced budget. The improved financial condition of the HHC is primarily the result of higher revenue collections stemming from the State's recent approval of greatly increased rates for Medicaid, Blue Cross and skilled nursing facilities. In addition, the HHC's budget is dependent upon the receipt of $110 million of nonrecurring revenue in FY 1981 from a rate appeal settlement related to prior fiscal years. Of this total, approximately $78 million represents the State's share and, at this time, it is not definite that the State will make the full payment in FY 1981, as assumed in the HHC's budget. (As mentioned earlier, it is also not clear as to whether this State payment would be an offset to the $72 million of State gap-closing aid for FY 1981.) In anticipation of the receipt of this revenue as planned, however, the City has reduced its funding of the HHC from the FY 1980 modified budget level by about $116 million. Should the appeal settlement revenue not occur as planned, additional City funds will probably have to be allocated to the HHC to cover any shortfall.

Other uncertainties in the HHC's Plan for FY 1981 include an estimated $38 million from revenue enhancement programs and savings of $25 million from the hospital closing and reorganization plan. The revenue enhancement programs developed for HHC by outside consultants have not been materially productive to date; therefore, the planned revenues may not be fully achieved. The estimated value of the savings from the hospital closing and reorganization plan was reduced in the current plan for HHC by about $12 million from the February Plan for FY 1981. The savings estimate now assumes only that Sydenham Hospital will close by June 1, 1980. Savings from closing Metropolitan Hospital were reduced, as were estimated savings from reorganizations of clinics and contracting for outside management for the other municipal hospitals, because plans for the implementation of such actions have been delayed.
It must be stressed, however, that if the HHC achieves a balanced budget for FY 1981 it will largely be the result of the infusion of a substantial "one-shot" revenue and in no way signals the end of the chronic imbalance of revenues and expenditures inherent in the HHC. Although the substantially increased reimbursement rates for Medicaid, Blue Cross and skilled nursing facilities will continue through FY 1982, these revenues will not be sufficient to meet costs in FY 1982, when HHC deficits are once again projected, ranging from $35 million to as much as $125 million.

Transit Authority

The Transit Authority (TA) has a projected budget gap of $293 million in FY 1981, increasing to $415 million in FY 1982. Unlike the City's other covered organizations, however, the TA has the ability to take revenue-generating actions which include raising the fare. In this regard, the TA has already undertaken certain actions such as eliminating the half-fare program for the elderly during morning rush hours and for weekend bus and subway rides and increasing the tolls for certain bridges and tunnels. While the TA is currently conducting hearings on proposals to increase the subway fare, without additional outside aid, the TA would require a minimal increase of $.25 for FY 1981, and a greater increase for FY 1982. Recent developments, however, indicate that gap-closing actions are likely to be comprised of some intergovernmental aid as well as a slight increase in the fare. Given the size of the projected TA gaps, and the limitations of the gap-closing proposals, however, there appears to be serious questions as to the prospect of balanced TA budgets for the upcoming fiscal years.

V. PEG

The Financial Plan for FYs 1980-1983, approved in February 1980 for FY 1981 included $507 million of City actions to close the projected budget gap. In addition, the PEG included $170 million of Federal ($100 million) and State ($70 million) gap-closing aid. The Executive Budget for FY 1981 includes $502 million of City PEG actions.

Certain changes in the composition of the program were made by the City in preparing the Executive Budget. These changes include a decrease in agency budget reductions of $22 million (including $13 million which was added back to the BoE's budget) from $248 million to $226 million, and an increase in other expenditure reductions (primarily involving subsidies to covered organizations) of $22 million from $51 million to $73 million. The net change in the PEG also includes a reduction of $5 million (from $33 million to $28 million) for the estimated impact of improvements in City revenue collections for fees, licenses and other City charges.
The City's incorporation in the budget of substantially all of the proposed PEG for FY 1981 is a positive action on the City's part to attempt to restrain the growth of expenditures while seeking to enhance revenue collections in a way that would not be detrimental to the City's economic base. The program, however, is largely dependent upon revenues that are far from certain, and upon expenditure and subsidy reductions which may prove difficult to accomplish.

