MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

July 28, 1988

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 Thursday, July 28, 1988 at the offices of Lazard Freres & Co., One Rockefeller Plaza, New York City.

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

Felix G. Rohatyn, Chairman
Kenneth J. Bialkin
Eugene J. Keilin
Dick Netzer
Andrew P. Steffan
Robert C. Weaver

The following Representative was present:

Carl H. Pforzheimer III

The following members of the Staff were present:

Stephen J. Weinstein
Maxine H. Gillman
Frances N. Higgins
Steven C. Markbreiter
Quentin B. Spector

Also present by invitation of the Board were: Donald J. Robinson of Orrick, Herrington & Sutcliffe, Bond Counsel to the Corporation; Saul H. Finkelstein and Lee S. Pershan of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Robert Horowitz of the Office of the State Deputy Comptroller; Michael Zino of the State Financial Control Board; and Charles Day of the City of New York.
Adoption of Minutes

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

RESOLVED, that the Minutes of the Special Meeting of the Board of Directors held on June 20, 1988 be and hereby are approved.

1989 City Budget

Mr. Weinstein informed the Board that the City Budget Committee and the Staff had examined the operating budget of the City of New York for its 1989 fiscal year, and prepared the draft report which had been circulated to the Directors prior to the meeting.

Dr. Netzer, Chairman of the City Budget Committee, stated that the City had relied on conservative revenue estimates during fiscal 1988, which had proven to be relatively accurate, especially when compared with the recent experiences of many state governments. Dr. Netzer added, however, that the 1988 results were significantly different from those of previous years, in which revenue receipts in excess of projections had resulted in large surpluses.

Dr. Netzer stated that the City's operating budget for fiscal 1989 provided a substantial expenditure increase of approximately 9 percent, including another large expansion in
workforce. He noted that the budget projected a slowdown in the rapid rate of revenue expansion of the past several years, requiring the City to make more difficult choices with regard to spending. He pointed out that the new budget did not include cutbacks in City expenditures from the prior year, while it did reflect reductions from the City's initial projections of spending plans for the new year. Dr. Netzer stated that the proposed report highlighted the need to make spending choices in an atmosphere of decreasing revenue growth.

Mr. Weinstein noted that, in order to balance its 1989 operating budget, the City had included about $500 million in new taxes, fees, and one-time transfers to supplement its existing revenue sources. He pointed out that the City revenue growth, robust in recent years, was now subsiding across a broad spectrum, in which the economically sensitive taxes except for the sales tax were exhibiting either no growth or decline. He emphasized that sales tax collections continued to increase at a healthy rate. He added that the pattern of decreasing revenue growth had accelerated during the time the report was being drafted.

Mr. Bialkin noted that the real estate levy constituted the prime source of City tax revenues, which collections continued strong. Dr. Netzer observed that the City had shifted much of the property tax burden from residential to business properties. He further observed that the City had reinstituted certain
commercial energy taxes for 1989 that it had previously removed. He stressed that the increasing taxes on businesses could seriously impair the City's efforts to encourage the local economy over the long run.

Mr. Rohatyn remarked that local tax policy was key for the City at this time, and suggested that the report highlight this issue. He cautioned that, if the City's real estate is not taxed sufficiently to finance its spending plans and if other revenue and spending patterns remain as projected, the City could find itself facing potential deficits. Mr. Rohatyn added that he was concerned with the City's apparent reversal of economic development policy by in effect rescinding some important business tax reductions. He suggested that a section be added to the budget report addressing City tax policy and the potential exposure resulting from increased expenditures in an atmosphere of declining revenue growth.

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

RESOLVED, that the report on the fiscal 1989 operating budget of the City of New York presented at the meeting, with such additions as suggested at the meeting, be and hereby is adopted.

The Board directed that a copy of the report in final form be appended to the minutes of the meeting.
1989 Operating Budget

Mr. Weinstein reported that the Administration Committee and the Staff had prepared a proposed operating budget for the Corporation's 1989 fiscal year, which had been circulated to the Board prior to the meeting.

Dr. Weaver, Chairman of the Administration Committee, stated that it was recommended for adoption. He pointed out that the proposed budget provided a 6 percent decrease for the Corporation's own activities, while reflecting a 4 percent spending increase for the Financial Control Board. Dr. Weaver stated that two substantial categories were affected by developments subsequent to its preparation -- a proposed fee increase for United States Trust Company, and a proposed lease renewal for the Corporation's offices. He stated, however, that the operating budget as proposed included assumptions for these categories that were expected to accommodate the actual conclusion of both negotiations.

