AGENDA

MEETING OF THE BOARD OF DIRECTORS

August 9, 1976
4:30 pm

Paul, Weiss, Rifkind, Wharton and Garrison, Esqs.
345 Park Avenue
Room 2811-12

I  Mini MACs - Abrams' letter

II Self-Tender from Sinking Fund Installment

III Use of Proceeds from Sale of Mitchell Lama Mortgages

IV Status of Further Restructuring

V Economic Development

VI Annual Report
Cost

VII Secretary - Appointment of Stephen J. Weinstein

VIII Board of Public Disclosure

IX State Audit of City
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

MINUTES OF A SPECIAL MEETING OF THE BOARD OF DIRECTORS

A special meeting of the Board of Directors was held at 4:30 PM on Monday, August 9, 1976, at the offices of Paul, Weiss, Rifkind, Wharton and Garrison, General Counsel to the Corporation, 345 Park Avenue, New York City.

The following directors were present:

   Felix G. Rohatyn, Chairman
   Francis J. Barry
   George D. Gould
   Dick Netzer

and, by telephone, Robert Weaver,
constituting a quorum of the Board.

The following representatives to the Board of Directors were present:

   Zane Klein
   Edward M. Kresky
   Robert Seavey
   Sanford Weill

The following members of the staff were present:

   Herbert Elish
   James Keegan
   Stephen Weinstein
   Paul Giddings
   William Lithgow
   Jonathan Weiner

Also present by invitation of the Board were: Allen L. Thomas
and James M. Dubin of Paul, Weiss, Rifkind, Wharton and Garrison,
General Counsel to the Corporation; and Melvin Heineman of Lazard
Freres & Co., Financial Advisor to the Corporation.
Minutes of August 9, 1976 Meeting

Solicitation of Tenders

Mr. Thomas distributed copies of drafts, dated August 6, 1976, of a proposed Solicitation of Tenders and a proposed Letter of Transmittal. Copies of these draft materials are appended to the minutes of this meeting.

Mr. Giddings summarized the staff recommendations for a proposed solicitation of tenders. He stated that fiscal 1977 sinking fund requirements for the Corporation's Second Resolution Bonds in Series 1-4 totaled $31 million, which the Corporation is authorized to satisfy by means of market purchases with monies in the Bond Service Fund. In order to be in a position to utilize this alternative, he continued, the Corporation had certified in June 1976 for $22 million, which was deposited in the Bond Service Fund. Mr. Giddings recommended that the Corporation meet its sinking fund obligations in part by now soliciting tenders of Series 1-4 bonds by their holders, in a suggested aggregate principal amount of $5 million. After receipt of tender offers, he continued, the Corporation would determine the prices and amounts which it would accept.

Messrs. Rohatyn and Gould indicated that the Corporation should have the opportunity to accept more than $5 million, if offered at attractive prices. After discussion, the Board decided that the Corporation should solicit tender offers with a ceiling of $10 million aggregate principal amount on acceptances, and delegated to the Finance Committee authority to determine the prices and principal amounts to be accepted.
Minutes of August 9, 1976 Meeting

By Resolution duly made, seconded and carried, it was resolved that:

WHEREAS the Second General Bond Resolution and the 1975 Series 1 through 4 Resolutions authorize the Corporation to satisfy all or part of the sinking fund obligations on its 8% 1975 Bonds Due July 1, 1986, Series 1 through 4 ("Bonds"), through purchases, with monies in the Bond Service Fund, of Bonds at a price not in excess of par, plus unpaid interest accrued to the date of such purchases; and

WHEREAS the Corporation has previously certified for (pursuant to Section 3036-a of the Municipal Assistance Corporation For The City of New York Act), received and deposited in the Bond Service Fund $22,000,000, to be applied to the purchase of Bonds in order to fulfill the 1977 sinking fund obligations with respect to Bonds.

NOW, THEREFORE, BE IT

RESOLVED, that the Corporation, in order to fulfill its 1977 sinking fund obligations with respect to Bonds, solicit tenders for Bonds substantially in accordance with the terms and conditions of the Solicitation of Tenders, a draft of which, dated August 6, 1976, was presented to this meeting;

RESOLVED, that the amount of Bonds accepted by the Corporation pursuant to the Solicitation of Tenders and the amount of the purchase price paid for Bonds tendered pursuant thereto be determined by the Finance Committee in accordance with the terms and conditions of the Solicitation of Tenders;

RESOLVED, that the Solicitation of Tenders, substantially in the form of the August 6, 1976 draft, with such changes as were made at this meeting and with such further changes as may be approved by the Finance Committee after consultation with General Counsel, is hereby adopted and approved for distribution to holders of Bonds; and

RESOLVED that the Form of Letter of Transmittal, substantially in the form of the August 6, 1976 draft presented to this meeting, with such changes as were made at this meeting and with such further changes as may be approved by the Finance Committee after consultation with General Counsel, is hereby adopted and approved for distribution to holders of Bonds.
Minutes of August 9, 1976 Meeting

Resignation of James R. Keegan, and  
Appointment of Stephen J. Weinstein as Secretary

Mr. Keegan indicated that he had tendered his resignation as Secretary of the Corporation, and that he would be leaving later this month to begin an association with a real estate development firm in Los Angeles. He thanked the Board for the opportunity to participate in the important work of the Corporation during the past year. Mr. Rohatyn thanked Mr. Keegan for his services.

Mr. Elish recommended that Stephen J. Weinstein, who has been serving as Counsel to the Corporation since last spring, be appointed Secretary by the Board, effective today.

By Resolution duly made, seconded and carried it was:

RESOLVED that Stephen J. Weinstein be and hereby is appointed Secretary to the Municipal Assistance Corporation For The City of New York, effective August 9, 1976.

At this point, the telephone communication with Dr. Weaver was terminated.

Mini-MAC's

Mr. Rohatyn stated that he had received a letter from Robert Abrams, Borough President of the Bronx, dated July 31, 1976, which urged the Corporation to issue bonds in small denominations of $50 or $100, as soon as possible, reiterating a request made in June of 1975 by Mr. Abrams, Manhattan Borough President Percy Sutton and City Council President Paul O'Dwyer.

Mr. Rohatyn indicated that he and other members of the Board had been discussing the possibility of such an issue in the near
future, until the downgrading by Moody's of its rating of the Corporation's First Resolution Bonds last May. In light of that downgrading, he continued, the market in MAC Bonds has become more unpredictable; consequently, investors in small denomination MAC bonds might be subject to market forces which would preclude resale, and thus interfere with the liquidity of such investments to their detriment.

Dean Netzer indicated that the rating change was insufficient reason for not issuing such bonds, inasmuch as the Board had previously committed itself to such an issue. Mr. Kresky stated that he reluctantly agreed on the need for the Corporation to do a Mini-MAC issue, but at the same time recommended that the Corporation communicate its thinking on the probable liquidity problem to Mr. Abrams and the other proponents of the plan. Mr. Rohatyn said that he agreed with Dean Netzer and Mr. Kresky, but that the Corporation should clearly indicate that it is proposing such an issue at the suggestion of the local officials who in fact have recommended it. After a discussion, Mr. Rohatyn requested the staff to prepare a letter directed to Mr. Abrams, taking into account the Board's views, for later review by the Board.

Mr. Rohatyn also requested that the Corporation's General Counsel begin to draft an official statement for such a Mini-MAC issue, with the idea of maximizing comprehensibility for the potential small investor.
Minutes of August 9, 1976 Meeting

Proposed Sale of City Mitchell-Lama Mortgages

Mr. Thomas distributed a memorandum, dated August 9, 1976, as background on the use of proceeds from the proposed sale of Mitchell-Lama mortgages by the City. He said that the three-year Financial Plan for the City includes revenues of $350 million from the sale of Mitchell-Lama mortgages, and assumes that such proceeds will be used for general City budget purposes. However, Mr. Thomas continued, the State Legislature later enacted Section 154 of the Local Finance Law, requiring that the proceeds of such a sale be held in a special account by the City for use only for repayment of outstanding City Bond Anticipation Notes. He said that the City, which drafted and advocated that legislation, apparently intended that the notes which it would pay with such proceeds would be only those held by the Corporation, and would not include any held by the public. According to Mr. Thomas, legal research to date indicates that substantial constitutional and equitable problems arise from such a plan for payment other than on a pro rata basis to all classes of noteholders. Mr. Thomas reported that counsel to the Corporation had met with counsel for The City of New York, and communicated such preliminary research conclusions. Mr. Elish stated that the City's proposal to pay only the BAN's held by MAC would undermine the fiscal credibility established by the Corporation during the past year.

After discussion, the Board directed that the staff should disclose and discuss with the City the Corporation's policy position that it would probably oppose the City's proposed use of such proceeds.
Minutes of August 9, 1976 Meeting

Restructuring

Mr. Rohatyn summarized the status of the proposal for further restructuring of certain of the Corporation's debt which is institutionally held. He indicated that the banks appeared unwilling to go along with such a restructuring proposal without some assurance that the funds would go to uses other than the general City treasury, and possibly with some segregation of the savings from such a restructuring for such efforts. For example, Mr. Rohatyn indicated they may require that certain of the funds be devoted to economic development activities of the City.

Annual Report

A draft of the text for the Annual Report, dated August 9, 1976, was distributed.

Mr. Elish and Mr. Weinstein informed the Board that arrangements were being made for the design and printing of the Corporation's first Annual Report, which is scheduled to be completed sometime in early fall. Mr. Elish said that the Board had previously authorized the staff to contract for services not in excess of $50,000, but that he felt that the Board should be informed of the projected costs for this report in advance, although total costs were expected to be less than $50,000. Mr. Weinstein stated that 30,000 copies would be printed, and that the total cost for design and printing was expected to be between $40,000 and $45,000, divided approximately equally between design and printing. After discussion, Board members indicated approval of the proposed production expenditure and timetable.
Minutes of August 9, 1976 Meeting

State Audit of City

Mr. Elish informed the Board that the Corporation had received a letter from John R. Thompson, First Deputy Comptroller of the State, with regard to the annual audit of the City of New York required by Section 3038 (3) of the MAC statute, beginning with 1977-78 Fiscal Year. Mr. Thompson's letter, dated July 23, 1976, indicated that planning for the audit should be completed by the end of October 1976 and that work should get under way by May 1, 1977. Mr. Thompson further estimated the cost for the planning to be approximately $100,000, and the cost of the audit itself to be an estimated $1.5 million, which costs Mr. Thompson stressed should be borne by the City either directly or indirectly through the Corporation. A discussion followed as to whether the cost of such audit should be borne by the State or the City or the Corporation.

Adjournment

There being no further business at the meeting, it was by motion duly made, seconded and carried, adjourned.

