MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of the Annual Meeting of the Board of Directors

September 11, 1986

The Annual Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 10:00 A.M. on Thursday, September 11, 1986 at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, 345 Park Avenue, New York City.

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

Edward M. Kresky, Vice-Chairman
George M. Brooker
Eugene J. Keilin
Dick Netzer
Andrew P. Steffan
Robert C. Weaver

The following members of the Staff were present:

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

Also present by invitation of the Board were: James M. Dubin, Saul H. Finkelstein and Lee S. Pershan of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Donald J. Robinson and Kathleen A. McDonough of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Christine Stanton of the City of New York; Robert Horowitz of the Office of the State Special Deputy Comptroller; Jewel Douglas and Michael Zino of the Financial Control Board;
MINUTES
September 11, 1986
Page 2

and Gedale B. Horowitz and L. Eugene Crowley of Salomon
Brothers Inc.

Adoption of Minutes

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

RESOLVED, that the Minutes of the Special Meeting
of the Board of Directors held on August 7, 1986 be and
hereby are adopted.

Administrative Matters

Mr. Kresky stated that the agenda of the Annual Meeting
of the Corporation included the appointment of officers and
committees for the coming year. Mr. Kresky stated that a
list of the present committee members and officers, proposed
to be reappointed, had been circulated to the Board prior to
the meeting.

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

RESOLVED, that the following named persons be and
hereby are appointed to hold the following positions as
officers of the Municipal Assistance Corporation For The
City of New York:
Vice Chairman
Executive Director
Deputy Executive Director and Treasurer
Counsel and Secretary
Deputy Treasurer
Administration Committee
Robert C. Weaver, Chairman
Dick Netzer
Audit Committee
Andrew P. Steffan, Chairman
Kenneth J. Bialkin
George M. Brooker

City Budget Committee
Dick Netzer, Chairman
Edward M. Kresky
Andrew P. Steffan
Finance Committee
Eugene J. Keilin, Chairman
Edward M. Kresky
Felix G. Rohatyn

Investment Committee
Vice Chairman of the Board (Edward M. Kresky)
Chairman of the Finance Committee (Eugene J. Keilin)
Chairman of the Audit Committee (Andrew P. Steffan)

Mr. Weinstein presented the proposed 1986 Annual Personal Services Contract Report of the Corporation to various State officials, the third such report prepared under State law. He stated that the report was in the form mandated by statute and by the Corporation's Personal Services Contract Guidelines. He added that the report included the Guidelines, an explanation thereof, and a list of the various contractors the Corporation utilized and what they were paid during the 1986 fiscal year.
Dr. Weaver, Chairman of the Administration Committee, stated that the Committee had reviewed the report and recommended its approval to the Board.

Mr. Keilin noted that the Corporation's largest expenditure was for the publication of notices of mandatory sinking fund redemptions and questioned whether a more economical method of notice was possible. He suggested that the Staff and Bond Counsel explore alternative approaches. Dr. Weaver and Mr. Kresky both shared this concern. Mr. Weinstein stated that this matter was a priority on the Corporation's administrative agenda during the coming year.

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

RESOLVED, that the Corporation's 1986 Annual Personal Services Contract Report be and hereby is approved.

The Board directed that a copy of the report be appended to the minutes of the meeting.

Mr. Weinstein then presented the proposed 1986 Annual Investment Report of the Corporation to various State officials, also mandated by State law. He stated that the report included the Corporation's Investment Guidelines, an audit letter from Price Waterhouse, the report of the 1986 fiscal year investments, and a section explaining the Corporation's various funds.
Mr. Spector described the Corporation's investment activities as having been increasingly conservative in recent years, and appropriately so. He stated that market yields in general had fallen by 200 to 300 basis points over the past year, and that the combination of the investment policy and yield decline had resulted in lower earnings than those realized in prior years. He added that the Corporation had been looking for ways to continue to improve its investment performance despite the existing market and noted that the Corporation had realized earnings in excess of market returns 10 to 20 basis points above the Salomon Brothers Index. He pointed out that this constituted approximately $3 million earned per year above existing indicators, if present patterns were to continue. Mr. Spector acknowledged the contribution of Ms. Higgins for her daily investment activities in enabling the Corporation to realize such considerable earnings.

Mr. Kresky, Chairman of the Investment Committee, announced that the Investment Committee had revised the list of permitted dealers for repurchase agreements in the proposed Investment Report, because the bank was experiencing severe financial difficulties and had recently been downgraded to a rating of "BBB" by Standard & Poor's Corporation. He noted that the Corporation had not entered
into any repurchase agreements with Bank of America for some time. Mr. Kresky also stated that the Investment Committee members responsible for setting investment policy believed a conservative approach was the most prudent course for the Corporation's investment program.

Mr. Keilin stated that the Corporation's investment portfolio options were constrained by statute, resolution and guidelines, but that, despite the limited investment alternatives, the Staff had found innovative and prudent ways to increase the Corporation's earnings. He noted that the Board was very appreciative of the work of the Treasurer and the Deputy Treasurer.

Mr. Kresky stated that the Investment Committee had reviewed the report with the Staff and recommended its approval to the Board.

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

RESOLVED, that the Corporation's 1986 Annual Investment Report be and hereby is approved.

The Board directed that a copy of the report be appended to the minutes of the meeting.
MINUTES
September 11, 1986
Page 7

Professional Fee Schedules

Mr. Weinstein recommended that the Board extend existing professional fee schedules for the Trustee and outside counsel at this time. He reported that the Staff and the Administration Committee expected to formulate proposals for adjustments to these fee schedules for consideration by the Board within the next three months.