As noted in the discussion of FY 1981 revenues, the City includes as anticipated revenue a total of $172 million of Federal and State gap-closing aid. The extent to which this expected revenue is achievable will not be known until several months into the fiscal year, and the City currently has no back-up plan which would provide additional revenues or expenditure reductions to cover any shortfalls that may occur. Similarly, the attainability of the planned expenditure and subsidy reductions will only be known as the year progresses, and because such reductions are reflected in the agencies' budgets, the PEG actions will be difficult to monitor.

A disconcerting development in the process of preparing the FY 1981 budget was the City's identification of new needs requiring City funding of $164 million over projected expenditure levels contained in the February 1980 Plan. Thus, few of the PEG expenditure reductions will actually result in a net decrease in agency expenditure levels, but rather, the PEG reductions will serve to offset the size of the spending increases which have been projected. In this regard, then, the PEG Plan acts as a City-wide cost containment program as opposed to a cost reduction program. While cost containment is a worthy goal, it does not accomplish the necessary objective to actually reduce City-funded expenditures in a period of economic decline, State and Federal budget policies which merely maintain or even reduce aid levels, and inflationary pressure on fixed expenditure levels. As the City approaches FY 1982, realizable savings from expenditure reductions must become an integral part of the City's plan to achieve a balanced budget; cost containment—or even cost control—will not address the basic imbalance between revenues and expenditures. The City's identification of new needs which more than offset planned PEG reductions of FY 1981 expenditures implies that City policy has not yet been redirected toward true retrenchment.
VI. THE CAPITAL PLAN

During the years since 1975, monitors of the City's budget have focused their oversight activities on the City's expense budget. The City has made substantial progress toward fiscal recovery since 1975 and with the submission of a GAAP-balanced budget for fiscal 1981, the City has taken a major step toward reentry into the long-term credit markets. During the past five years, the constant pressure and the more immediate problems of balancing the expense budget often obscured the underlying purpose of the City regaining market access. It is critical to the long-term habitability of the City that it be able to finance and rebuild its rapidly deteriorating physical plant. Therefore, both the City's Expense Budget and Capital Plans for 1981-1984 should be viewed together as both are inexorably tied to the future viability of the City.

An analysis of the City's FY 1981-1984 Capital Plan must include both the current status and recent history of the City's management of the capital program. While there are encouraging signs that the volume of capital construction will begin to approach targeted levels in the future, the underlying management of the capital program has yet to produce a reasonably predictable and controlled capital plan.

Recent History

During the three year period from 1976 through 1978, new capital construction was halted as a result of the lack of available financing, and agencies with capital programs did not continue to design capital projects. When these constraints were lifted with the advent of the Four Year Financial Plan which provided the City with $2.3 billion in long-term financing for the 1979-1982 period, the City had no pipeline of capital projects ready for construction. As a result, needed capital construction did not get started and capital cash flow has not approached targeted levels. In both fiscal years 1979 and 1980, the City underspent their original cash flow targets (City dollars) for those years by 37% and 32%, respectively.