[Signature]
Stephen J. Weinstein
Secretary
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
(A Corporate Governmental Agency and Instrumentality of the State of New York)

SOLICITATION OF TENDERS

for

$5,000,000 Aggregate Principal Amount of its 8% 1975 Bonds Due July 1, 1986, Series 1 through 4

ALL TENDERS MUST BE RECEIVED BY THURSDAY, AUGUST 4, 1976, AT 5:00 P.M., NEW YORK CITY TIME (THE "EXPIRATION DATE")

To The Holders of 8% 1975 Bonds Due July 1, 1986, Series 1 Through 4 of Municipal Assistance Corporation For The City of New York:

The Municipal Assistance Corporation For The City of New York, a corporate governmental agency and instrumentality of the State of New York (the "Corporation"), hereby solicits tenders

IMPORTANT

Any Bondholder wishing to tender his 8% 1975 Bonds Due July 1, 1986, Series 1 through 4, should (1) request his broker, dealer, bank, trust company or nominee to effect the transaction for him or (2) complete the Letter of Transmittal, sign it in the place required and forward the Letter of Transmittal with his Bonds and any other required documents to the Trustee. Bondholders having Bonds registered in the name of a broker, dealer, bank, trust company or nominee should contact their broker, dealer, bank, trust company or nominee if they desire to tender their Bonds.
for, and offers to purchase for cash, up to $5,000,000 aggregate principal amount of its 8% 1975 Bonds Due July 1, 1986, Series 1 through 4 (the "Bonds"), subject to the terms and conditions herein and in the related Letter of Transmittal. An aggregate of $458,275,000 principal amount of Bonds is outstanding and the subject of this Solicitation of Tenders.

This offer is being made solely to fulfill a portion of the Corporation's July 1, 1977 sinking fund obligation with respect to its 8% 1975 Bonds Due July 1, 1986, Series 1 through 4 (see "Purpose of Offer"). The Corporation does not at this time have any such sinking fund obligation with respect to any of its other outstanding bonds. Accordingly, this offer relates only to 8% 1975 Bonds Due July 1, 1986, Series 1 through 4, and does not relate to any other bonds of the Corporation.

The price or prices at which Bonds are to be tendered pursuant to this Solicitation of Tenders is to be determined by the tendering Bondholder in accordance with the terms and conditions hereof and the related Letter of Transmittal.

The Corporation reserves the right to purchase less than $5,000,000 aggregate principal amount of Bonds if the prices offered by tendering Bondholders are not, in its sole discretion, satisfactory to it and to purchase more than $5,000,000 aggregate principal amount of Bonds if the prices offered by tendering Bondholders are, in its sole discretion, satisfactory to it. The Corporation will not purchase any Bonds tendered at a price of par or above par.
1. **Purpose of Offer.** Pursuant to each of the 1975 Series 1 through 4 Resolutions adopted November 25, 1975 by the Board of Directors of the Corporation (the "Series Resolutions") under which the Bonds were issued, a certain percentage of the Bonds must be retired, on July 1 in each year commencing in 1977 and terminating in 1986, through the operation of a sinking fund. Pursuant to the Second General Bond Resolution adopted November 25, 1975 by the Board of Directors (the "Second General Bond Resolution") and the Series Resolutions, the Corporation may fulfill such sinking fund obligations either (i) by instructing United States Trust Company of New York, as Trustee (the "Trustee") under the Second General Bond Resolution, to call Bonds, by lot, for redemption between May 15 and July 1 of each year in which a sinking fund payment must be made and to make payment for such Bonds from monies in the Bond Service Fund; or (ii) by directing the Trustee to purchase Bonds, between the preceding July 2 and May 15 of each year in which a sinking fund payment must be made, with monies in the Bond Service Fund, at a price not in excess of par, plus unpaid interest accrued to the date of such purchase, and any such Bonds so purchased shall be credited against the sinking fund installment due on such first day of July. Pursuant to the Series Resolutions, the sinking fund obligations of the Corporation to be fulfilled at or prior to July 1, 1977, with respect to the Bonds are as follows:

<table>
<thead>
<tr>
<th>1975 Series 1 Bonds:</th>
<th>$ 6,115,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975 Series 2 Bonds:</td>
<td>13,030,000</td>
</tr>
<tr>
<td>1975 Series 3 Bonds:</td>
<td>5,350,000</td>
</tr>
<tr>
<td>1975 Series 4 Bonds:</td>
<td>6,660,000</td>
</tr>
</tbody>
</table>

$31,155,000
The Corporation has determined that it will fulfill at least part of such July 1, 1977 sinking fund obligation through the purchase of Bonds pursuant to this Solicitation of Tenders.

2. **Principal Amount of Bonds to be Purchased.** The Corporation has currently determined that it will purchase up to $5,000,000 aggregate principal amount of Bonds pursuant to this Solicitation of Tenders, if such amount is tendered at prices satisfactory to the Corporation. The Corporation is not obligated to purchase any Bonds if it, in its sole discretion, determines that the prices at which such Bonds were tendered are unsatisfactory. The Corporation also reserves the right to accept more than $5,000,000 aggregate principal amount of Bonds if it, in its sole discretion, determines that the prices at which such Bonds were tendered are satisfactory. Bonds in each Series will be accepted up to the total amount for each separate Series set forth in paragraph 1 above and the Corporation reserves the right to accept Bonds up to such amounts in any proportion it deems advisable.

3. **Determination of Tender Price and Purchase Price.** The price at which all tenders are to be made is to be determined by each tendering Bondholder, as set forth in the instructions to the Letter of Transmittal. If the Corporation accepts such tender, the tender price will become the purchase price (the "Purchase Price") for such tender and will be paid to such tendering Bondholder as set forth in paragraph 4 below. The Corporation may accept tenders at various Purchase Prices.
4. **Irrevocability.** Tenders made pursuant to this solicitation of tenders will be irrevocable when made.

5. **Payment of Purchase Price.** Payment of the Purchase Price, in cash, plus accrued interest from July 1, 1976 to August 26, 1976, for all Bonds duly tendered and purchased pursuant hereto will be made on behalf of the Corporation by the Trustee, on August 26, 1976 or as soon thereafter as practicable. All Bonds not purchased will be returned without expense to the tendering Bondholder as soon after the Expiration Date as is practicable.

6. **Tender Procedure.** Except as hereinafter provided, in order to tender Bonds pursuant to this Solicitation of Tenders, Bonds, together with a properly executed Letter of Transmittal and any other required documents, must be transmitted to and received by the Trustee prior to the Expiration Date.

   Tenders may be made without the concurrent deposit of Bonds if such tenders are made by or through a member in the United States of the National Association of Securities Dealers, Inc., a member in the United States of any national securities exchange in the United States or a commercial bank or trust company in the United States. In such cases, the Letter of Transmittal must contain a guaranty by such member or member firm or commercial bank or trust company that the Bonds will be received by the Trustee within ten business days after the date of such guaranty. Such letter must also contain the numbers of the Bonds so guaranteed. Payment for Bonds so tendered and purchased will be made only against their deposit with the Trustee.
If a Bondholder desires to tender his Bonds and time will not permit the Letter of Transmittal, Bonds and any other required documents to reach the Trustee before the Expiration Date, the tender may be effected if the foregoing items have been deposited with a member in the United States of the National Association of Securities Dealers, Inc., a member of any national securities exchange in the United States, or a commercial bank or trust company in the United States, and if the Trustee has received, at or before the Expiration Date, a telegram or letter from such party with whom such Bonds have been deposited setting forth the name of the Bondholder, the amount of Bonds tendered and the certificate numbers of the Bonds. Such telegram or letter shall also state that the tender is being made thereby and must guaranty that the Bonds, together with the Letter of Transmittal and any other required documents, will be delivered to or otherwise received by the Trustee within ten business days after the date of such telegram or letter. Payment for Bonds so tendered and purchased will be made only against their deposit with the Trustee.

The execution and delivery of the Letter of Transmittal (or the delivery of a letter or telegram in accordance with the provisions of the preceding paragraph) and the acceptance by the Corporation of the tender made thereby shall constitute an agreement between the tendering Bondholder and the Corporation in accordance with the terms hereof and of the related Letter of Transmittal. All questions as to the validity, form, eligibility and acceptance of any tendered Bonds shall be determined by the Corporation, whose determination shall be final and binding.
7. **Tender Period.** All tenders must be received by the Trustee at the address set forth in paragraph 17 below by 5:00 P.M., New York City Time, on August , 1976.

8. **Acceptance by the Corporation.** On August , 1976 the Corporation will determine which tenders it will accept and will notify all tendering Bondholders as soon thereafter as practicable.

The Corporation, in accordance with the provisions of paragraph 2 above, will accept those Bonds which are tendered at the lowest prices. The Corporation reserves the right to determine a maximum price at which it will accept tenders and, if necessary to establish different maximum prices for each Series of Bonds in order to redeem the maximum amount of Bonds. If more Bonds than the Corporation determines to purchase are tendered at a specific price, the Corporation will determine by lot which Bonds it will purchase. The unaccepted Bonds will then be returned to the tendering Bondholder as soon thereafter as practicable.

If a portion of the principal amount of a Bond is accepted and a portion is not accepted, such Bond will be split by the Trustee into two or more Bonds the principal amounts of which will equal such original Bond, and the Trustee, on behalf of the Corporation, will then return Bonds in the aggregate principal amount of the unaccepted portion of the original Bond to the tendering Bondholder as soon thereafter as practicable.

9. **Tax Consequences.**

The provisions of the Internal Revenue Code of 1954 (the "Code") relating to gains and losses on the retirement or
exchange of bonds or other evidences of indebtedness will apply to the redemption of the Bonds.

A person whose Bonds are purchased for a Purchase Price in excess of his adjusted basis for the Bonds will recognize gain to the extent of the difference. Such gain will be treated as interest exempt from tax under section 103(a) of the Code, to the extent of that portion of the original issue discount on the Bonds which bears the same ratio to such original issue discount as the number of days such person has held the Bonds bears to the number of days from the issue date of the Bonds to their maturity. In the case of a person who is neither a dealer in securities nor a financial institution described in section 582(c) of the Code and who tenders Bonds which he held for investment purposes, any gain realized in excess of such portion of original issue discount will be treated as capital gain, which will be long-term or short-term capital gain, depending on whether such person held the Bonds for more than six months.

A portion of any such long-term capital gain will, under certain circumstances, be subject to the minimum tax on tax preference items under section 56 of the Code.

A person whose Bonds are purchased for a Purchase Price which is less than the sum of (i) his adjusted basis for the Bonds and (ii) the amount of that portion of the original issue discount on the Bonds which bears the same ratio to such original issue discount as the number of days such person has held the Bonds bears to the number of days from the issue date of the Bonds to their maturity,
will recognize a loss to the extent of such difference. In the
case of a person who is neither a dealer in securities nor a
financial institution described in section 582(c) of the Code and
who tenders Bonds which he held for investment purposes, any such
loss realized on the redemption will be treated as a capital loss.
Such capital loss will be long-term or short-term, depending on
whether such person held the Bonds for more than six months.