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


Annual Report and Financial Statements

Mr. Kresky announced that the Corporation's Annual Report for the 1986 fiscal year was available for distribution. He noted that the 1986 Annual Report narrative was contained in an expanded letter from the Chairman of the Corporation, Felix G. Rohatyn, appearing at the front of the document. He pointed out the presentation in the Chairman's letter of the extensive refunding program undertaken during the year, and its success in producing substantial present value and debt service savings, exceeding those required to meet its commitments under the agreement reached in April 1986 with the State and the City.
Mr. Weinstein explained that the format of the Annual Report had been streamlined to correspond to that of the quarterlies beginning this year, after ten years of the longer form with extensive narrative detailing the Corporation's activities in response to the City's fiscal crisis, culminating in the tenth anniversary report in 1985. He further stated that this change was expected to result in report production savings of approximately $100,000 each year.

City Budget Matters

Mr. Kresky noted that the pace of City revenue growth had slowed in recent months, and that Federal assistance to the City had been declining. He stated that, at midyear, the Corporation would issue a status report on the City budget, as had been decided at the Board meeting on August 7, 1986. Mr. Kresky informed the Board that Mayor Koch had sent a letter to Mr. Rohatyn in response to the Corporation's report on the City's 1987 Budget, in which the Mayor had agreed that recent City revenues had been below expectations and had indicated that he had already initiated steps to preclude any adverse budget effects. The Board directed that a copy of the Mayor's letter be appended to the minutes of the meeting.
Mr. Kresky added that Elinor Bachrach, the Special Deputy State Comptroller, had prepared an incisive study on City revenue decline.

Mr. Weinstein stated that the Corporation was continuing to track City budget developments. He noted that revenue collections were running below projections.

Dr. Netzer stated that the City had used an overly optimistic revenue estimation system prior to the fiscal crisis, and that the City had then adopted a more conservative system, which constituted an effective safeguard. He stated that in the last few years, the monitoring agencies had been criticizing the City for overly conservative estimates, influencing the City to change to a less conservative basis.

Mr. Steffan noted that the new City estimation procedures had been instituted in response to several years of windfalls in City revenues.

Mr. Keilin stated that the monitoring agencies had been zealous in their criticisms of past City budgeting techniques, but that the City retained its budgeting powers. He stated that there appeared to be some cause for concern at present that required monitoring.

Mr. Kresky noted that despite the recent sunset of several oversight procedures, the Corporation will continue to express its views on the City budget. He stated that the
thoughts expressed at the end of Mr. Rohatyn's letter in the Annual Report were important in this regard.

Memorandum of Agreement Dated March 1984

Mr. Kresky made note of the recent press coverage on the City's use of some of the $365 million earmarked for economic development under the March 1984 agreement among the Corporation, the State and the City. He stated that Mr. Rohatyn had sent letters to Ms. Alair A. Townsend, Deputy Mayor for Finance and Economic Development, and Mr. Paul A. Crotty, Commissioner for Housing Preservation and Development, requesting an accounting of City spending. Mr. Kresky stated that the Corporation had received a letter from Ms. Townsend, providing an update on the non-housing portion of economic development program. He further stated that a response had been received from Mr. Crotty only the evening before, and distributed copies to the Board.

The Board directed that copies of each of those letters be appended to the minutes of the meeting.

Mr. Weinstein added that the Corporation would examine the City's use of the economic development funds in the coming months in connection with the December 1986 schedule for next making monies available to the city under the March 1984 Agreement.
MINUTES
September 11, 1986
Page 11

Other Matters

Mr. Keilin stated the Board's appreciation of the presence at the meeting of officials of Salomon Brothers Inc, the lead manager of the Corporation's underwriting group. Mr. Horowitz stated that investor appetite for tax-exempt securities was currently large and would likely increase as a result of Federal tax reform, and that together with the Corporation's high regard in the credit markets would likely override any near-term City operating deficit in the unlikely event that one should occur. He observed that a modest City deficit would be seen as a warning, but that two or more consecutive operating deficits would probably have an impact on the City's own markets.

Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 10:50 A.M.

Maxine H. Gillman
Secretary

aa:213
August 28, 1986

Mr. Felix Rohatyn
Chairman
Municipal Assistance Corp.
1 World Trade Center - Suite 8401
New York, New York 10048

Felix

Dear Mr. Rohatyn:

In your August 6 letter to Paul Crotty, you requested from the city a certification of the expenditures for the MAC-funded economic development programs funded by the Municipal Assistance Corporation (MAC) in fiscal 1986.

The city is now preparing the second annual report on the MAC economic development programs, which will contain the information on the financial performance of each program in fiscal 1986. Since this report must wait until final, audited information is compiled for the fiscal year which ended June 30, 1986, it will not be ready for several months. For this reason, I wanted to provide you with a preliminary account of the financial performance of the MAC economic development programs. Paul Crotty is preparing a separate response describing the performance of the Housing Program.

The following information is based on operating estimates by each agency and therefore is subject to change. However, this preliminary information shows that the MAC-funded economic development programs are effectively using the allocated MAC funds for the important purposes outlined in the March 1984 Memorandum of Understanding.

**Industrial Retention and Relocation Program.** In the two years following Board of Estimate approval of the Industrial Retention and Relocation Program in August 1984, the Financial Services Corporation (FSC) has obligated $13 million for relocation grants and $1.2 million for administration and
marketing from the $19 million allocated for fiscal years 1985 and 1986. This $4.8 million shortfall resulted from slower than anticipated commitments in the first year of the program due to the start-up time required.