Mr. Weinstein presented the results of the fee discussions recently concluded with United States Trust Company. He recommended that the base annual fee be increased by $25,000 from $165,000 to $190,000, which would represent approximately a five percent increase in the total charges over those paid during the previous year of about $475,000. He noted that the Trust Company's base fees had not been raised for five years, and that its other fees had remained constant for six years. Mr.
Weinstein further reported that the discussions also included a downward adjustment in the fees for new issuances and included no change in any of the other fees. He recommended that the proposed fee schedule be approved as a part of the adoption of the 1989 operating budget.

Mr. Weinstein reported the outcome of negotiations for a new lease with the Port Authority for the Corporation's present office space. He noted a significant rent increase was inevitable over the Corporation's current lease which was entered into ten years ago, and which presently amounts to an effective rate of approximately $20 a square foot. He outlined the proposal for a new six-year lease, which would roughly double the rental expenses, with rates of $36 for the first two years, $40 for the following two years, and $42 for the final two years. Mr. Weinstein explained that the proposed lease had been negotiated to include a provision that would permit the Corporation to cancel it after either the second or fourth year in the event that its office space needs would change. He requested that the proposed new lease be authorized as a part of the 1989 operating budget.

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

RESOLVED, that the operating budget for the Corporation's 1989 fiscal year, including the increase in Trustee fees and authorization for office lease renewal, be and hereby is adopted.
The Board directed that a copy of the memorandum of the Administration Committee dated June 30, 1988, detailing the Corporation's operating budget, be appended to the minutes of the meeting.

Other Matters

Mr. Rohatyn reported that the Governor had nominated John P. Campbell, a senior partner in the law firm of Curtis, Mallet-Prevost, Colt & Mosle, as a Director of the Corporation, subject to the confirmation by the State Senate. Mr. Weinstein stated that the nomination of Gedale B. Horowitz of Salomon Brothers Inc as a Director, had been recommended by the Mayor to the Governor.

Mr. Weinstein reported that in June Fitch Investors Service, Inc. had upgraded its ratings of the Corporation's First and Second Resolution Bonds to "AA." He noted that previously, in May, Moody's Investors Service, Inc. had raised its ratings of First and Second Resolution Bonds to "Aa." He observed that with these changes, the ratings on the Corporation's obligations had been raised five times in the past three years. He informed the Board that the Staff would be meeting with officials of Standard & Poor's Corporation shortly to explore a possible upgrading of their ratings of the Corporation's bonds.

Mr. Rohatyn summarized recent developments regarding the Corporation's proposal to make available capital funds as part of
a reformation of the process of school construction in the City. He reviewed the Corporation's proposal of more than a year ago, and the recommendation of a Committee formed by the Governor last Fall to remove responsibility for school construction from the Board of Education and transfer it to the State Dormitory Authority. He stated that both had been endorsed by the Governor and the Mayor and embodied in a bill submitted to the State Legislature last January. He reported on subsequent developments in the State Assembly which had led to a proposal to establish a new agency to take over the school construction program. He added that this new proposal was pending, with debate centering on the issue of whether the new agency would be made exempt from the Wicks law barring use of a general contractor, an exemption he believed would be essential for the new agency to function properly. Mr. Rohatyn observed that an approach currently under discussion would provide the new agency with a Wicks exemption for an initial five-year period, concurrent with the first required capital plan for school construction. Mr. Rohatyn also reported that he had indicated to the Assembly Speaker that the Corporation makes no decisions to invest its surplus funds without the concurrence of the Mayor and the Governor, while the Board alone has the responsibility to decide whether to apply such surplus funds to retirement of debt of the Corporation prior to maturity.
Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 12:00 Noon.

Maxine H. Gillman
Secretary

aa:104
28 July 1988

REVIEW OF 1989 CITY BUDGET

Overview

The newly adopted operating budget of the City of New York for the fiscal year that began on July 1, 1988 comes at a time when local economic patterns appear to be undergoing significant changes. Over a six-year period extending through fiscal 1987, the expansion of business activity in New York City was exceptionally strong. This continuously contributed to robust City revenue collections exceeding expectations in each of those years. Over that same period, the City was able to enlarge its operating expenditures while maintaining properly balanced budgets and reporting favorable operating results annually. The City funded enhanced municipal government services, with its budget growing by over 50 percent, or more than $7 billion, during those six years.