In an effort to reach its $2.3 billion capital spending target for the 1979-1982 Financing Plan, the City has begun scope and design work on a large number of capital projects in order to expand the capital pipeline for future construction. This has had a positive effect on the level of capital commitments in 1980 which will be double the value of 1979 commitments. The pressure on City agencies to generate a large pipeline of projects, however, has not been matched by the development of a central system that would enable the City to track and manage the capital plan.
The most fundamental problem that continues to impact the City's capital budget is the lack of effective central control of the capital process or the formulation of the annual Capital Plan. There are no common assumptions used by both OMB and the agencies to formulate a project-by-project capital program. After two years of underspending capital targets, City agencies continue to grossly overestimate annual commitment and cash flow forecasts for a fiscal year. OMB, in turn, has made little effort to reconcile differences between agency targets and their City-wide Capital Plan. For example, in the City's January 1980 Financial Plan, City agencies estimated that they would commit $905 million in City-funded projects by the end of fiscal 1980 as compared to the OMB target of $814 million for the same period. With only 6 months remaining in the fiscal year, OMB could not determine a project breakout that supported their estimate. Capital cash flow targets for fiscal 1980 were estimated by the agencies in May 1979 as totalling $576 million. In June 1979, OMB lowered this estimate to $440 million and finally in January 1980 OMB lowered the target again to $393 million. In both cases the OMB estimates are far closer to being accurate than those of the agencies; however, OMB could only formulate estimates on an aggregate basis without documentation of the specific capital projects that were involved.

A major cause for the continuing disparity in capital commitment and spending targets is the lack of a capital management information system that reflects reasonable assumptions regarding agency work speed and work capacity for a fiscal year. Neither OMB nor the agencies have developed realistic models of the length of time it takes to move a project from scope to construction, which forms the basis for the timing of future capital liabilities. While some attempts have been made to model work speed, in the case of the two agencies with the largest capital programs, Sewers and Highways, these models have not proven to be realistic. For example, the Department of Highways estimated in January that on an average project it takes approximately 21 months to complete the pre-construction process; OMB estimated it took 24-28 months; and we have found from tracking Highway projects, that it can take as much as 32-34 months to complete the pre-construction process. Clearly the timing of capital commitments and cash flow is affected dramatically by which assumption is used to formulate the agencies' capital plan. The current capital information system reports are not based on realistic appraisal of work speed and they have been produced, after the fact, to reflect the City's Financial Plan rather than becoming the basis for the Plan.
As a result, it has been difficult for the City to control the capital program. For example:

--The City has underspent available capital financing to date, and may still underspend their 1979-1982 Financing Plan target, although capital cash flow has been increased greatly by inflation.

--Inflation-driven cash flow masks the continuing problem of project work speed in some agencies. For example, in the Department of Highways, approximately 45% of the projects originally planned for construction between 1979 and 1982 are no longer in the Plan for those years, although cash flow targets for highways are still as originally targeted as a result of inflation. Project slippage is clearly extremely costly for the City and may cause many of these projects to be dropped from the Plan altogether.

--The pressure to spend available financing during the Four Year Financing Plan period has created a large pipeline of capital projects which are in the initial pre-construction phases. At current work speed, many of these projects will not be ready for construction by 1982, but will begin in 1983/1984; years in which the capital budget may have to be constrained due to uncertainties in available financing levels.

The 1981-1984 Capital Plan

The 1981-1984 Capital Plan represents a departure from past capital plans in many respects. The Plan reflects a genuine effort on the part of OMB to analyze the relationship between capital commitments and cash flow and the Plan allows flexibility during the fiscal year to allocate resources between agencies as it becomes clear which agencies will not meet their annual targets. However, the absence of a good information or program management system has created real problems for the City in constructing the current Plan. Absent a reasonable model of agency work speed or an accurate tracking system, OMB has not been able to estimate project commitment dates even for FY 1981. As a result, the Capital Plan contains arbitrary annual commitment and cash targets which are substantially reduced by OMB (prior to the start of the fiscal year) to take into account assumed project slippage.
Consequently, aggregate commitment and cash flow targets for the City as a whole are not supported by agency specific annual capital targets. For example, in FY 1981 commitment and cash flow targets for City agencies total $1,367 million and $1,072 million (City dollars), respectively. Yet the City-wide planned commitments and cash flow for FY 1981 are $1,153 million and $669 million. The difference of $300 million in commitments and $400 million in cash represents "unidentified slippage". While this Plan allows OMB to allocate resources between agencies as well as substitute pipeline projects for planned projects during the fiscal year, the Capital Plan in its current form is extremely difficult to monitor. Consequently, the FCB and MAC have requested that OMB provide a quarterly commitment plan broken out by project for FY 1981 as supporting documentation for the City's Capital Plan. The City has agreed to provide this information, which will greatly assist in identifying project slippage as it occurs during the year.