In the case of a dealer in securities or a financial
institution described in section 582(c)(1) of the Code, any gain
in excess of the ratable portion of original issue discount, and
any loss, will be considered an ordinary gain or loss, except as
provided in section 1236 of the Code.

It is recommended that holders of Bonds consult their
tax advisers as to the income tax consequences of the purchase of
their Bonds.

10. **Source of Funds.** The Corporation currently has
on deposit with the Trustee in the Bond Service Fund $22,000,000
plus interest accrued from June 25, 1976, for the purchase or
redemption of Bonds in order to satisfy sinking fund requirements.

11. **Recent Market Prices.** At the close of business on
August 10, 1976, the Corporation's Bonds, as reported by **The New
York Times**, were quoted at bid, asked. Since
their issuance on January 9, 1976 the Bonds, as reported by **The
New York Times**, have been quoted as high as bid,
asked, and as low as bid, asked. The Corporation
has no information as to the amount of Bonds, if any, which have
actually been purchased or sold at the prices listed in The New York Times.

12. Future Purchases. The Corporation may, between the Expiration Date and May 15, 1977, direct the Trustee to make open-market purchases of Bonds or may solicit additional tenders of Bonds in order to fulfill its July 1, 1977 sinking fund obligations.


14. Fees. The Corporation has not retained any dealer-manager in connection with this Solicitation of Tenders and is making no payments to any broker-dealers or other persons for soliciting tenders. Banks, brokers, dealers, nominees and other custodians and fiduciaries will not be reimbursed by the Corporation for their expenses in forwarding this Solicitation of Tenders and related materials to beneficial owners of Bonds. The Trustee receives reasonable fees for its services as Trustee under the Second General Bond Resolution.
15. **Description of Bonds.** The Corporation has previously issued $458,275,000 aggregate principal amount of Bonds. The Bonds were issued, pursuant to the Corporation's offer in November and December 1975, in exchange for an equal aggregate principal amount of short-term obligations of The City of New York. For a more complete description of the Bonds, reference is made to the Official Statement of the Corporation dated November 26, 1975, as supplemented by a Supplement dated December 16, 1975, the Second General Bond Resolution and Series Resolutions pursuant to which the Bonds were issued, copies of each of which are available at the office of the Corporation.

16. **Effect on Non-Tendering Bondholders.** Pursuant to the Series Resolutions, the Corporation is obligated to redeem through operation of a sinking fund a specified percentage of Bonds by July 1 in each year from 1977 through 1986 inclusive. To the extent that the Corporation fulfills these sinking fund requirements through open market purchases of Bonds or solicitations of tenders for Bonds, the likelihood of any non-tendering Bondholder's Bonds being redeemed by lot, at par, through operation of the sinking fund is reduced.

17. **Delivery and Mail Instructions.** The Letter of Transmittal and Bonds, or telegram or letter as provided in paragraph 6 above, should be sent or delivered by you, your broker or dealer or bank or Trust Company to the Trustee:
UNITED STATES TRUST COMPANY
OF NEW YORK
Corporate Trust and Agency Services
(MAC Tender)
130 John Street
New York, New York 10038
(212) 344-5105

Hand Delivery: 20th Floor

18. [Additional Disclosure - if any]

"Questions or requests for assistance or for copies of this Solicitation of Tenders, the Letter of Transmittal, the Second General Bond Resolution, the Series Resolutions and the Official Statements, as supplemented, may be obtained from the Trustee at the address set forth in paragraph 17 above or from the Corporation at its offices at Two World Trade Center, New York, New York 10047, Room 4540, Telephone No. (212) 488-5720.

This Solicitation of Tenders is not being made to, nor will the Corporation accept tenders from, holders of Bonds in any jurisdiction in which the making of this Solicitation of Tenders or the acceptance of Bonds tendered pursuant hereto would not be in compliance with the securities or Blue Sky laws of such jurisdiction. No person is authorized to give any information or make any representation on behalf of the Corporation other than is contained in this Solicitation of Tenders and the related Letter of Transmittal, and no such information or representation should be relied upon as having been authorized."
The delivery of this Solicitation of Tenders has been
duly authorized by the Corporation.

Municipal Assistance Corporation
For The City of New York

Neither the Corporation nor the Trustee makes any recommend-
dation to any Bondholder to tender or refrain from tendering
all or any of his Bonds and no one has been authorized by
the Corporation or the Trustee to make such recommendation.
Each Bondholder is urged to read carefully this offer before
deciding whether to tender Bonds.
LETTER OF TRANSMITTAL
To Accompany Bonds of
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK
Tendered Pursuant to Solicitation of Tenders

The Solicitation of Tenders Will Terminate at
5:00 P.M., New York City Time, on August 2, 1976
(such time and date being referred to herein as the "Expiration Date")

PLEASE READ CAREFULLY THE TENDER PROVISIONS, THE ASSIGNMENT,
THE APPOINTMENT, AND THE INSTRUCTIONS ON THE INSIDE PAGES.

DESCRIPTION OF MAC BONDS TENDERED AND TENDER PRICE (See Instruction A)

<table>
<thead>
<tr>
<th>Name(s) and Address of Tendering Owner(s) (All information must be typed or printed)</th>
<th>Bond No.</th>
<th>Principal Amount</th>
<th>Total Tender Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name(s)</td>
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<tr>
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<td>Telephone Number (……….) (Area code)</td>
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</tbody>
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Tenders should be made as follows:

By hand:
UNITED STATES TRUST COMPANY
OF NEW YORK
Corporate Trust and Agency Services
(MAC Exchange)
20th Floor
130 John Street
New York, New York
(212) 344-5105

By mail:
UNITED STATES TRUST COMPANY
OF NEW YORK
Corporate Trust and Agency Services
(MAC Exchange)
130 John Street
New York, New York 10038
(212) 344-5105
Please read carefully the tender provisions, the assignment, the appointment and the instructions contained in this Letter of Transmittal and then fill in the blanks and sign in the spaces provided. An improperly completed Letter of Transmittal may be returned and the resulting delay could prejudice the rights of a tendering holder of Bonds under the Solicitation of Tenders.

Additional copies of this Letter of Transmittal may be obtained from the Trustee. The Trustee may be contacted by telephone at the special number shown above.

The method used to deliver this Letter of Transmittal and any accompanying Bonds is at the option and risk of the undersigned, and delivery will be deemed effective only when effected in accordance with a method described in Instruction B. The Corporation does not recommend delivery by mail; but if delivery is by mail, it is strongly recommended that registered mail, return receipt requested, be used and that provisions for insurance or indemnification be made covering the full amount of principal and interest on the Bonds.
TO THE TRUSTEE:

Pursuant to the Solicitation of Tenders of the Municipal Assistance Corporation For The City of New York (the "Corporation") to the holders of its 8% 1975 Bonds Due July 1, 1986, Series 1 through 4, as set forth in the Solicitation of Tenders of the Corporation dated August 1976 (the "Solicitation of Tenders"), receipt of which is hereby acknowledged, the undersigned hereby tenders the Bond or Bonds listed above (the "Bonds") for cash at the Tender price inserted above (the "Tender Price") plus accrued interest from July 1, 1976 to August 1976, subject to the right of the Corporation to accept or reject the Bonds under the terms set forth in the Solicitation of Tenders.

The undersigned hereby represents and warrants that the undersigned has full power and authority to sell and transfer the Bonds and that the Corporation will acquire good and unencumbered title to the Bonds free and clear of all liens, charges and encumbrances and not subject to any adverse claims, when and if the same are acquired by it in accordance with the Solicitation of Tenders. All warranties herein contained shall survive consummation of the transaction contemplated hereby. The undersigned will, upon request, execute any additional documents necessary or desirable to
complete the sale and transfer of the Bonds. All authority herein conferred or agreed to be conferred shall survive the death or incapacity of the undersigned and all obligations of the undersigned hereunder shall be binding upon the undersigned's heirs, personal representatives, successors and assigns. In consideration of the payment to the undersigned of the cash to which the undersigned is entitled under the terms set forth in the Solicitation of Tenders, the undersigned hereby releases and discharges the Corporation from any and all obligations, claims, liabilities or causes with respect to or arising out of the obligation to pay the principal amount of and interest on the Bonds accepted by the Corporation. This tender is irrevocable and unconditional.

ASSIGNMENT

Subject to the terms and conditions set forth in the Solicitation of Tenders and in this Letter of Transmittal, the undersigned hereby assigns and transfers unto the Corporation all right, title and interest in the Bonds or, if less than all of the aggregate principal amount of the Bonds tendered is accepted by the Corporation pursuant to the Solicitation of Tenders, that portion of the original principal amount of the Bonds accepted.
APPOINTMENT OF AGENT

If less than all of the aggregate principal amount of the Bonds tendered is accepted by the Corporation pursuant to the Solicitation of Tenders, the undersigned hereby appoints you, the Trustee, as the undersigned's agent to receive from the Corporation on behalf of the undersigned registered or bearer Bonds of the Corporation in the total aggregate principal amount of that portion of the original principal amount of the tendered Bonds not accepted, as described in the Solicitation of Tenders under the heading "Acceptance by the Corporation", and to transmit such Bonds as specified herein. In connection with such receipt and delivery, the undersigned instructs you to act as agent for the undersigned and agrees that neither you nor the Corporation shall have any obligations or responsibilities except as expressly set forth herein or in the Solicitation of Tenders and you shall not be responsible for the form, execution, validity, value or genuineness of any unaccepted Bonds or any Bonds of the Corporation returned to you.

In connection with the receipt of the cash to which the undersigned is entitled pursuant to the terms of the Solicitation of Tenders, the undersigned hereby instructs you to deliver such cash as specified herein.
Copies of the Solicitation of Tenders and this Letter of Transmittal may be obtained from the Trustee. The availability of such documents from the Trustee does not imply any recommendation by it as to whether or not any Bondholder should tender or refrain from tendering all or any of his Bonds, or any representation by it as to the accuracy or completeness of the Solicitation of Tenders.
INSTRUCTIONS

Instruction A -- DESCRIPTION OF BONDS TENDERED AND TENDER PRICE

Specify the Aggregate Tender Price, percentage of principal amount Tender Price, principal amount, serial number and Series number of the Bonds. Bonds may be tendered for the full principal amount thereof or for a portion of the principal amount thereof in multiples of $5,000. The Tender Price is to be determined by the tendering Bondholder and may be different for each Bond tendered and/or for each portion (in multiples of $5,000) of a Bond tendered. The Tender Price should be specified as a percentage of the principal amount of each Bond tendered and/or of each portion (in multiples of $5,000) of a Bond tendered and then the principal amount should be multiplied by the specified percentage to obtain the Aggregate Tender Price.