However, the fiscal year just ended on June 30, 1988, was different in two respects. First, the rate of City tax revenue expansion was less than half that of the prior year. Second, the actual growth of City tax collections was below the initial projections for the year, in contrast to the
previous years' experiences. For the fiscal year just begun, City revenue growth is projected to be more in line with the moderate level of the past year than with the much more expansive collection experiences of the previous years. Thus, budgetary and management caution are appropriate for fiscal 1989.

The 1989 operating budget represents an important opportunity for the City to examine its spending patterns. In contrast to recent years, the 1989 operating budget anticipates a slowdown in the rapid economic growth of the past several years. This view is consistent with a wide range of public and private projections indicating that in the near-term City revenues are likely to increase only moderately. The October 1987 stock market crash and the workforce reduction in the financial industry have caused the City to scale back its revenue collection estimates for fiscal 1989. In addition, recent tax collection information shows a further decline in the growth of economically sensitive taxes during the 1988 fiscal year. The City now estimates a cumulative surplus in fiscal 1988 of $210 million, down substantially from the previous year's $567 million, which means that during the year just ended the City spent $357 million more than it took in.
The new City operating budget calls for spending significantly above last year's level. Expenditures for fiscal 1989 are budgeted at 9.3 percent more than fiscal 1988 expenditures, an increase that is approximately twice the rise in the local consumer price index over the last twelve months of about 4.5 percent. This is also about twice the 4.4 percent budget increase from 1987 to 1988, in a healthier economic context.

For 1989, larger amounts than last year are budgeted for major City services, including education, sanitation, fire and police, and most of the increases are in excess of the local rate of inflation. While the City reduced its planned 1989 expenditures below the levels it had projected six months ago, virtually no City departments are suffering absolute budgetary cutbacks. The City's 1989 operating budget provides for hiring increases in most areas; there are cutbacks in the workforce levels previously anticipated for the coming year, but not reductions from the actual workforce levels of fiscal 1988.

This continued expansion of City spending comes at a time when the nature and extent of the eventual impact of recent developments in the City's economy remain unclear. Revenues may not be available in the future to continue to expand the range of service enhancements the City has funded
over the past six years. As a result, the City may find itself facing more difficult choices relating to spending priorities.

Revenues

During the last decade, the City experienced a dramatic turnaround in its economic fortunes. As recently as 1980, the City completed its fiscal year with a budget deficit of $356 million. Since that time, however, the City has demonstrated the ability to adopt balanced budgets on a regular recurring basis. The 1989 City budget is the City's ninth consecutive operating budget balanced in accordance with generally accepted accounting principals, with revenues and expenditures of $25.2 billion -- a $2.1 billion increase over the expected results for fiscal 1988.

The City's fiscal accomplishments are attributable not only to improved administrative practices but also in large part to robust expansion of the local economy and the receipts it has generated. Over the six years from 1981 to 1987, total City revenues rose by an average of above 7 percent a year. This substantial and sustained revenue growth, significantly in excess of annual projections, combined with effective management, enabled the City to achieve sizeable annual surpluses.
At the same time, the City has shown the ability to recognize potential income shortfalls on a timely basis and to respond to fiscal and economic uncertainty with appropriate flexibility and restraint. Conscientiously conservative City tax revenue projections for fiscal 1988 have helped the City to confine its collection shortfalls due to taxpayer behavior driven by changes in Federal tax law to a manageable level estimated at about $50 million. Other governmental units around the country, including the State of New York, are by contrast experiencing substantial revenue shortfalls because of less conservative estimation of the effects of the 1986 Federal Tax Act.

The City reports that revenue results for fiscal 1988 show the annual growth in its total tax collections to date declining from 13.2 percent in 1987 to 4.7 percent in 1988. Collections of the City's economically sensitive taxes are continuing to decline. Currently, the City reports that its receipts of these income and business related taxes for fiscal 1988 have grown by only 2.7 percent.