In July 1985, the Board of Estimate approved streamlined procedures which authorized FSC to approve applications and commit program funds after a firm has signed either a lease or a contract of sale, where previously FSC was required to wait for the actual move to be completed. This change, coupled with the experience gained in operating the program, allowed FSC to obligate funds during fiscal year 1986 at the allocated level. In fact, in fiscal year 1986 FSC obligated $10.7 million, somewhat more than the $10 million allocated. Of these obligations, $10 million was for relocation grants to 191 firms, and the remainder was for administering and marketing the program.

FSC has disbursed $4.7 million in the two years since Board of Estimate authorization of the program. Of course, the funds spent by the program inevitably lag obligations since FSC does not release funds until a firm has actually moved and has provided receipts and other necessary documentation of having incurred reimbursable expenses. I know that you will appreciate that such fiscal prudence is essential to ensure that program funds are properly spent.

During the first two years, MAC funding has allowed the city to assist 268 firms, with 9,764 employees, to remain in New York City, rather than relocate elsewhere or go out of business. With an additional 199 firms already in the pipeline, it is clear that the need for relocation assistance is great, and we expect the program to continue to commit funds at the rate at which they are allocated.

Downtown Development. The Downtown Development Program was allocated $80 million in MAC funds over fiscal years 1985 through 1988 to provide the equity investments needed to initiate major development projects in the commercial centers of the Bronx, Brooklyn, Queens, Staten Island and northern Manhattan. The program received an allocation of $20 million in fiscal years 1985 and 1986. The city's Public Development Corporation has committed $33.5 million to five commercial projects which will create over five million square feet of new office space outside Manhattan central business districts. Funds will be drawn down by each project to pay for hard costs after construction has commenced. One of these projects is now in construction, a second has received Board of Estimate approval and the remaining projects are in various stages of the public approval process. In addition, a
A preliminary commitment of $10 million has been made to one project which is still in the planning stage.

**Adult Literacy Program.** During fiscal years 1985 and 1986, the Adult Literacy Program spent $14.7 million of the $15 million allocated. Coupled with state and federal assistance, MAC funds have allowed the city to double the number of adult literacy classes, to more than double the number of individuals receiving instruction annually from 20,000 to 57,000, and to create comprehensive learning centers in 19 branch libraries. In addition, the program has initiated innovative demonstration projects, including one which combines literacy training with work remediation to assist 1,000 unemployed young adults annually to enter the workforce. It is fair to say that New York City's Adult Literacy Program is unique in scope and scale in the United States in addressing this critical problem.

**Computer Education Program.** According to the Board of Education, of the $25 million in MAC funds allocated to the Computer Education Program in fiscal years 1985 and 1986, $22.9 million was obligated and $17.9 million was spent. The remaining $2.1 million will be used in this fiscal year for purchases of equipment and continuing staff development. The Board of Education reports that the installation of 500 new computer laboratories in the city's high schools will be completed this fall, giving New York City high school students the opportunity to gain the computer skills increasingly demanded in today's job market.

**Financial Services High School.** In 1984, the city and the Board of Education developed a plan to create a Financial Services High School to prepare students for jobs in this growing sector of the city's economy. The Board of Education is now examining whether this objective could be accomplished more effectively by expanding the Academy of Finance program now operating in five high schools or by creating a new business high school with a strong financial services component, rather than by creating a separate school for financial services. We expect to receive their assessment in the near future. Should some portion of the $25 million allocated not be required for this purpose, we will propose a reallocation of funds to a use consistent with the 1984 Memorandum of Understanding.

**Convention Center.** To date, $20.6 million has been spent of the $60 million allocated to complete construction of the Jacob K. Javits Convention Center. According to Convention Center projections, the remaining MAC funds will be required in fiscal 1987.
I believe that this preliminary information on program performance during fiscal 1986 demonstrates that the MAC-funded economic development programs are making important contributions to the economic vitality of New York City.

Please let me know if you would like any additional information before the city issues the annual report on these programs.

Sincerely,

Alair A. Townsend

cc: Mayor Edward I. Koch
    Stan Brezenoff
    Bob Bsnard
    Paul Dickstein
September 10, 1986

Honorable Felix G. Rohatyn
Chairman
Municipal Assistance Corporation
One World Trade Center, Suite 8901
New York, New York 10048

Dear Mr. Rohatyn:

On August 6, 1986, you requested a status report on the City's plans to facilitate the development of moderate income rental housing through the utilization of funds which have been provided by the Municipal Assistance Corporation. The Housing Development Corporation has issued bonds for 80-20 housing projects. The MAC funds are used to subsidize the 80% of the units so that they are affordable to people earning less than $48,000. Of course, the 20% low-income units would be available to people earning substantially less.

As you know, the Housing Assistance Corporation, the Housing Development Corporation subsidiary which is responsible for administering the MAC generated subsidies allocated to housing projects, has received $40 million of the $100 million allocation total. We expect that the Fiscal 1986 $10 million appropriation will be transmitted to the Housing Assistance Corporation within the next 30 days. Another $50 million will be made available in the next 2 fiscal years. Based on our current projects, together with future projects which we envisage, I am confident that we will be able to fully utilize the $100 million to develop affordable housing for New Yorkers.