* * *

For the first time since 1978, the City faces a four year capital program (1981-1984) that will approach currently anticipated annual financing ceilings, at least in FYs 1983-1984, when the projected capital spending program could be restricted by the financial capacity available to the City.

The level of financing for capital projects depends upon a number of factors. For example:

--The amount of MAC financing available.

The Municipal Assistance Corporation has been granted in the last week, through legislation, an extension of its borrowing authority beyond 1982 as well as an increase in the amount of debt that can be issued to approximately $10 billion.

--The amount of debt which the City can issue on its own.

The City may be able to return to the long-term credit markets in 1983-1984, but the amount of debt that the City can issue will be limited during the first years of market reentry.

It is consistent with the Federal Loan Guarantee Act that the U.S. Treasury authorize issuance of guaranteed City bonds. If these bonds were issued in 1981-1982, it would allow MAC to issue capital debt to prefinance a portion of the City's capital program for 1983-1984 when the capital requirements will be very substantial.

The use of the Federally guaranteed bonds provided for in the adopted Federal legislation is critical to providing full financing for the City's capital program in 1983-1984. With the U.S. Treasury's approval, the current legislation would allow the City to issue up to $900 million in guaranteed bonds for capital purposes. Without this capacity, it is likely that the City's capital program would have to be constrained in 1983-1984 as a result of financing limits of both the City and MAC. With the alarming rate of deterioration in the City's infrastructure, a constrained capital program in the near future would be a costly alternative for the City.

As the spectre of possible financial limitations on the City's capital program looms in the near future, it is becoming increasingly important that OMB and City agencies develop and maintain a capital information system which can produce realistic estimates of the timing of agency capital commitments and cash flow. In a constrained environment the City will have to carefully prioritize the capital program, and control of the timing of this work is critical to being able to finance major areas of needed construction.

This problem begins to emerge in the City's capital plan for fiscal 1981-82. It is evident from our analysis of agency work speed that some agencies have been allocated a greater level of resources than they have the capacity to deliver in fiscal 1981 while others will be restricted by their targeted resource level. For example, it is highly likely that the Department of Sewers could commit as much as $100 million more in fiscal 1981 than the target commitment level of approximately $120 million currently contemplated in the City's plan. On the other hand, other agencies such as the Departments of Highways, Corrections and Education will probably not be able to meet the full value of their commitment targets in fiscal 1981. In fiscal 1982, on the other hand, it is likely that the Department of Highways will far exceed their commitment target and the Sewers program will have to be held back as the City's bridge rehabilitation program emerges in 1982-1983 as a major funding priority. The City will have to correct these allocation problems in the Capital
Plan during fiscal 1981 if the City-wide commitment and spending targets are to be achieved. The danger of not being able to realistically anticipate agency capacity relative to the planned volume of work is that in a constrained financial environment the City may face the prospect of having to severely reduce the capital program of an agency that has largely completed pre-construction phases of their projects in order to fund an alternative priority or simply not be able to shift funding for priorities at the time they are needed.

A potential solution to many of these continuing problems with the capital information system could result from the Mayor's appointment in January 1980 of a full-time Director of Construction. This office could greatly assist agencies in expediting the capital process as well as establishing and maintaining performance levels and responsive information systems. As yet, however, the Office of the Director of Construction has had little impact in these areas. This is in part because clear jurisdictions have not been established between this office and OMB and the role of the construction office has not been established with City agencies.

It is evident, therefore, that the City is progressing to the point that it will have a substantial annual capital program in the near future. This positive development, however, has not been paralleled by the development of a capability to plan, forecast, and control the capital program. A sustained emphasis on setting priorities and establishing a capital management information system will be required on the part of the City in the face of difficult times ahead.