The reduced growth in City revenues during fiscal 1988 has several causes. Although it is too early to assess all ramifications of the October 1987 stock market crash, the relative decline in certain sectors of the local business economy and the employment losses in the financial sector
may have contributed to reduced tax collections. In addition, a substantial portion of the dramatic revenue increases of the preceding year may have been one-time events attributable to taxpayer responses to Federal tax reform.

The City has budgeted total revenues for fiscal 1989 that rise by $2.1 billion, or 9.3 percent, over the expected results for fiscal 1988, to reach a level of $25.2 billion. This is $926 million more than the City had included in its preliminary plan for fiscal 1989 six months ago. In the context of weakening growth in collections of existing local taxes, the City has added receipts to its 1989 operating budget from a variety of other sources, including water, sewer and disposal fees aggregating $156 million, and new property and energy taxes totalling $221 million.

The City has also included $150 million of non-recurring revenues attributable to a proposed one-time transfer during this year from certain police and fire pension funds to the City operating budget. The City has deferred to later years the $357 million which it originally anticipated receiving in 1988 from the sale of the New York Coliseum. The City currently intends to include $217 million in Coliseum sale revenues in its fiscal 1990 budget, and $140 million in the following two years.
When such one-time receipts are used to support recurring expenditures in a given budgetary year, other one-time receipts will be needed in subsequent years to maintain planned service levels. When such revenues do not appear, the City may be forced to identify new revenue sources on relatively short notice to finance its current operating expenses.

Expenditures

The substantial revenue growth sustained over a six year period in the 1980's provided the City with successive opportunities to restore and improve services that had suffered cutbacks during the 1970's. The City's operating budget grew from $14.2 billion in fiscal 1981 to $21.5 billion in fiscal 1987, a 51 percent increase. Additional spending was affordable over a wide range of services.

During fiscal 1988, the City contained its operating budget growth at a level of 4.4 percent, approximating the inflation level of last year. In response to the local economic downturn and the associated slowdown in City revenue collections last Fall, the Mayor undertook administrative actions to control City spending further for the rest of fiscal 1988.
For fiscal 1989, the operating budget calls for a 9.3 percent increase in expenditures over 1988. This is approximately twice last year's increase, and is double the current and projected local rate of inflation. The 1989 operating budget anticipates significant spending increases in nearly all expenditure categories, including double-digit increases in several areas. For example, 1989 spending for sanitation, correction and hospital services has been increased by 13 percent, 18 percent, and 28 percent, respectively, over the amounts budgeted for the past year. Police, fire, and education expenses for 1989 are budgeted at 6.6 percent, 9.1 percent and 11.9 percent above the respective budgeted levels for 1988.

The fiscal 1989 spending increase results, in large part, from an almost 10 percent increase in personal service expenditures, which now comprise over half of the City's operating budget. Over the past year, the City and most of its workers have agreed on labor settlements which call for wage and fringe benefit increases of between 5 and 6 percent a year for the three years through fiscal 1990. The City has provided for these increases in the current year, and therefore such labor costs do not imperil the City's ability to achieve a balanced budget in fiscal 1989.
Nevertheless, escalating labor costs due to wage increases and additional hiring will inevitably exert pressure on the City's future budgets. During the past twelve months, the City expanded its workforce by approximately 6,000 positions, to a total of 231,000 employees. The 1989 operating budget provides for hiring an additional 10,000 workers to increase the City payroll to 241,000 persons by June 1989. This would constitute a five-year expansion adding up to 40,000 new employees, a 20 percent increase in the City's workforce from 1984 to 1989. By contrast, in the preceding five years between 1979 and 1984 the City increased its labor force by only about 3 percent.

Given the uncertainty as to revenues over the next several years, the City's spending levels may impose an increasing burden on future City budgets. Revenue increases may no longer be sufficiently large to support continual spending increases over a range of categories. It is therefore important for the City to examine its spending priorities. The level of local economic activity requires the City to choose where and how to allocate finite resources.
Economic Prospects

During fiscal 1988, there were strong indications of a downward trend in local economic performance. Taking these developments into account, the 1989 City operating budget anticipates an increase in the unemployment rate and a slowdown in personal income growth during the 1988 fiscal year.