Instruction B -- METHOD OF DELIVERY

Delivery of the Bonds may be effected by one of the following methods:

(1) Delivery to the Trustee (by mail or by hand) at the address set forth on the front of this Letter of Transmittal, at or prior to the Expiration Date (Note that tenders by mail will be accepted only if actually received by the Trustee on or before the Expiration Date regardless of the date of mailing.); or

(2) Delivery to the Trustee by a member in the
United States of the National Association of Securities Dealers, Inc., a member firm of a national securities exchange in the United States or a commercial bank or trust company in the United States, if such member, firm or bank shall have advised the Trustee in writing by telegram or otherwise, received by the Trustee at or prior to the Expiration Date, that it has in its possession a duly completed and signed Letter of Transmittal and the accompanying Bonds, the serial numbers of which are specified in such telegram or other written notice, and guarantees that the same will be delivered to the Trustee by 5:00 P.M. on the tenth business day after the date of such guarantees, and the same are actually so delivered.

(3) Delivery to the Trustee by a member in the United States of the National Association of Securities Dealers, Inc., a member firm of a national securities exchange in the United States or a commercial bank or trust company in the United States, if such member, firm or bank shall have previously delivered to the Trustee, at or prior to the Expiration Date, a duly completed and signed Letter of Transmittal guaranteeing that the Bonds will be delivered to the Trustee by 5:00 P.M. on the tenth business day after the date of such guarantee, and the same are actually so delivered.
Instructions C -- REGISTRATION DIRECTIONS

Unless otherwise specified in the box "Special Registration Instructions", any Bonds of the Corporation which are to be delivered to the tendering Bondholder as set forth in the Solicitation of Tenders will be registered in the name(s) of the tendering owner(s) specified in the box under the caption "Description of MAC Bonds Tendered and Tender Price." If more than one name is specified, such Bonds will be registered in such names as Joint Tenants with right of survivorship and not as Tenants in Common unless otherwise instructed.

Instruction D -- DENOMINATION DIRECTIONS

Unless otherwise specified in the box "Special Denomination Instruction", if a tendering Bondholder is entitled to receive Bonds of the Corporation pursuant to the Solicitation of Tenders and has not elected to receive such Bonds in bearer form, a single registered Bond will be issued in the total aggregate principal amount of such Bonds. However, at the option of the person tendering the Bonds, such Bonds may be issued in denominations of $5,000 or any integral multiple thereof if the box "Special Denomination Instructions" is properly completed.

Instruction E -- SIGNATURES

This Letter of Transmittal must be signed by the person(s) tendering the Bonds.
Instruction F -- GENERAL

The Corporation reserves full discretion to determine whether to purchase any Bonds, whether the documentation with respect to Bonds is complete and generally to determine all questions as to tenders, including the date and time of receipt of a tender, the propriety of execution of any document and other questions as to the eligibility or acceptability of any tender. The Corporation reserves the right to reject any tenders not in proper form or to waive any irregularities or conditions, and the Corporation's interpretation of the terms and conditions of the Solicitation of Tenders (including these instructions) will be final. No such tender will be deemed to have been made until all irregularities have been cured or waived. All improperly tendered Bonds will be returned, unless irregularities are waived, without cost to the tendering holder by the Trustee.

All information must be clearly printed or typed.

Delivery of Bonds of the Corporation and any unaccepted Bonds in accordance with the terms of the Solicitation of Tenders will be made as described in the Solicitation of Tenders under the heading "Acceptance by the Corporation". Bonds of the Corporation and any unaccepted Bonds to be delivered pursuant to the Solicitation of Tenders will be mailed by the Trustee to the address appearing in the box under the caption "Description
of Bonds Tendered and Tender Price" unless the box "Special Mailing Instructions" is completed, in which case they shall be mailed to the address appearing therein. Checks to be delivered in payment of principal and interest accrued on the accepted Bonds as described in the Solicitation of Tenders will be mailed to the address appearing in the box under the caption "Description of Bonds Tendered and Tender Price" unless the box "Special Mailing Instructions" is completed, in which case they shall be mailed to the address appearing therein.
REGISTRATION DIRECTIONS (See Instructions C and F)
(Use only if Bonds of the Corporation, if any, being
delivered to the tendering Bondholder are not to be
registered in the name of the tendering owner(s)
specified above.)

(Complete either PART A or PART B)

<table>
<thead>
<tr>
<th>Special Registration Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>(All information must be typed or printed)</td>
</tr>
</tbody>
</table>

**PART A**

- Issue in Bearer Form

**PART B**

- Register in the name(s) of:

<table>
<thead>
<tr>
<th>Name(s)</th>
<th>(Use full given name(s), initial and last name)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Address</th>
<th>(Number)</th>
<th>(Street)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>City</th>
<th>State</th>
<th>Zip</th>
</tr>
</thead>
</table>

DENOMINATION DIRECTIONS (See Instruction D)
(Use only if more than one Bond of the Corporation may be delivered to the tendering Bondholder)

<table>
<thead>
<tr>
<th>Special Denomination Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any registered Bonds* of the Corporation to be delivered should be in denominations of $ . . . . ** if possible, with the remaining principal amount issued in the highest possible denomination.</td>
</tr>
</tbody>
</table>

* Such Bonds will be issued only in denominations of $5,000 or any integral multiple thereof.

** Fill in other denomination desired (must be a multiple of $5,000).

SIGNATURE (See Instruction E)

Dated 1976

(Signature(s))
MAILING INSTRUCTIONS (See Instruction F)
(Use only if checks and/or Bonds are not to be mailed to the address set forth above)

Special Mailing Instructions
(All information must be typed or printed)

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
</tr>
<tr>
<td>(Number)  (Street)</td>
</tr>
<tr>
<td>(City)  (State) (Zip)</td>
</tr>
</tbody>
</table>
To Be Used Only If Bonds Are Not Transmitted Herewith

The undersigned guarantees to deliver to you by 5:00 P.M., New York City Time, on the tenth business day from the date hereof, the Bonds bearing the serial numbers set forth on page one hereof tendered by this Letter of Transmittal. The undersigned is (check one):

☐ a member in the United States of the National Association of Securities Dealers, Inc., or of a national securities exchange in the United States, or

☐ a commercial bank or trust company in the United States

______________________________
(Firm -- Please Print)

______________________________
(Authorized Signature)

______________________________
(Address)

______________________________
(Area Code and Telephone Number)

(DO NOT WRITE IN SPACES BELOW)

Date Received Accepted by Checked By

<table>
<thead>
<tr>
<th>MAC BONDS TENDERED</th>
<th>PRINCIPAL AMOUNT OF BONDS ACCEPTED</th>
<th>BOND NOS.</th>
<th>AMOUNT OF PRINCIPAL AND INTEREST DUE</th>
<th>AMOUNT OF BONDS TO BE RETURNED</th>
</tr>
</thead>
</table>

Delivery prepared by Checked by Dated
July 31, 1976

Mr. Felix Rohatyn
Chairman of the Board
Municipal Assistance Corporation
Two World Trade Center
New York, N. Y. 10047

Dear Mr. Rohatyn:

I am writing to urge the Municipal Assistance Corporation to immediately begin issuing bonds in denominations of $50 or $100 in order both to expand the market for MAC securities and to make these attractive, tax-free investments available to the small savers and working people of our City for the first time. I am confident that there are countless thousands of New Yorkers who are waiting eagerly for the chance to buy these bonds. I believe they should be put on the market without further delay.

You will recall that in June of 1975, I was joined by City Council President Paul O'Dwyer and Manhattan Borough President Percy Sutton in urging you and the other members of the MAC Board to begin selling "mini-MAC" bonds in denominations of $50 or $100, so as to make the tremendous tax benefits of these securities available to workers and middle income people. As we stated at the time, it is patently unfair to set the minimum denomination at $5,000 and thus deny the tax bonanza represented by these securities to all but the large financial institutions and a handful of the super-rich.

Shortly after we sent this letter, there were stories in the newspapers saying that MAC had agreed to issue these small denomination bonds. However, the program has not yet been initiated.

Several reasons have been given for the subsequent delays, and most recently, MAC stated that small denomination bonds would not be sold until the current uncertainty about MAC's bond rating had been resolved. I agreed with MAC that Moody's decision to lower the bond rating was grossly unfair, but I believe this makes it even more important than ever to open up bond sales to all segments of the public, so that they can show their faith in the future of
Mr. Felix Rohatyn  
July 31, 1976

their City. Only by giving individual New Yorkers a chance to "put their money where their heart is" can we overturn the dominant control which the giant financial power brokers exercise over our City's fiscal affairs.

I am confident that these bonds would prove to be an excellent investment that would be extremely well received by New Yorkers. Individuals of moderate means today have few choices when it comes to making investments. Stocks are terrified risky, especially considering our country's volatile economy; savings accounts pay only 5% or 5½%; and the higher interest rates that come from certificates of deposit carry the penalty of tying up money for lengthy periods of time. In addition, all these investments are subject to Federal, State and City income taxes, which reduce the earnings even further.

Indeed, small denomination MAC bonds, which have a first claim on certain City tax revenues, would be the most profitable investment a small saver could make without taking dangerously speculative risks.

Furthermore, by buying these securities, New Yorkers will be investing in the future of their City, instead of giving the use of their money to the savings banks, all too many of whom have red-lined our neighborhoods and exported precisely needed investment capital outside the State. By contrast, the purchase of a MAC bond contributes directly to the creation of new jobs, the restoration of devastating cuts in City services and the eventual rejuvenation of our City's economy. We should welcome the opportunity to provide some stiff competition to the savings banks for the deposits of New Yorkers. Perhaps the pressure will force them into some long-overdue reforms in their investment policies.

I further believe that selling these bonds would be of significant benefit to the Municipal Assistance Corporation and, therefore, to the City as a whole. MAC has had to offer high interest rates to attract investors, and in the most recent public offering last November, the interest rate was around 11%. On the other hand, small investors would find interest rates as low as 5% or 6% highly attractive, because of the tax-free feature. For example, for a worker with a taxable income of $12,000, a 3½% tax-free interest rate produces higher net earnings than an 8% taxable rate. For someone with $20,000 in taxable income, the 5% tax-free bond would be approximately equivalent to a taxable investment earning 9%.

Of course, every bond MAC can sell at a lower interest rate will reduce the tremendous burden of debt service that will be with New York's taxpayers for years to come.

I seriously believe that MAC's credibility is on the line. It is imperative to issue these bonds immediately.

Sincerely,

[Signature]

ROBERT ALLEMAN
ROBERT AFFAIRS
July 23, 1976

Mr. Herbert Elish  
Executive Director  
Municipal Assistance Corporation  
2 World Trade Center 
New York, New York 10047  

Dear Mr. Elish:

In my letter of earlier today about annual audits of the City's financial statements, I neglected to say that we will probably require a consultant to assist in the basic planning work which is to be undertaken almost immediately. Very likely it will be the consultant now helping to develop accounting systems and controls for the City.