When I assumed my responsibilities here at HPD, I found that we have not made the progress we had hoped for. As Mayor Koch indicated at our recent announcement, the development of affordable rental housing is perhaps the most difficult development objective to attain. HPD and HDC have also learned from their experiences over the last 2 years and we are confident that we have corrected or minimized many of the problems which have impeded the development of this model rental housing program. Additionally, the current interest rate environment provides us with an opportunity to reduce the cost of housing.

In April, 1985, the City announced the selection of 9 new construction and substantial rehabilitation projects on privately held sites. We encountered a number of difficulties with these projects, many of them beyond our control. The difficulties related to site control, project feasibility and cost. As we moved forward with certain projects, the selected developers had difficulties with financing and insurance.
Two proposed developments (new construction projects in Brooklyn) were abandoned shortly thereafter as the developers failed to achieve or maintain site control. Two other projects proved to be infeasible. One project, which was to be located in Washington Heights, was beset by design problems. The site proved too narrow to permit the construction of an acceptable apartment project. The second site, in Kew Gardens, Queens, could not be constructed within reasonable cost constraints. Despite our instruction that the sponsor present an acceptable design format and development plans consistent with program requirements the applicant's failure to perform resulted in the project's disqualification in November, 1985.

The remaining 5 projects are in various stages of processing. The most advanced is 1010 Eastern Parkway, which commenced construction in December, 1985, and is near completion. We expect this 16-unit rehabilitation project to achieve occupancy within the next 60 days.

A second development, a 122-unit new construction project in Staten Island, closed last week. Construction will proceed within 2 months, and completion will occur within a year.

Three other projects are in various stages of processing. A 27-unit Brooklyn rehabilitation project appears ready to commence construction. However, the developer has indicated that given pending tax code revisions, he may wish to withdraw the site from the program and develop the site as an unregulated condominium.

The 2 remaining first phase sites are new construction projects; one is a 130-unit development in Harlem; and the other a 155-unit project for the elderly in Queens. The Harlem project has been enthusiastically received by the community and would constitute the first rental project to be developed in Harlem without a deep subsidy. Both projects have encountered zoning and/or development/financing obstacles which imperilled project feasibility. However, we have been working with the developers in an effort to resolve such matters and we are hopeful that construction will commence within the next 6 months. In addition, HDC is exploring alternative financing methods which could reduce annual debt service payments, thereby reducing the required annual subsidies.

Finally, with regard to the first phase of the Moderate Income Rental Housing Program Initiative, it should be noted that we have continued to work closely with Starrett Housing Corporation throughout the past 18 months in connection with a proposed 250-unit development adjacent to Starrett City. This project was not formally announced because the site required rezoning. It now appears, however, that the City Planning Commission is prepared to begin the rezoning process. Thus, we may now be in a position to proceed with this major project.

We anticipate that these 6 projects, consisting of 700 units, will utilize in excess of $20 million in subsidy principal.

Mayor Koch recently announced the second phase of projects to be developed on City-owned sites. We believe our planning for these projects was improved based on our experience with Phase One. We are confident that we will be able to move faster.
Of the 12 projects, 8 will result in the substantial rehabilitation of 474 units in Brooklyn and the Bronx. We have begun the accelerated disposition process, and we anticipate that the Board of Estimate will approve these projects by no later than December, 1986. Construction will commence by Spring, 1987. We are working very closely with the developers so that we can meet all the requirements of participating lenders/insurers on schedule.

The second phase also involves 4 new construction projects on City sites, encompassing 563 units. Disposition of these City sites for new construction projects involves a more lengthy and complex review process than is legally required for rehabilitation projects. In addition, two of these sites will require zoning changes. Notwithstanding these facts, we believe that we will have a construction start on these sites by Summer, 1987.

The 12 projects, involving 1,037 units, in the second phase of the MAC program will require in excess of $30 million in subsidy principal.

In sum, we estimate that the 1,700 units in Phase One and Two will require the use of $50-$60 million in MAC principal. The MAC contributions from Fiscal Years 1985 and 1986, together with interest earnings, are expected to be sufficient to fund the first 2 phases of the program. We expect that the entire $50 million will be committed to projects under construction within the next 18 months. In the near future, we expect to select sites for additional program projects which will absorb the remaining $50 million in MAC funds. As I am sure you know, however, future progress may well be impacted by the proposed revisions in the tax code which will effect the economics of rental housing.

As my evaluation of the program continues and evidence of our commitment to this and similar endeavors becomes apparent to the development community, I am hopeful that additional proposals from substantial builders will enable the broadening of the City's affordable housing initiatives, efforts which could utilize assistance from MAC or other capital sources.

Of course, we share your concern that scarce capital resources are effectively and expeditiously utilized in the City's overall housing and economic development efforts. The need for affordable rental housing is one of the City's most pressing problems. I can assure you that we will continue to strengthen our efforts to overcome those obstacles which have heretofore slowed our progress.