Much of the economic slowdown can be attributed to events in the area of financial services. The City estimates that there will be 10,000 fewer securities jobs in 1988 than 1987, with a total job loss of 20,000 in all sectors directly attributable to the October crash. Developments in the securities industry are crucial to the fortunes of the City's economy because of the concentration of growth in that sector over recent years. During the last ten years, the City lost jobs in over two-thirds of its industries, including a 155,000 reduction in manufacturing employment. Meanwhile, securities employment has more than doubled during the past decade. The overall financial sector has seen jobs soar by over 30 percent in the past ten years, while factory jobs have plummeted by about the same percentage. Over one-quarter of the new private sector jobs in the City during the past ten years have come in financial services. Wall Street wages and salaries represent over 10
percent of all private sector wages and salaries in the City, about two and one-half times their share of a decade ago.

The concentration of growth in the financial sector brings increasing volatility and unpredictability, and it is unrealistic to pin hopes for continuing economic expansion on such a narrow base. Moreover, this growth has been centered largely in Manhattan.

The concentration of economic fortunes can also be seen on an individual level. While minorities comprise a growing proportion of the City's labor base, the unemployment rate for minorities during 1987 was approximately double the overall rate for the City's population. The long-term health of the City, both financially and socially, depends on economic access for all segments of its population. A major challenge for the City will be to ensure that the opportunities for all of its citizens to participate as fully as possible in the local economy will be maximized in the coming years.

At the same time, it is important for the City to continue to take actions to enhance its competitiveness with other areas for economic activity. The nature and scope of services that the City provides means that its citizens bear a tax burden that amounts to almost 18 cents per dollar of
personal income generated in the City. As part of its plan to increase revenues for fiscal 1989 in order to balance its budget, the City reimposed a commercial energy tax of $67 million, an action which is in conflict with the City's laudable ongoing efforts to attract and retain businesses. Currently, the City is experiencing an office vacancy rate of approximately 13 percent, which, although lower than the 20 percent level of the mid-1970's, is significantly higher than the 10 percent level of a year ago.

In both the short run and long run, the City must balance its spending and taxing measures in ways designed to strengthen its economic base and thereby enhance future revenues, while meeting its substantial operating needs in a fiscally prudent manner.

Capital Construction

In conjunction with adoption of the operating budget for fiscal 1989, the City also prepared the biennial update of its long-range capital plan for improving and expanding its physical facilities. The construction program for the coming ten years, already at an enormous scale to meet the City's formidable needs, was expanded to one of even greater magnitude. It now anticipates spending approximately $57 billion over the next decade, starting with $5.2 billion of
capital works in fiscal 1989. This nearly doubles the capital program level of $2.7 billion for the year just ended. While such a significant increase will continue to test the City's capacity to manage its capital spending, its record of implementation has improved steadily for five straight years. Ongoing investment in a broad array of local public infrastructure projects over the long term is essential to ensure the future viability of the City as a place to live and do business. The revised capital plan provides the largest increases for fiscal 1989 in the areas of transit, housing, sanitation and education.

The Municipal Assistance Corporation continues to provide substantial funding to the City to finance important elements of the capital program. These resources are generated by the Corporation's investment earnings, its capital reserve funds and the savings from its refinancing activities. Under agreements with the Mayor and the Governor in 1984 and 1986, the Corporation is making available a total of $2.7 billion over the period through fiscal 1995. This includes $925 million for the improvement of New York City Transit Authority facilities, $550 million for other City capital purposes and $365 million for economic development projects.
More than a year has now passed since the Corporation proposed making available an additional $600 million to be applied to the critical capital needs of the City's public school buildings between now and 1996, a proposal supported by the Mayor and the Governor. A special committee was established last Fall to examine the school construction program, which included representatives of the Governor and Mayor and officials of the Board of Education and its employee unions. More than six months ago, that committee concluded that the implementation of the capital program of the New York City public school system had to be substantially improved, and unanimously recommended that it be transferred from the Board of Education to an independent State construction agency. The committee further recommended that a new long-term capital plan for the school system be developed which would include application of the $600 million proposed by the Corporation in addition to available City and State capital funds. The recommendation was endorsed by the Governor and Mayor and embodied in statutory proposals submitted to the State Legislature in January 1988. Regretably, this matter of overwhelming public importance and compelling urgency still remains unresolved some six months later, as the City's public school buildings continue to decay.
30 June 1988

To: Board of Directors

From: Robert C. Weaver, Chairman Administration Committee

Re: 1989 Operating Budget

The Administration Committee has reviewed the proposed operating budget of the Corporation for the fiscal year ending June 30, 1989, and recommends its adoption at the next meeting of the Board of Directors.