That is a reason we are especially anxious to get agreement on the costs of the basic planning work.

Sincerely,

John R. Thompson  
First Deputy Comptroller  

cc:

The Comptroller  
Deputy Mayor Kenneth Axelrod  
Budget Director Peter C. Goldmark, Jr.
July 23, 1976

Mr. Herbert Elish
Executive Director
Municipal Assistance Corporation
2 World Trade Center,
New York, New York 10047

Dear Mr. Elish:

This is to recapitulate what I said in our telephone conversation yesterday about the annual audits and reports to MAC which are contemplated by Section 3038, subdivision 3, of the Public Authorities Law. As you know, the first such audit and report are to be upon New York City's financial statements for its 1977-78 fiscal year.

We have completed a preliminary appraisal of the scope, nature, cost and scheduling of the necessary work. The purpose of this letter is to acquaint you with our thinking and to request your cooperation in providing for the costs. As you suggested on the telephone, we are keeping the City informed by sending a copy of this letter to Deputy Mayor Axelstein.

The Comptroller's present thinking is that this Department, with the assistance of one or more firms of certified public accountants, will undertake the audits and furnish the reports to MAC (rather than having the work done by a firm retained by the City with the Comptroller's approval).

Each annual audit will require a large team of auditors to work throughout the year being audited. The complexity inherent in the first audit will be accentuated by the new accounting systems and controls the City is in the process of instituting. Accordingly, for the 1977-78 audit, actual audit work should be initiated by May 1, 1977. In order for an effective effort to begin on that date, preparations must start immediately. Basic planning work should be completed by the end of October, 1976.
Mr. Herbert Elish
July 23, 1976
Page 2

This basic planning work will include delineation of the scope of the audit, recommendations for dividing the task into areas of responsibility by funds or by types of transactions and account balances, proposals for integrating staff from our Metropolitan Area Office with staff from outside firms, preparation of cost estimates, and collection of data needed for drafting specifications and requests for proposals from outside firms.

Contracts with one or more outside accounting firms should be awarded by mid-February. Standardized audit programs and forms would then be agreed upon and staff assignments made as soon as practical thereafter.

The basic planning work in the next few months will cost an estimated $100,000. The cost of each annual audit is highly uncertain. An order-of-magnitude estimate is $1.5 million a year.

To enable the Comptroller to proceed further, we need assurance that arrangements are being made for the City directly or indirectly to pay all costs. The simplest arrangement appears to us to be one whereby MAC would reimburse this Department, much as is being done with other costs under our Agreement of March 4, 1976.

In view of the time factor involved, we would appreciate your early reaction to this proposal for handling the costs. It is particularly important that we have a prompt agreement, at least in principle, with respect to the costs of the basic planning work.

Sincerely,

John R. Thompson
First Deputy Comptroller

cc:
The Comptroller
Deputy Mayor Kenneth Axelsson
Budget Director Peter C. Goldmark, Jr.
9 August 1976

DRAFT

MUNICIPAL ASSISTANCE CORPORATION

ANNUAL REPORT

The Financial Crisis

In the late Spring of 1975, the City of New York was unable to market its debt. This created an unparalleled fiscal crisis for the City, and revealed the precarious nature of the City's finances.

The City of New York had customarily borrowed funds in the public markets for conventional municipal purposes -- on a long-term basis to finance capital projects, and on a short-term basis to meet temporary cash flow problems. However, for several years prior to 1975, the City had also used such short-term borrowings to meet its annual budget deficits and to repay the borrowings of previous years. Thus, the City had to borrow more money in each succeeding year, reaching a peak in fiscal 1975, when the City borrowed more than $9 billion, and repaid more than $8 billion of previous debt. As a result of these practices, by April 1975, the City found itself no longer able to borrow at any price.

Faced with the prospect of default by the nation's largest city, the State of New York advanced $800 million to the City to meet the City's needs through its fiscal year ending June 30, 1975. In addition, Governor Carey appointed Simon H. Rifkind, Felix Rohatyn, Richard Shinn and Donald Smiley to a panel, to develop means of dealing with the City's critical short-term debt and cash flow problems. The solution which they recommended and which was adopted by the New York State Legislature on June 10, 1975, was the creation of the Municipal Assistance Corporation For The City of New York.
While the exact evolution of the drastic deterioration in the City's finances is yet to be charted, and several efforts and inquiries are currently under way to that end, the essential outline of events is clear. For many years, the City of New York had increasingly lived beyond its means. In the 1970's, the downturn in the local economy, coupled with cutbacks in State and Federal aid, produced operating deficits in the annual expense budgets of the City. These annual budgets were balanced by the expedient of deficit financing, rather than by the more politically difficult means of raising taxes or cutting expenditures.

Various devices for deficit financing were developed, duly authorized by the State Legislature, and implemented. These devices were often complex, and dependent upon the peculiarities and permissiveness of the City's accounting procedures. In addition, they were based upon the assumption that the growing City debt was marketable in ever increasing volume. Among other things, the City borrowed in increasing amounts against accrued, but actually uncollectable, tax revenues; applied the proceeds of long-term debt to make payments pursuant to collective bargaining agreements; and moved payment dates for payrolls and other expenses forward to later fiscal years. Long-term debt was used to finance such non-capital programs as manpower training and vocational education, and to pay an increasing array of municipal salaries and other recurring expenses. In these and other ways, the City was able to appear to balance each annual budget. But, in fact, such actions were effectively creating permanent additions to the City's outstanding debt. Once on the treadmill, the City had to continue borrowing, in order to pay off previous debts and to finance new deficits. To fund this growing debt, the market imposed both higher interest rates and shorter maturities. Short-term debt mushroomed, and long-term
debt became shorter and shorter in term.

Two other leading factors added to the massive pressures which the City exerted on the financial markets. First, rather than obtaining long-term mortgage financing for its own Mitchell-Lama subsidized housing, the City issued and was required continually to re-finance short-term debt; over $1.2 billion in bond anticipation notes related to Mitchell-Lama projects was outstanding in 1975. Second, the City's program of expanding and replacing capital facilities had grown to require over $1 billion in long-term financing annually, in addition to long-term debt issued to support operating expenses. As a consequence, even if the market had remained receptive to new City debt in mid-1975, the City would have needed to issue each month an average of approximately $750 million in short-term debt and, each quarter, approximately $500 million in long-term debt.

The underlying problem was similar in nature to that of many other cities in the United States. During the 1960's, there was a continuous growth of new social programs coming out of Washington and Albany; the City seized upon these in order to obtain maximum financial aid from the other levels of government. But one real effect was to increase City payrolls and expenses, and eventually to contribute to the fiscal gap. In the 1970's, New York felt a growing squeeze between a static or declining tax base, and escalating demands and costs for municipal services. Neither sufficient new taxing authority, nor sufficient State or Federal aid, was available to close this widening gap.

Yet, the City of New York does bear certain fiscal burdens which are not shared by other major American cities. The City's per capital direct expenditures for common municipal services -- elementary and secondary education, police, fire, sanitation, parks, highways, general control and financial administration -- are about average compared to other large cities. However, due to the fact that
the City of New York is the exclusive local government for taxing and spend-
ing, it must also provide many public services which in other cities are
provided by local governments other than the municipalities themselves. In
addition, the City historically has provided certain public services which
are not provided by most local governments in this country, including ex-
tensive hospital and higher education systems. Finally, unlike most states,
New York State law requires the City of New York to fund locally a large
percentage of certain other costly services, such as welfare and the court
system. More than 25 percent of the City's own tax proceeds is applied to
these four services.

Several other well-known causes also contributed to the City's financial
crisis. Municipal employment was increased substantially during a period in
which the City's population was falling. Pension plans and other fringe
benefits for City employees were extensively liberalized during the 1960's.
Welfare and medicaid expenses, of which the City itself must pay a large share,
grew rapidly. And the poor performance of the local economy in recent years
combined with an unusually elastic municipal tax structure to depress City tax
revenues.

In the five-year period through fiscal 1975, the City of New York ran up
a cumulative cash deficit of $5.77 billion, which it financed by increasing
its outstanding debt by $5.83 billion. From 1971 to 1975, City short-term debt
nearly doubled, increasing to over $4.5 billion. At the same time, City long-
term debt was rising by about one-third, to $6.8 billion. By 1975, total City
debt stood at more than $11 billion. The components of this enormous borrowing
effort are shown in the accompanying two tables.
### TABLE I: CITY DEBT AND DEFICIT
($ Millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Borrowed</th>
<th>Total Redeemed</th>
<th>Net Borrowing</th>
<th>Cash Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>5,055</td>
<td>4,358</td>
<td>696</td>
<td>832</td>
</tr>
<tr>
<td>1971</td>
<td>7,416</td>
<td>5,986</td>
<td>1,431</td>
<td>1,298</td>
</tr>
<tr>
<td>1972</td>
<td>6,609</td>
<td>5,533</td>
<td>1,076</td>
<td>942</td>
</tr>
<tr>
<td>1973</td>
<td>5,158</td>
<td>4,754</td>
<td>404</td>
<td>784</td>
</tr>
<tr>
<td>1974</td>
<td>8,798</td>
<td>7,164</td>
<td>1,633</td>
<td>1,977</td>
</tr>
<tr>
<td>1975</td>
<td>9,338</td>
<td>8,099</td>
<td>1,239</td>
<td>773</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>42,374</strong></td>
<td><strong>35,894</strong></td>
<td><strong>6,479</strong></td>
<td><strong>6,606</strong></td>
</tr>
</tbody>
</table>

### TABLE II: CITY BALANCE SHEET ITEMS
(Year Ending June 30)

($ Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Notes</td>
<td>----</td>
<td>308.3</td>
<td>460.8</td>
<td>308.3</td>
<td>308.3</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Tax Anticipation Notes</td>
<td>170</td>
<td>206</td>
<td>232</td>
<td>265</td>
<td>317</td>
<td>380</td>
<td>+ 210</td>
</tr>
<tr>
<td>Revenue Anticipation Notes</td>
<td>536.7</td>
<td>1,096.3</td>
<td>1,180</td>
<td>887.1</td>
<td>1,798.3</td>
<td>2,560</td>
<td>+2,023.3</td>
</tr>
<tr>
<td>Bond Anticipation Notes (Including Notes for Limited Profit Housing)</td>
<td>467.6</td>
<td>586.6</td>
<td>687.7</td>
<td>957.1</td>
<td>908.7</td>
<td>1,570.2</td>
<td>+1,102.6</td>
</tr>
<tr>
<td>Urban Renewal Notes</td>
<td>54.5</td>
<td>93.8</td>
<td>86.4</td>
<td>93.9</td>
<td>83.6</td>
<td>30</td>
<td>- 24.5</td>
</tr>
<tr>
<td><strong>Total Short-term</strong></td>
<td><strong>1,228.8</strong></td>
<td><strong>2,291</strong></td>
<td><strong>2,646.9</strong></td>
<td><strong>2,511.4</strong></td>
<td><strong>3,415.9</strong></td>
<td><strong>4,540.2</strong></td>
<td><strong>+3,311.4</strong></td>
</tr>
</tbody>
</table>

| LONG-TERM DEBT (Net of Sinking Fund Assets) | 4,361.1 | 4,714 | 5,515.2 | 6,007.3 | 6,733.8 | 6,798 | +2,436.9 |
| GRAND TOTAL | 5,589.9 | 7,005 | 8,162.1 | 8,518.7 | 10,149.7 | 11,338.2 | +5,748.3 |
The Corporation

The New York State Legislature established the Municipal Assistance Corporation for the City of New York in June 1975, with two stated statutory purposes — to assist the City of New York in providing essential services to its inhabitants without interruption, and to instill investor confidence in the debt obligations of the City. To carry out the first purpose, the act empowered the Corporation to sell bonds and notes, and to pay or lend to the City the proceeds of such sales. The bonds of the Corporation were to be secured by State taxes imposed on retail sales and stock transfers within the City. In order to assist in the restoration of investor confidence, the act required the City to adopt the State Comptroller's uniform system of accounts for municipalities, to phase out its past practice of including certain operating expenses in the capital budget, and to reach a balanced budget in fiscal year 1978.