Sincerely yours,

Paul A. Crotty
Commissioner

PAC/nas
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

1986 ANNUAL INVESTMENT REPORT
Section 2925 of the Public Authorities Law of the State of New York requires that, effective January 1, 1984, the Corporation annually submit a report on its investments to the New York State Division of the Budget, with copies to the New York State Department of Audit and Control and to the Senate Finance Committee and the Assembly Ways and Means Committee of the State of New York. The Corporation's Investment Guidelines adopted pursuant to this statute specify the annual reporting period as its fiscal year. The statute requires that the Annual Investment Report include:

1. The Investment Guidelines (Exhibit 1);

2. An explanation of the Guidelines and any amendments adopted during the year (Exhibit 2);

3. An annual audit report of the Corporation's investments by its independent accountants (Exhibit 3);

4. The investment income record of the Corporation (Exhibit 4); and

5. A list of amounts paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the Corporation during the year (Exhibit 5).

The elements of the report attached as exhibits need no further amplification other than to explain a difference in the income reported in Exhibits 3 and 4. Exhibit 4 represents only income from the Corporation's discretionary investments which are the focus of the Investment Guidelines. The income shown in Exhibit 3 is based on the Corporation's audited financial statements for the fiscal year ended June 30, 1986. This income amount includes interest on City of New York obligations acquired by the Corporation in connection with the Corporation's mandated financing activities in addition to the income from its discretionary investments. Finally a description of each of the Corporation's funds is provided in Exhibit 6.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

INVESTMENT GUIDELINES

As Amended Through September 11, 1986

I. Purpose

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

B. Scope. These Guidelines specify the policies and procedures relating to the investment, monitoring and reporting of funds of the Municipal Assistance Corporation on and after January 1, 1984. For purposes of these Guidelines, funds of the Corporation are all monies and other financial resources available for investment by the Corporation on its own behalf or on behalf of any other entity or individual. All such monies shall be invested at all times to the fullest extent practicable, and in accordance with the yield, maturity, diversification and other requirements and restrictions set forth in these Guidelines. In unforeseen circumstances, the Executive Director, with the approval of the Investment Committee, shall have the right to waive those Guidelines which are not mandated by resolution or statute when in the best interests of the Corporation.

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

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

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

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

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

4. Any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State of New York or held in the treasury of the State of New York.
5. Interest bearing time deposits or similar investment arrangements, including but not limited to repurchase agreements covering obligations of issuers enumerated in Subsections (1) through (4) above, provided that all such investments are continuously and fully secured by obligations of issuers enumerated above at a market value at all times at least equal to the amount of the investment. The market value of such collateral shall be evaluated on a daily basis as quoted by a broker or dealer qualified under these Guidelines.

B. Other Funds. Other funds and accounts may be established by the Corporation from time to time which are not established by either the First or Second General Bond Resolution. Monies in such other funds and accounts of the Corporation may be invested in:

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

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

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

4. Secured time deposits or other interest bearing accounts secured by the obligations enumerated in Subsections (1), (2) and (3) above. Monies in the funds of the Corporation which are invested in permitted time deposits or other interest bearing accounts or similar investment arrangements must be fully secured as required by Section II(A)(5) above.
III. Conditions of Investment

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

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

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

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

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

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

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

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

3. If at a loss, offsetting profits are realized through the sale of other obligations; or

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

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

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

7. Notwithstanding any of the above, in the event that monies on deposit in either of the Capital Reserve Funds are required in
accordance with Section 605(2) of each of the respective resolutions, obligations may in all events be sold to the extent required in the following order:

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

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

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

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

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

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

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

1. **Brokers, Agents, Dealers**

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

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

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

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

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

H. Repurchase Agreements

1. The Corporation shall be limited to entering into repurchase agreements which require repurchase of securities on the next business day. The Corporation shall not enter into reverse repurchase agreements. However, for the required 20 day period preceding the subscription by the Corporation for Obligations of United States Treasury--State and Local Government Series, the Corporation shall enter into 20 day repurchase agreements with a permitted dealer, if no permitted obligations are available.
2. The Corporation shall not have, at any one time, an amount greater than $250 million placed in repurchase agreements with any single permitted dealer.

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

   Bankers Trust Company
   Chase Manhattan Bank, N.A.
   Chemical Bank
   Citibank, N.A.
   Manufacturers Hanover Trust Company
   Mellon Bank, N.A.
   Morgan Guaranty Trust Company of New York
   United States Trust Company (in an amount not to exceed $2,000,000)

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

5. The amount of monies in repurchase agreements in the Debt Service, Bond Service, Operating, Bond Proceeds, NYC Bond, and Municipal Trust (Sinking Fund) Accounts shall not exceed 25% of the value of the assets of each such account when the value of the respective accounts are equal to or greater than $5 million. In addition, when suitable maturities are unavailable for a period of up to one week prior to a debt service deposit date, greater amounts in the Debt Service and Bond Service Accounts may be invested in repurchase agreements.

6. The amount of monies in repurchase agreements in the Capital Reserve Funds shall be limited to 1% of the total par value of the combined accounts.
7. The custodian of the repurchase agreement shall not be the agent of the other party contracting to the repurchase agreement.

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

IV. **Reports**

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

B. **Annually.**

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

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

b. An explanation of the Guidelines and any amendments made since the date of the immediately preceding Investment Report;

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

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

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

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

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

Explanation of Investment Guidelines

The Investment Guidelines, adopted effective January 1, 1984 and amended on June 29, 1984 and September 11, 1985, specify the policies and procedures adopted by the Board of Directors of the Municipal Assistance Corporation For The City of New York for the investment, monitoring and reporting of the Corporation's invested funds. The Guidelines detail conditions of investments with respect to permitted securities, minimum yields, maturities, diversification, sales of securities, competition and dealer qualifications. The Guidelines also restrict investments in repurchase agreements with respect to maturities (overnight or weekend), to dealers (eight major commercial banks and United States Trust Company of New York in limited circumstances), and to amount (not more than 1% of the value of the Capital Reserve Funds and not more than 25% of the value of any of the other accounts.)