An overview of the proposed budget in comparison with preceding year figures is attached. The table below provides a summary:

<table>
<thead>
<tr>
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<th>Fiscal Year 1988 Budget</th>
<th>Fiscal Year 1989 Budget</th>
<th>Percentage Change ($ Millions)</th>
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<tbody>
<tr>
<td>MAC Operations</td>
<td>$3.963</td>
<td>$3.702</td>
<td>-6.6%</td>
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<tr>
<td>Oversight Agency (FCB)</td>
<td>1.901</td>
<td>1.976</td>
<td>4.0</td>
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<tr>
<td></td>
<td>$5.846</td>
<td>$5.678</td>
<td>-3.2%</td>
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The proposed budget for fiscal year 1989 represents the third successive annual reduction. The overall proposed budget declines 3.2% from this year. The 1989 budget proposed for the Corporation's own operations declines by 6.6%, and is approximately 33% less than budgeted for our operations three years ago.

Actual expenditures incurred during the current fiscal year ending June 30, 1988 are projected to total approximately $5.4 million -- 8% below this year's budgeted total. Actual expenditures for the portion of the overall budget attributable to the Corporation's own operations for 1988 are projected at about $3.5 million -- 12% below budget. The savings this year have resulted in large part from lower costs produced by competitive processes in the areas of notice publication, financial printing and data processing, which are anticipated to recur in fiscal 1989. The areas of the 1989 budget showing some offsetting increases from this year are banking activities, payroll services and office rent.
Debt Issuance

The fiscal 1989 Debt Issuance budget, premised on four negotiated sales during the coming year, is approximately 19% less than this category in 1988. The projected cost of Financial Printing for the next year reflects the lower fee schedule resulting from our most recent periodic competitive selection process. The 1989 budget assumes Rating Agency fees will be maintained at current levels. During this fiscal year, the Corporation obtained a modest price concession from Moody's Investors Service after petitioning the agency for lower fees. The Corporation is also realizing savings of approximately $5,000 annually for advance refunding defeasance verification services as a result of another round of competition.

Debt Administration

The Debt Administration category for next year is budgeted at approximately 13% below this year's level, comprised of a rise in one area and declines in the other two areas. The United States Trust Company of New York has proposed fee increases for its Trustee and related banking services, which have not been raised for five years. Inasmuch as those fees are now under review by the staff, the budget provision for a 19% increase reflects a conservative assumption of the impact of the current negotiations on next year's expenses. The Paying Agent category covers bearer bonds and is difficult to quantify in advance because bondholder presentments become increasingly erratic and unpredictable as bonds age. The cost trend ought to be clearly downward, however, and is budgeted at 42% below this year. In the Public Notices item, down by 12%, the major expenses are the July and February sinking fund redemption advertisements. The competition this year for producing and placing these notices is expected to yield additional savings next year of approximately $100,000 despite the increase in the sinking fund requirement from July 1988 to July 1989.

Legal Services

The Legal Services budget for next year is proposed at the same levels as the current year. The overrun in the current year for Trustee Counsel was caused by billing and payment for unbilled work from prior years.
Investment Management

Investment Management is shown at a budget reduction of about 23%. The major expense of this category is the fee for our Investment Advisor which remains fixed at a reduced level under our current contract until June 30, 1989. The other expense item of this category, transaction costs, is expected to remain at the same level.

Accounting

The Accounting budget is unchanged from 1988 to 1989. This year, spending for Accounting Services was less than budget by $15,000 because no special accounting projects were undertaken during the year. The budget for next year assumes the same costs for financial statement preparation by the independent auditors, and $15,000 is also budgeted for special services required to prepare investment reports for the State Comptroller.

General Administration

Overall, this category is budgeted to increase by 2.6%. Payroll Services for next year is proposed at an overall level 4.6% above this year, including provision for an increase of 5.7% in salary expenses. Although the current year payroll expenditure was approximately $24,000 below the 1988 budget, this is attributable to the absence of an employee on maternity leave; the salary for that position is included in the 1989 budget. Next year's budget also reflects the costs of the dental and disability insurance policies purchased during the latter part of the current year, at a combined additional annual cost of approximately $8,000. The Data Processing operation is decreased for next year by about 33%, primarily as a result of reduction in maintenance contracts through competition -- to a level that is approximately one-fifth of its cost two years ago. Data Processing expenditures in 1988 were approximately $15,000 below budget as a result of greater savings than expected from the new computer operations. The Report Production budget has not changed significantly in two years. The small Office Materials item is raised by $2,000 for next year.