The Corporation planned to raise a total of $3 billion, its original statutory debt limit, in the three months of June, July and August, while recognizing the extreme difficulty of such an ambitious undertaking. In the month between June 10 and July 10, 1975, the Corporation laid the groundwork for the public offering of $1 billion in bonds of the Corporation, the largest public offering in municipal financing history. Corporation board members traveled to the other principal financial centers of the country in order to provide information and generate investor interest in the imminent new issue. As a prelude to that offering, the City's leading commercial banks lent $100 million to the Corporation, which turned over the proceeds to the City, in
order to avoid impending default on July 7, 1975. The prospectus and
other information made available to the public by the Corporation at that
time, and since then, have set new standards of broad disclosure for munici-
pal debt issues.

In the initial offering of July 10, however, it became clear that the
public market was not sufficiently receptive to purchase the entire offer.
Despite attractive tax-free interest rates as high as 9.25 percent and "A" ratings from the municipal bond rating agencies, the public absorbed only
$550 million of the offering. The balance was taken by the underwriters,
including several of the City's commercial banks. Most investors, apparently,
were not able to distinguish bonds of the Corporation, secured by State tax
collections, from obligations of the City. The sheer size of the undertaking
may have been beyond the capacity of the public markets to absorb. And, the
erlier default by the Urban Development Corporation, an unrelated State
authority, created an additional hurdle.

The market response was further damaged by the uncertainty surrounding
adoption of the new City budget for fiscal 1976, and by the perceived failure
of the City to carry out various announced actions with regard to management
and finances. There was substantial public disagreement by elected officials
as to the size and composition of the actual budget deficit. Accordingly, it
became apparent to the Corporation that bold and dramatic new steps in the
management and financial controls of the City would be required, if the
Corporation was to market successfully the remaining $2 billion of its author-
ized and contemplated issue.
During the last two weeks of July and the first week of August, the Corporation and the Office of the Mayor hammered out a series of new policies and programs, aimed at reforming spending and management practices of the City. At the same time, amid threats of an imposed wage freeze by the Mayor, and of a general strike by the municipal unions, the Corporation, together with the City, negotiated with the unions to obtain agreements to defer certain wage increases provided for in existing contracts. These unprecedented agreements were achieved during a period in which inflation in the City was running at an annual rate of more than ten percent. Within the same three-week period, in response to the growing demands for management reform, the Mayor's Management Advisory Board was established, under the Chairmanship of Richard Shinn. The Mayor appointed Corporation Executive Director Herbert Elish and then City Planning Commission Chairman John Zuccotti as co-directors.

Despite all these efforts, the Corporation was barely able to raise the $840 million necessary to meet the City's August cash requirements. This sum was finally obtained from a combination of sales to the public, commercial banks, and pension funds of the City and State, but only after difficult and sustained efforts and negotiations.

At that point, the Corporation believed that it had exhausted all available sources of funds. The City now faced the prospect of imminent default in September, in the absence of dramatic new governmental action. Since the start of the summer, and the early stages of its financing activities, the Corporation had believed that the ultimate solution of the City's fiscal crisis would have to include the securing of some kind of Federal guarantee for Corporation-type obligations. During July and August, discussions between the
Corporation and the Federal government had indicated that no such support would be forthcoming without the substantial involvement and commitment of the State of New York itself. The Corporation, together with the Office of the Governor, then turned its energies to the preparation of financial and legislative proposals which it hoped might aid in securing such support, and in avoiding default for an additional period of time. These efforts by the Corporation were completed over the Labor Day weekend.

On the basis of the Corporation's recommendations, the Governor called the State Legislature into Extraordinary Session on September 5, 1975. The Legislature enacted the Financial Emergency Act For The City of New York, which was signed into law by the Governor on September 10, 1975. This Act created the Emergency Financial Control Board, whose members are the Governor, State Comptroller, Mayor, City Comptroller, and three private citizens appointed by the Governor. The Act directed the City to prepare a three-year Financial Plan, which would require that the City balance its expense budget by fiscal 1978, and which would be subject to review and approval by the Control Board. Responsibility for audit and review of the three-year plan was vested in the new office of the State Special Deputy Comptroller for the City of New York. Further, under the Act, all City revenues were required to be in accounts of the Control Board, for release to the City subject to the discretion of the Board. And, all City expenditures and contracts were made subject to review by the Control Board, and subject to disapproval if they do not conform to the Financial Plan. In these ways, the Control Board is able to ensure the integrity of the Financial Plan.

The passage of this legislation was a condition for completion of a complex financing package to carry the City through the three months from September to November. The most striking feature of this package was a $750 million commitment
by the State itself -- $250 million in September in return for a one-year note from the Corporation, $250 million in October in return for a one-year note from the City, and $250 million in November in return for long-term bonds of the Corporation. The State's commitment was in turn conditioned upon the Corporation's ability to obtain other financial commitments sufficient to finance the City through November. Such commitments were obtained from the banks, City pension and sinking funds, certain other City-based financial institutions, and the State Insurance Fund. Thus, the Corporation obtained $1.788 billion to finance the City through November 1975.

This financing for a three-month period merely gave the Corporation time to attend to the even more difficult problem of financing the City over a longer term. At the start of September, default in mid-December seemed likely. In order to avoid such a default, and to raise sufficient cash to finance the City for the remainder of the three-year emergency period, the Corporation formulated still another financing package in November. The November proposal included four major and interdependent elements, all designed to obtain a fifth element -- substantial Federal support.

Moratorium. On November 15, 1975, the Legislature adopted the Emergency Moratorium Act For The City of New York. This statute permits the City to suspend payment of its short-term obligations, including City notes, for a three-year period, provided that: (a) the Corporation offers to exchange its bonds for the notes; and (b) the notes not exchanged receive interest at their stated rate until maturity, and thereafter receive interest at a rate not less than six percent. It should be noted that this statute has been challenged in several court actions. All decisions to date have sustained the Act as valid.
One such decision is pending on appeal to the highest court in the State. The New York Court of Appeals is expected to rule on this matter during the Fall of 1976. Further, it is significant that there is no provision under the Financial Plan for repayment of the City obligations subject to this moratorium at the end of the three-year period.

Taxation. On November 26, 1975, the State Legislature enacted new or increases taxes within the City, calculated to provide approximately $500 million in City revenues over the life of the three-year plan. Such taxes were deemed necessary in order to obtain Federal aid.

Exchange Offer. On November 26, 1975, the Corporation, to fulfill the conditions of the Moratorium Act, offered to exchange its eight percent bonds due July 1, 1986, for $1,600,175,000 of City notes then held by the public. A total of $458,275,000 of City notes was exchanged, for an equivalent amount of bonds of the Corporation.

Restructuring and Pension Fund Investments. Also on November 26, 1975, the Corporation reached a complex agreement with eleven City commercial banks, and with the City pension and sinking funds, which provided that:

a. The banks and pension funds would defer to 1986 the maturity of $819,220,000 of City notes held by them, at a reduced interest rate of six percent;

b. The sinking funds would exchange $200 million of City notes held by them for long-term City bonds;

c. The banks, pension funds and sinking funds would restructure their previously purchased $1,808,323,000 of the Corporation's bonds, resulting in interest savings to the Corporation and hence to the City of $753,000,000; and
d. The pension funds would invest $2.5 billion in new long-term City bonds over the life of the three-year plan. Through June 30, 1976, $500 million had been invested by the pension funds. In addition, the pension funds agreed to reinvest in City bonds $500 to $600 million of the bonds which were expected to mature within the three-year period.

The cumulative effect of these various elements paved the way for significant Federal action. On Thanksgiving Eve, the President announced his support for seasonal loans to the City, reversing his previous public position. On December 15, 1975, President Ford signed into law the New York Seasonal Financing Act of 1975. Acting under this new law, on December 30, 1975, the State, the City, the Control Board and the United States signed a Credit Agreement, under which the Secretary of the Treasury agreed to make short-term loans to the City of up to $1.3 billion in fiscal 1976, and up to $2.3 billion in each of fiscal years 1977 and 1978. All loans under the Credit Agreement must be repaid in full by June 30th of each year, and are to be renewed in the succeeding year only if the Secretary is assured of a reasonable prospect of repayment. The loans are at one percentage point above the Federal government's cost of borrowing at the date of each loan. In fiscal 1976, the City borrowed $1.26 billion, all of which was repaid by June 30, 1976. The Secretary made a further loan of $500 million to the City on July 1, 1976.