Section III(H)(3) of the Guidelines was amended on the recommendation of the Investment Committee on September 11, 1986 to delete Bank of America, N.T. & S.A. from the list of permitted dealers for repurchase agreements.
August 1, 1986

To the Board of Directors of Municipal Assistance Corporation For The City of New York

In our opinion, the accompanying Statement of Investments and the related Statement of Income from Investments present fairly the investments of Municipal Assistance Corporation For The City of New York (the "Corporation") at June 30, 1986 and the income from investments for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of investments at June 30, 1986 by correspondence with the custodians. Our examination was made in conjunction with our examination of the financial statements of the Corporation for the year ended June 30, 1986, on which we have issued our report dated August 1, 1986.

Price Waterhouse
### MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

#### STATEMENT OF INVESTMENTS

**JUNE 30, 1986**

<table>
<thead>
<tr>
<th>Debt Service Fund:</th>
<th>Market value ($ in thousands)</th>
<th>Book amount ($ in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities purchased under agreements to resell</td>
<td>$1,007</td>
<td>$1,007</td>
</tr>
<tr>
<td>Marketable securities maturing in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>683,392</td>
<td>683,475</td>
</tr>
<tr>
<td>One to five years:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>150,550</td>
<td>150,199</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>834,949</strong></td>
<td><strong>834,681</strong></td>
</tr>
</tbody>
</table>

| Less - Amount allocated to Funds Available to Purchase City of New York Obligations | | |
| Total | (335,030) | |
| **Total** | **499,651** | |

| City of New York Obligations: | Market value ($ in thousands) | Book amount ($ in thousands) |
| Maturing in: | | |
| Less than one year | $141,277 | $141,277 |
| One to five years | 475,285 | 475,285 |
| Five years or greater | 1,253,794 | 1,253,794 |
| **Total** | **1,870,356** | **1,870,356** |

| First Capital Reserve Fund: | Marketable securities maturing in: | |
| Less than one year: | | |
| U.S. Treasury | $132,811 | $132,002 |
| U.S. Government Agencies | 5,237 | 5,198 |
| One to five years: | | |
| U.S. Treasury | 158,225 | 152,650 |
| U.S. Government Agencies | 5,880 | 5,908 |
| Five years or greater: | | |
| U.S. Treasury | 5,042 | 4,918 |
| U.S. Government Agencies | 7,058 | 7,200 |
| **Total** | **$314,253** | **$307,876** |
Second Capital Reserve Fund:
Marketable securities maturing in:
Less than one year:
  U.S. Treasury  $ 188,069  $ 185,990
One to five years:
  U.S. Treasury  556,713  542,214
  U.S. Government Agencies  50,670  50,735
Total  $ 795,452  $ 778,939

Guaranty Fund:
Marketable securities maturing in:
Less than one year:
  U.S. Treasury  $ 69  $ 69

Operating Fund:
Securities purchased under agreements to resell  $ 1,778  $ 1,778
Marketable securities maturing in:
Less than one year:
  U.S. Treasury  5,811  5,814
Total  $ 7,589  $ 7,592

See accompanying notes to these statements.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

STATEMENT OF INCOME FROM INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 1986

Debt Service Fund:
  Income from investments $100,423,469
  Income from City of New York obligations 172,108,669
  $272,532,138

First Capital Reserve Fund $ 27,233,829
Second Capital Reserve Fund $ 74,681,987
Guaranty Fund $ 610,741
Operating Fund $ 544,912

See accompanying notes to these statements.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

NOTES TO STATEMENTS OF INVESTMENTS
AND OF INCOME FROM INVESTMENTS

NOTE 1 - ORGANIZATION AND FUNCTIONS OF THE CORPORATION:

Municipal Assistance Corporation For The City of New York (the "Corporation") is a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation. The Corporation was created by State legislation adopted in June 1975 (as amended to date, the "Act") for purposes of providing financing assistance and fiscal oversight for The City of New York (the "City"). To carry out such purposes, the Corporation, among other things, issues and sells bonds and notes to pay or loan funds received from such sales to the City and exchanges the Corporation's obligations for those of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The book amount of investments in marketable securities held in the Capital Reserve, Guaranty and Operating Funds represents amortized cost, and the book amount of investments in marketable securities held in the Debt Service Fund represents the lower of cost or market value, inclusive of accrued interest, in accordance with the bond resolutions pursuant to which they were established.

The market value of investments in marketable securities is determined using the closing bid prices of the securities as of June 30, 1986 as quoted by major securities brokers.

Income from investments is recorded on the accrual basis and includes realized gains and losses from sales of investments. With respect to the Debt Service Fund, income from investments also includes provision for unrealized losses or reversals of prior provisions for unrealized losses on such investments.

NOTE 3 - CITY OF NEW YORK OBLIGATIONS:

Since October 1980, the Corporation has been acquiring bonds of the City, as part of a program to provide for a significant portion of the City's capital financing requirements, by using the net proceeds of certain of the Corporation's debt issuances to purchase City bonds with similar maturities. Prior to October 1980, the Corporation had acquired bonds of the City in connection with certain other transactions. City bonds owned by the Corporation may not be sold without the consent of the City. Accordingly, City obligations are valued at cost.
NOTE 4 - FUNDS AVAILABLE TO PURCHASE CITY OF NEW YORK OBLIGATIONS ("FUNDS AVAILABLE"): Funds Available represent the net proceeds of the Corporation's debt issuances which will be used to purchase City of New York obligations which will be issued to finance a portion of the City's capital program. Prior to these purchases, Funds Available can be invested and are reported as part of the Debt Service Fund. Income from investment of Funds Available is included in the Debt Service Fund.
## MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Record of Investment Income for the Fiscal Year Ended June 30, 1986 ($ thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt and Bond Service Funds</td>
<td>$ 25,070</td>
<td>$ 27,867</td>
<td>$ 24,957</td>
<td>$ 22,529</td>
<td>$ 100,423</td>
</tr>
<tr>
<td>Capital Reserve Funds</td>
<td>27,868</td>
<td>23,609</td>
<td>24,053</td>
<td>26,386</td>
<td>101,916</td>
</tr>
<tr>
<td>Guaranty Fund</td>
<td>521</td>
<td>88</td>
<td>1</td>
<td>1</td>
<td>611</td>
</tr>
<tr>
<td>Operating Fund</td>
<td>99</td>
<td>64</td>
<td>206</td>
<td>176</td>
<td>545</td>
</tr>
<tr>
<td>Total</td>
<td>$ 53,558</td>
<td>$ 51,628</td>
<td>$ 49,217</td>
<td>$ 49,092</td>
<td>$ 203,495</td>
</tr>
</tbody>
</table>
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Payments for Investment Associated Services
for the Fiscal Year Ended June 30, 1986

<table>
<thead>
<tr>
<th>Company</th>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bank of New York</td>
<td>Investment Advisor</td>
<td>$11,025 (Apr-June '86)</td>
</tr>
<tr>
<td>Citibank, N.A.</td>
<td>Investment Advisor</td>
<td>30,000 (July '85-Mar '86)</td>
</tr>
<tr>
<td>U.S. Trust Co.</td>
<td>Transaction Processing</td>
<td>17,140</td>
</tr>
</tbody>
</table>

Comments: 1. The Bank of New York succeeded Citibank, N.A. as the Corporation's investment advisor in April 1986. The Bank was selected from several applicants who submitted proposals. The Bank's annual fee is $44,100. Representatives from the Bank meet with Corporation staff each month to review investment performance and to make recommendations. They also meet with the Investment Committee at its quarterly meetings and on such other occasions deemed necessary.

2. Transaction processing costs in accordance with the current agreement with U.S. Trust Co. are charged by the trustee for investment transactions executed at the direction of the Corporation.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK
FISCAL YEAR 1986
INVESTMENT REPORT
DESCRIPTION OF ACCOUNTS

Capital Reserve Funds

First Capital Reserve Fund

The First Capital Reserve Fund was established pursuant to the First General Bond Resolution for the purpose of creating a reserve for the payment of principal and interest on First Resolution bonds. The required funding level is the succeeding calendar year's debt service on First Resolution bonds. The fund is to be used to pay debt service on First Resolution bonds any time the available State sales tax and stock transfer tax are not sufficient to pay such debt service. Monies on deposit in the Fund have been derived from proceeds of the issuance of bonds and State revenues available to the Corporation, along with retained interest earnings. Amounts in excess of the required funding level are transferred periodically to the Debt Service Fund and used to pay debt service on First Resolution bonds.

Second Capital Reserve Fund

The Second Capital Reserve Fund was established pursuant to the Second General Bond Resolution for the purpose of creating a reserve for the payment of principal and interest on Second Resolution bonds. The required funding level is the succeeding calendar year's debt service on Second Resolution bonds. The fund is to be used to pay debt service on Second Resolution bonds any time the available State sales tax, stock transfer tax and per capita aid are not sufficient to pay such debt service. Monies on deposit in the Fund have been derived from proceeds of the issuance of bonds and State revenues available to the Corporation, along with retained interest earnings. Amounts in excess of the required funding level are transferred periodically to the Bond Service Fund and used to pay debt service on Second Resolution bonds.
Debt Service Funds

Debt Service Fund

The Debt Service Fund was created under the First General Bond Resolution for the purpose of paying debt service on First Resolution bonds.

Monies for the payment of debt service are available from the following sources: (i) payments made by the State Comptroller to the Corporation of State sales tax and stock transfer tax pursuant to periodic certifications of the Corporation; (ii) transfers of excess amounts on deposit in other funds or accounts; and (iii) interest earnings on monies held in this fund. Monies for the payment of debt service are transferred from the Debt Service Fund to payment accounts on the business day prior to a payment date.

Bond Service Fund

The Bond Service Fund was created under the Second General Resolution for the purpose of paying debt service on Second Resolution bonds.

Monies for the payment of debt service are available from the following sources: (i) payments made by the State Comptroller to the Corporation of State sales tax, stock transfer tax and per capita aid pursuant to periodic certifications of the Corporation; (ii) transfers of excess amounts on deposit in the other funds or accounts; and (iii) interest earnings on monies held in this fund. Monies for the payment of debt service are transferred from the Bond Service Fund to payment accounts on the business day prior to a payment date.

Unpledged Revenues Account

The Unpledged Revenues Account consists of monies which are not pledged to secure any obligation of the Corporation. These monies are available for general corporate purposes.

Monies in this Account are derived from (i) principal and interest payments on New York City bonds held by the Corporation in exchange for proceeds of the Corporation's bonds issued for City capital purposes; (ii) transfers of excess amounts in the Guaranty Fund; and (iii) interest earnings retained on amounts on deposit in this Account.
Periodic transfers are made to the Debt Service and Bond Service Funds for the payment of debt service on First and Second Resolution bonds. Such transfers reduce the amount of State revenues needed to make such payments.

In addition, monies in this Account are used to make open market purchases of the Corporation's bonds in satisfaction of mandatory sinking fund requirements and to pay daily interest due on the Corporation's maturing commercial paper notes.