More than half of the Office Services budget is comprised of rental expenses. For 1989, a major increase is included because the Corporation's current office lease expires on December 31, 1988. While the staff is now negotiating a new agreement with the Port Authority with terms as favorable as possible, the prospective rental rate starting in January
1989 will inevitably increase substantially from the present level set ten years ago in a very different office market. To accommodate this change, the 1989 budget item for Office Rental is raised by $77,000 from this year's expenditure, reflecting the expected rent increase for the second half of the year.

Oversight Agency

The State Financial Control Board's expenses are still fully paid by the Corporation, although the State of New York assumed the costs of the State Special Deputy Comptroller's operations beginning last year. The Control Board has increased its budget by 4% over the current year to a level of $1,976,500 for fiscal 1989.
### MUNICIPAL ASSISTANCE CORPORATION
Comparative Budget Review

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<td><strong>Debt Issuance</strong></td>
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<tr>
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<td>Rating</td>
<td>145,000</td>
<td>116,000</td>
<td>115,000</td>
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<tr>
<td>Other</td>
<td>80,000</td>
<td>45,500</td>
<td>50,000</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>496,000</td>
<td>335,600</td>
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<tr>
<td>Trustee</td>
<td>400,000</td>
<td>429,500</td>
<td>475,000</td>
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<tr>
<td>Paying Agent</td>
<td>458,000</td>
<td>273,100</td>
<td>266,500</td>
<td>-41.8%</td>
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<td>Public Notices</td>
<td>625,000</td>
<td>610,000</td>
<td>550,000</td>
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</tr>
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<td><strong>Total</strong></td>
<td>1,483,000</td>
<td>1,312,600</td>
<td>1,291,500</td>
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<tr>
<td><strong>Legal Services</strong></td>
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<td></td>
</tr>
<tr>
<td>Bond Counsel</td>
<td>150,000</td>
<td>135,000</td>
<td>150,000</td>
<td>0.0%</td>
</tr>
<tr>
<td>General Counsel</td>
<td>100,000</td>
<td>80,000</td>
<td>100,000</td>
<td>0.0%</td>
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<td>Trustee Counsel</td>
<td>40,000</td>
<td>75,000</td>
<td>40,000</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Counsel</td>
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<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>290,000</td>
<td>290,000</td>
<td>290,000</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Investment Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>60,000</td>
<td>46,000</td>
<td>46,000</td>
<td>-23.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>115,000</td>
<td>100,000</td>
<td>115,000</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>General Administration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Services</td>
<td>927,000</td>
<td>903,100</td>
<td>969,200</td>
<td>4.6%</td>
</tr>
<tr>
<td>Data Processing</td>
<td>90,000</td>
<td>75,000</td>
<td>60,000</td>
<td>-33.3%</td>
</tr>
<tr>
<td>Report Production</td>
<td>175,000</td>
<td>178,500</td>
<td>175,000</td>
<td>0.0%</td>
</tr>
<tr>
<td>Office Services</td>
<td>308,000</td>
<td>228,900</td>
<td>334,000</td>
<td>8.4%</td>
</tr>
<tr>
<td>Office Materials</td>
<td>19,000</td>
<td>25,100</td>
<td>21,000</td>
<td>10.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,519,000</td>
<td>1,410,600</td>
<td>1,559,200</td>
<td>2.6%</td>
</tr>
<tr>
<td><strong>Total Mac Operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Mac Operations</td>
<td>3,963,000</td>
<td>$3,494,800</td>
<td>$3,701,700</td>
<td>-6.6%</td>
</tr>
<tr>
<td><strong>Oversight Agency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Control Board</td>
<td>1,901,000</td>
<td>1,901,000</td>
<td>1,976,500</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>TOTAL BUDGET</strong></td>
<td>5,864,000</td>
<td>$5,395,800</td>
<td>5,678,200</td>
<td>-3.2%</td>
</tr>
</tbody>
</table>

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