The accompanying table summarizes the financing activities of the Corporation through December 1975.
<table>
<thead>
<tr>
<th>Month</th>
<th>Action</th>
<th>Amount</th>
<th>Monthly Total</th>
</tr>
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<tbody>
<tr>
<td>May - June</td>
<td>State aid advances to City</td>
<td>800</td>
<td>800</td>
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<tr>
<td>June</td>
<td>&quot;Bridge&quot; loans from commercial banks of $100 million</td>
<td></td>
<td></td>
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<tr>
<td>July</td>
<td>Sales of Corporation bonds to public</td>
<td>550</td>
<td></td>
</tr>
<tr>
<td></td>
<td>to commercial banks</td>
<td>450</td>
<td>1,000</td>
</tr>
<tr>
<td>August</td>
<td>Sales of Corporation bonds to public</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>to banks, City and State pension funds</td>
<td>213</td>
<td>840</td>
</tr>
<tr>
<td>September</td>
<td>State agreement to purchase debt of City</td>
<td>627</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(250) and Corporation (500)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sales of Corporation bonds to banks, City pension and sinking funds,</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>State Insurance Fund, and certain institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>557</td>
<td>1,307</td>
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<tr>
<td>October</td>
<td>Sales of Corporation bonds to City pension and sinking funds, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>State Insurance Fund</td>
<td>281</td>
<td>281</td>
</tr>
<tr>
<td>November</td>
<td>Sales of Corporation bonds to City pension and sinking funds, State</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance Fund, and certain institutions</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>State legislation establishing Moratorium on publicly held City notes</td>
<td>1,600</td>
<td></td>
</tr>
<tr>
<td>Agreement</td>
<td>of November 26, 1975</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stretchout of City Notes</td>
<td></td>
<td>819</td>
<td></td>
</tr>
<tr>
<td>Exchange of City notes for City bonds</td>
<td></td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Agreement to purchase City bonds</td>
<td></td>
<td>2,530</td>
<td></td>
</tr>
<tr>
<td>Further agreement to reinvest City bond proceeds</td>
<td></td>
<td>579</td>
<td></td>
</tr>
<tr>
<td>State tax increase package</td>
<td></td>
<td>500</td>
<td>6,428</td>
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<tr>
<td>December</td>
<td>Federal Seasonal Credit Agreement</td>
<td>2,300</td>
<td>2,300</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td></td>
<td>12,956</td>
</tr>
</tbody>
</table>

-13-
At the same time that the Corporation was arranging vital new financing for the City, several steps were being taken to reduce City spending, in order to reach a balanced budget by 1978. These steps included the imposition of tuition at City University, a cutback in municipal hospital facilities and services, the closing of dozens of day-care centers, and a reduction in the municipal work force that totaled 40,000 by the end of fiscal 1976. Such cutbacks clearly have substantial social costs. However, the alternative to such cutbacks would have been bankruptcy for the City of New York, which would have generated infinitely greater social costs.

By contrast with the period from inception through December, the Corporation's last six months' accomplishments were those of implementation and consolidation.

If the Corporation's November exchange offer for City notes had been more successful, the November-December financings would have substantially completed the Corporation's financing and funding mission, albeit with absolutely no margin for error in the City's three-year Financial Plan, and with no financing on hand or in sight for the City's fiscal year beginning July 1, 1978.

Since the first exchange offer was only a limited success, the Corporation announced a second offer on May 21, 1976, to exchange up to $500 million of 8 percent 15-year bonds of the Corporation for an equivalent amount of City notes. The market for the Corporation's securities had been developing a steady upward momentum through the late winter and early spring, and there was every prospect of a successful exchange offer and perhaps even an oversubscription. But then, on May 23, precipitately and without warning, Moody's Investors Service, Inc., one of the principal bond rating agencies, dropped its rating of the Corporation bonds three grades, from "A" to "B". The other major rating agency, Standard and Poor's Corporation, reviewed the Corporation's bonds and reaffirmed its "A+" rating.
While Moody's rating applied only to the bonds sold to the public in July and August, and not to the bonds exchanged for City notes, the market's reaction was a sharp decline in all of the Corporation's publicly-held securities. As one consequence of Moody's action, only $140 million of City notes were exchanged in the second offer. The offer was extended to July 21, in the hope that Moody's would revise its rating before that date, but it failed to do so and only an additional $18.2 million was exchanged.

Also in the latter part of the fiscal year, as called for by its enabling statute, the Corporation undertook a review of the Mayor's proposed Expense Budget for fiscal 1977. By letters directed to the Mayor and the Governor, on June 1, 1976, the Corporation transmitted its report on this budget review. That report concluded that the estimated revenues and proposed expenditures were generally reasonable, and within the requirements of the Financial Plan. However, the report further concluded that, given present levels of financing, the proposed budget would come close to consuming all available cash during the coming year. Consequently, any slippage in either revenues or expenditures -- and the report noted $300 million in specific areas of risk -- could become critical to the success or failure of the Financial Plan, and close monitoring on a continuous basis was recommended. A continuing lag in the local economy over the coming year could have negative impact upon the tax revenue anticipated in the City budget, and thereby upon the Financial Plan itself.

The State of City

The conception and creation of the Corporation took place in a context of considerable change within the City. While the economic base of New York City remains extensive and diverse, the past decade has seen the local economy first
peak and then suffer precipitous decline. That decline, which continues today, has been accompanied and reinforced by social changes in the fabric of the City. These far-reaching and ongoing changes make it impossible to return to the status quo of the late 1960's, even if the City's debt situation is brought fully under control within the next few years. On the contrary, these changes require that the City either accommodate or alter its evolving economy over a much longer period.

Through the 1960's, the City broad mix of economic activities largely sheltered it from swings in the national economy. Since 1970, however, the economy of the City has been suffering its own recession, and has failed to follow the recent economic upturn of the nation.

Some basic measures are illustrative. In 1969, employment in New York City reached an all-time high. Over the past six years, however, the City has lost more than half a million jobs, reaching a recorded low mark in late 1975, though still a formidable total of nearly 2.3 million. Yet, even during the 1960's, private sector employment in New York City had been falling, but had been more than offset by large increases in employment by local, State and Federal governments. Until 1970, the City's unemployment rate was consistently lower than that of the nation. Since then, the City's jobless rate has been consistently higher than the national average. New York City unemployment rose from 4.8 percent of the local work force in 1970, to more than 11 percent in 1975, peaking at 11.9 percent in the Fall. The number of "Fortune 500" Corporations headquartered in New York fell from 131 in 1968 to 96 in 1975. Between May 1975 and May 1976, seven more major corporations left the City, and four others announced plans to move.
Total New York City population has been relatively constant, with a net loss of only about 300,000 between 1970 and 1975, a smaller percentage decline than that of many other of the older major American cities. More significant, however, are the marked changes in composition of the New York City population, with large increases in those categories of persons who depend more upon public services, but who contribute less to the local economy, including the very young, the very old, the poor and the unschooled. In addition, increasing mobility has contributed to the changing character of the populace. Since 1960, the white population of the City has fallen by more than 20 percent, while the number of hispanic residents has risen by about 36 percent, and of non-whites by about 62 percent.

Another key local economic indicator is the office rental market. During the 1960's, commercial construction boomed in New York City, and produced an enormous amount of new office space. But, at the start of 1976, some 26.3 million square feet of office space was vacant, more than ten percent of the City's total. While this inventory of empty space appears to be declining slowly at present, this is due largely to the fact that new office construction in the City has come close to a complete halt. Between 1972 and 1975, annual completion of new rentable commercial space fell from 16 million square feet to just three million square feet. While the four years ending in 1972 saw 61 new office buildings completed, only a single new office building is scheduled for completion during 1976.

A similar dramatic decline is evident in new residential construction. While 36,000 new units were added to the City's housing stock in 1972, only 4,000 were added in 1975. In 1976, at mid-year, only a handful of permits for new residential units had been issued. The total value of all new construction in New York City fell from a peak of $1.5 billion in 1972, to less than $300 million in 1975. The
softness in the local real estate industry is further reflected in collections of City real estate tax revenues. The tax delinquency rate in 1970 was 4.2 percent of assessed value, but had risen to approximately 8 percent in 1975.

The downturn in the local economy is also evident in recent performance of New York City retailers. This is reflected in receipts from taxes on sales within the City. While the year ending in June 1975 saw a 9.3 percent rise in local retail prices, these tax receipts went up only 1.7 percent during that period. Between January 1975 and January 1976, retail sales in the City rose by 3.4 percent, approximately half of the increase in the consumer price index. These figures indicate declining sales in constant dollars.

The economic plight of the City is interwoven with instances of severe social deprivation in certain communities throughout the five boroughs. Problems of slums, drugs, crime, welfare and abandonment are all too real. For example, the South Bronx can be seen as an urban disaster area by both casual observation and objective measure. Within this once-thriving neighborhood, close to the center of the City, more than 100 acres of land lie vacant and unused, and more than 1,200 apartment buildings stand abandoned and empty. The area has been the scene of more than 7,000 fires during the past two years; in 1975 alone, more than $20 million in insurance losses was recorded in the area. These are staggering statistics. While they do represent the extreme inner-city New York neighborhood in trouble, they also constitute a critical concern for the future of the City, in terms of both social equity and economic productivity. Both concerns must be addressed together, if the City is to prosper, as well as provide the social services and opportunities mandated by an affluent and democratic society.

Such dismal statistics can be turned around. In fact, this can be demonstrated by looking to another part of New York City -- the Bedford Stuyvesant neighborhood
in Brooklyn. There, a community organized and managed development corporation, with foundation funding, has succeeded in restoring widespread devastated areas to handsome and healthy living and working environments. More than sixty blocks have been renovated, over 1,000 housing units built, 900 mortgages secured, 86 businesses begun, nearly $90 million of investments attracted, a community and shopping center complex constructed, empty old buildings recycled for new manufacturing uses, and 5,000 area residents trained for new jobs. The contrast between these two communities offers both a lesson and a warning for the future of the City.

In spite of such serious problems, New York City remains the center of the nation's largest and most diversified urban economy, having by far the largest manufacturing, distribution and retailing infrastructures in the United States. It is the national center of banking and finance, the national hub of communications and advertising, the country's largest concentration of corporate headquarters, the international capital of the visual and performing arts, the focus of the fashion industry, the seat of the United Nations, and the site of some of the world's best hotels and restaurants. The maximum potential of such an awesome agglomeration of economic resources must be realized, for the ultimate benefit of all citizens of New York.

Despite the buoyancy of spirit in the City following Operation Sail and the Democratic Convention, and despite some lessening in the rates of decline of certain local economic indicators, the overall drain of the City economy goes on, as retail sales fall further and as the corporate exodus continues. Consequently, in order to do on providing the broad range of municipal services which is necessary or desirable, the City tax base must be strengthened, and the City economy stimulated.
Recognizing the critical nature of a vigorous City economy, the Corporation is committed to carrying out a supporting role in conceiving and implementing means for preserving and expanding the local economy, within the inherent constraints of its structure and legislative mandate as a municipal financing institution. The Corporation so indicated last March, in response to Governor Carey’s request that it assume an active role in fostering the economic development of the City. Clearly, however, the primary responsibilities in this area of economic development lie elsewhere, with State and City officials and agencies.

In April of 1976, the Governor established the New York Council on the Economy, with the Corporation Chairman and Executive Director as members, along with the State Commissioner of Commerce, the City Economic Development Administrator, and many other representatives of both public and private sectors. In addition to addressing a number of important issues around the table, the Council created two special task forces to examine two particularly significant problem areas, in conjunction with the Corporation staff.

The Special Task Force on Taxation, over a period of two months, developed a proposed program for revision of State and City taxes, designed to make the New York tax structure more competitive with those of other localities. These recommendations were forwarded to the Governor on May 26, 1976. Prior to the close of the 1976 legislative session, the Governor submitted and the Legislature enacted one of these proposals, which will relieve market makers of their stock transfer tax burden by granting them credits against certain other State and City business taxes. The remaining recommendations, including a reduction in the maximum State personal income tax rate, from 15 percent to 10 percent over a five year period, remain for the Governor and Legislature to review and act upon in the coming year.
The Special Task Force on the Battery Park City Authority was created by the Council in May. It was directed to examine the status of this ambitious undertaking, calling for construction of a new residential and commercial community on Hudson River landfill in Lower Manhattan, to be financed by a combination of moral obligation bonds and private capital. This project represents a substantial potential stimulus to the local economy, which has been impeded by changes in the financial and real estate markets. This work by the Corporation staff was under way at the close of the fiscal year.

At the request of the City, the Corporation has been studying possible ways to finance construction of a new convention center for New York City. This project too represents an important potential contribution to the continued livelihood of the City. This analysis was continuing at the close of the year.

Many of the problems and prospects of the City are inescapably linked to the economy of the metropolitan area, the State, and the broader Northeast region. In June, the Governor was among the founding members of the Coalition of Northeast Governors, created by the chief executives of seven Northeast states, to stimulate regional economic development and to present a united front, on specific issues of mutual interest. Priority issues included the relatively high cost of energy in the Northeast, and Federal spending and program policies which work to the detriment of the Northeast states, along with the possible creation of a Northeast study institute to look into such questions. Also on the regional scale, the Corporation Chairman has publicly called for the formation of a regional economic development corporation for the Northeast. Such an institution would make capital available on attractive terms for economically productive investments within the region. This was still being studied at the close of the year.
These more recent efforts of the Corporation reinforce its fundamental role and accomplishments to date, in providing financing for the City of New York. By making it possible for the City to avoid default, the Corporation has enabled the City to continue furnishing housekeeping and social services essential to an urban environment where people will choose to live and do business.
Information for Bondholders

During the last six months of 1975, the Corporation became one of the largest issuers of municipal bonds in the country. In the constant crises and activities of the past year, many conflicting reports and statements have been made concerning the Corporation and its bonds. We would like to take this opportunity, in our first Annual Report, to review for bondholders and the investment community the relevant facts about the bonds and their security. These comments should be read in conjunction with the audited financial statements and debt service tables which appear later in this report.

The Corporation has issued its bonds under its two General Bond Resolutions. The "First Resolution" bonds were sold to the public in July and August of 1975. The publicly traded "First Resolution" bonds are the Series A 9s of 1985, the 9-1/4s of 1990, and the Series B 11s of 1983. The "Second Resolution" bonds were exchanged for notes of the City of New York in December of 1975, and in June and July of 1976. The "Second Resolution" bonds are the Series 1 through 4 8s of 1986, and the Series 5 and 6 8s of 1991.

The bonds are obligations of the Corporation, and not of the State or the City of New York. The First Resolution bonds are supported by the State collections of sales and use taxes in the City, and by the State collection of stock transfer taxes. In the year ended June 30, 1976, such sales and use tax collections by the State were $798,755,789, and stock transfer tax collections were $266,647,253, for a total of $1,065,403,042. As shown in the accompanying schedules, the Corporation's debt service payments for the First Resolution bonds, including those not publicly held, were $125,654,318. Therefore, the ratio of taxes collected to debt service requirements was 8.48 to one in fiscal 1976.
The highest future year's payments are projected to be $484,349,812, in fiscal year 1980. The 12 months' collections for the period ended June 30, 1976, exceed this peak future requirements by 2.2 times; sales and use tax also exceed it by 1.65 times. Under the First General Resolution, the total of the sales and stock transfer tax collections must exceed debt service payments by 2 to 1; and sales taxes alone must be 1.5 times debt service payments. Both tests are met on the basis of the most recent data. In recent years, sales tax collections have increased each year, but at a rate below that of inflation. The stock transfer tax is more volatile, having been as high as $295 million in fiscal 1972, and as low as $185 million in 1975 compared to last year's $266 million.

The Second Resolution bonds are supported by the payment of State per capita aid which would otherwise go to the City, less certain prior claims. In addition, the Second Resolution bonds have a subordinated claim on the sales and stock transfer tax collections. Per capita aid deposited to the Corporation's account for the year ended June 30, 1976, was $434,311,665. In addition, $347,074,154 of sales and stock transfer tax was available for Second Resolution bonds, for a total of $781,385,819. If the entire amount of City notes in moratorium had been exchanged for Second Resolution bonds, in June and July, a total of 1.6 billion Second Resolution bonds would now be outstanding, and debt service requirements would have peaked at $238 million in fiscal 1980. On that basis, the funds historically available would have been 3.2 times the fund required.

The amount of Second Resolution bonds outstanding is actually only $616,350,000, and debt service requirements therefore are much lower and coverage ratios much higher. But the Corporation believes it is appropriate to look at the Second Resolution bonds as though all City notes in moratorium had been exchanged, because there is no provision to repay these notes other than through exchange for the Corporation's bonds.
The tax and per capita aid revenues in excess of those required by the Corporation for debt service and operating expenses flow from the Corporation's accounts to the City. The revenues must be allocated to the Corporation each year by the State Legislature because, under the State Constitution, no sitting legislature can bind future legislatures to make such payments.

In addition to the State-collected tax and per capita aid revenues, the Corporation's bondholders also have the benefit of the Capital Reserve Funds established by the Legislature and the bond resolutions. These funds are built up from the revenues at the rate of 25% per year of the following year's debt service payments, and will be fully funded in 1980 at 100% of 1981's debt service payments.

Between October 12, 1975, and June 30, 1976, the Corporation received $726,157,601.87 for its various debt service and operating funds. A promissory note of $25,000,000 and accrued interest of $229,167 were paid to City sinking funds at maturity on January 15, 1976. Interest of $125,654,318 was paid to First Resolution bondholders on February 1, 1976. Interest of $15,982,104.44 was paid to Second Resolution bondholders on July 1, 1976. At June 30, principal of $250 million and interest of $21,689,583.40 were on hand for complete repayment of a State-held note on September 15, 1976. Other funds were held or disbursed as shown in the accompanying financial statements.

On November 26, 1975, the Corporation reached an agreement with the City's leading banks, and the City employee retirement plans and sinking funds, under which those institutions voluntarily agreed to restructure their holdings of bonds of the Corporation. The restructuring, which involved, among other things, the exchange of more than 500,000 pieces of paper, was closed on July 23, 1976. The Corporation is currently seeking to negotiate a second voluntary restructuring,
again solely with these institutional investors. No restructuring has been or is being sought with any public holders.

The Corporation's debt service coverage ratios improved significantly during the year for two reasons. First, debt service funding requirements declined due to the restructuring of institutionally-held debt referred to above. Second, collections of both sales and stock transfer tax increased over the previous year. The increase in sales tax collections was at a rate less than inflation. Stock transfer tax collections reflected record trading volume on the New York Stock Exchange in the first quarter of calendar 1976. However, Federal legislation relating to Federally-regulated transfer agents may cause some reduction in future collections of this tax.

In May of 1976, Moody's Investors Service lowered its rating of the Corporation's First Resolution bonds by three grades, from "A" to "B". The Corporation has publicly and privately challenged Moody's downgrading. In particular, the Corporation has stressed that its bonds have ample backing; that, because the revenues supporting the bonds flow from the State, the Corporation's finances are not affected by the vicissitudes of the City; and that, in any case, both the City and the State have undergone very positive financial and managerial changes since the bonds were first given an "A" rating in mid-1975. The other major rating agency, Standard & Poor's Corporation, has also reviewed the bonds, and has reaffirmed its "A+" rating.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

Board of Directors Meeting - 8/9/76

Briefing Memo on Use of Proceeds of Sale
of Mitchell Lama Mortgages by the City

1. The current Three-Year Financial Plan of the City, as approved by the Control Board, assumes the receipt of $350,000,000 by the City, commencing in early 1977, from the sale of Mitchell-Lama mortgages held by it. The Plan further assumes that all of such proceeds will be used for general purposes of the City and that none of such proceeds will be used to repay any outstanding short-term obligations of the City (RANs, TANs and BANs) held by the public and subject to the moratorium.

2. In the course of preparation of legislation needed to permit or facilitate the mortgage sale, at the suggestion of the Senate Republican leadership, the City drafted a section of such legislation (a new Section 154 of the Local Finance Law) which requires that the proceeds of the sale of the mortgages be held in a special account by the City for use only for repayment of outstanding BANs issued by the City.

3. The City made this proposal, and advocated the passage of the legislation, on the theory -- which apparently had the tacit approval of at least the staff of the Republican Senate
majority -- that the BANs to be paid with such proceeds would be only those held by MAC and would not include any held by the public. MAC would then, one way or another, make such proceeds available again to the City, either by grant of money for operating expenses or by reducing its need to "capture" sales and stock transfer taxes and thereby increasing the amount of such taxes flowing to the City.

4. The full plan was presented to counsel to MAC only on the eve of passage of the legislation, which was after the issuance of the Second Exchange Offer Official Statement but before the issuance of the Supplement thereto. We told both State and City officials that we had problems with the proposed use of MAC as a conduit for the proceeds of the sale of mortgages, but that within the available time, we could not come up with any alternatives other than simple omission of Section 154. Section 154 was adopted and we added an appropriate disclosure on the existence of Section 154 to the June 29 Supplement to the Second Exchange Offer Official Statement which concluded: "The City has informed the Corporation that it does not intend to use any such proceeds in such fund to require any portion of City notes to which the Exchange Offer relates, but intends to use any such proceeds, if at all, to pay other BANs of the City."
5. Our continuing research indicates that there is a common law equitable principle (never explicitly adopted in New York) to the effect that if a municipality is unable to pay in full all of its debt obligations of a class when due it must apply any funds available to repay a portion of such obligations pro rata to all holders and may not prefer one holder to another. In addition, the constitutional equal protection and contract clause principles might also require pro rata payment. Obviously, none of the cases in this area involves a set of facts similar to the present facts and, accordingly, we cannot be sure that such principles would be applied to the facts in this case.

6. If the equitable or constitutional provisions were held to require pro rata payment, and if MAC were to receive payment in full knowing that the public holders were to receive nothing, it is possible that a court would require that MAC pay to the other holders of short-term obligations of the City the portion of such proceeds to which such other holders would have been entitled on a pro rata basis. If MAC were to have already paid such proceeds back to the City, it would not have the cash to meet this obligation.

7. We have met with lawyers of the City to discuss the results of our research. These conversations have been carried out
on a lawyer-to-lawyer level and we have neither come to any agreement upon legal conclusions nor recommendations as to the underlying policy issues.

Allen L. Thomas