**Bond Proceeds Account**

Proceeds of the sale of bonds by the Corporation are held in the Bond Proceeds Account until applied to the purposes for which they were raised and invested pending expenditure. Earnings on such investments are used to pay debt service under the respective resolutions.

**Commercial Paper Proceeds Accounts**

Commercial Paper Proceeds Accounts were established under the Corporation's Series 1 and Series 2 Commercial Paper Note resolutions. All proceeds from the two issues were deposited in the respective Accounts and invested prior to their application to the purchase of New York City bonds issued to finance the City capital program. Interest earnings in the Accounts may be used for any corporate purpose.

**Guaranty Fund**

The Guaranty Fund was established by resolution of the Corporation to satisfy a condition of the 1978 Federal legislation regarding Federal guarantees for certain City bonds. Monies in the Guaranty Fund may be used to pay debt service on Federally guaranteed City bonds or to reimburse the United States for any payments made under its guarantee. The Corporation is required to retain an amount in the Fund equal to 5% of the outstanding principal of Federally guaranteed City bonds plus 5% of the maximum consecutive 12-month interest payment on such bonds.

Monies in the Guaranty Fund are invested to the anticipated redemption dates of the outstanding Federally guaranteed City bonds. Because the required funding level is based on
such outstanding bonds, excesses are periodically created in
the Fund as such bonds are redeemed. Releases from the
Guaranty Fund are available for any corporate purpose.

Operating Fund

The Operating Fund was created under the First General Bond
Resolution to pay the operating expenses of the Corporation
which, for the purposes of the Operating Fund, include the
expenses of the Office of the State Special Deputy
Comptroller and those of the State Financial Control Board.
Monies for this fund are obtained from payments made by the
State Comptroller to the Corporation in accordance with the
Corporation's periodic certifications of needs.

vs:2nd4#12
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

PERSONAL SERVICES CONTRACT REPORT
FOR THE YEAR ENDED JUNE 30, 1986

Section 2879 of the Public Authorities Law of the State of New York requires that the Corporation annually prepare and approve a report on its personal services contracts for the year. The Corporation's Personal Services Contract Guidelines, adopted pursuant to this statute, specify the annual report is to be submitted to the New York State Division of the Budget, and copies are to be sent to New York State Department of Audit and Control, and the Senate Finance Committee and the Assembly Ways and Means Committee of the State of New York. It is mandated that the annual report include:

(1) The Corporation's Personal Services Contract Guidelines (Appendix A);
(2) An explanation of the Guidelines and any amendments made during the year; and
(3) A list of the personal services contractors performing services during the year together with the amounts paid to such contractors (Appendix B).
In addition, the Corporation's Guidelines provide that the Executive Director prepare and deliver to the Board of Directors quarterly reports on the status of the Corporation's personal services contracts; the reports covering the quarters ending September 30, 1985, December 31, 1985, March 31, 1986 and June 30, 1986 have been included as Appendices C, D, E and F, respectively.

Pursuant to Section 2879, the Corporation adopted Personal Service Contract Guidelines, effective as of January 1, 1984. The purpose of these guidelines is to detail the Corporation's policies and procedures regarding the use, awarding, monitoring and reporting of personal services contracts. For the purposes of these Guidelines, a personal services contract is defined as "an agreement for a person or persons who are not providing such service as officers or employees of the Corporation or of any other public corporation or agency of the State of New York to provide to the Corporation a service including but not limited to the performance of legal, accounting, management consulting, investment banking, planning, training, statistical, research, public relations, architectural, engineering, surveying or other personal services of a consulting, professional or technical nature for a fee, commission or other compensation."
The Guidelines are reviewed periodically by the Corporation's Administration Committee. There have been no amendments to the Guidelines during the fiscal year ending June 30, 1986.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

PERSONAL SERVICES CONTRACT GUIDELINES

As Amended June 29, 1984

I. Purpose

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

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

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

A. Use

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

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

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

B. Selection

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

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

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

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

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

e. When the cost of the services is not expected to exceed $3,000; and

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

III. Procedures

A. Authorization

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

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

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

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

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

IV. Special Provisions

A. Minority Businesses. The Corporation shall become knowledgeable of the existence of minority business enterprises so as to identify areas or types of contracts for which they may best bid. It shall encourage their seeking such contracts and supply pertinent information to enable them to bid, or to provide offers for, contracts with the Corporation. A minority business enterprise is a business which is at least fifty-one percent owned by Blacks, Hispanics, Asians, American Indians or women.

B. Former Personnel. A former officer or employee of the Corporation shall not be permitted, for a period of two years following termination of Corporation employment, to perform personal services for the Corporation, either as an individual or as an officer or employee of a private business entity. However, this restriction may be waived by the Executive Director upon determination that such person's performance of the personal service: (1) will result in a substantial benefit to the Corporation; and (2) will not constitute a conflict of interest.
V. Reports

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

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

1. The Personal Services Contract Guidelines;

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

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

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

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

VI. Applicability. These Guidelines shall govern all personal services contracts entered into by the Municipal Assistance Corporation on and after January 1, 1984, and shall not apply to personal services contracts entered into by the Corporation prior to January 1, 1984. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract or agreement entered into in violation of, or without compliance with, the provisions of these Guidelines.
<table>
<thead>
<tr>
<th>Name</th>
<th>Purpose</th>
<th>Annual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Equipment Corp.</td>
<td>Computer Services</td>
<td>$42,788.90</td>
</tr>
<tr>
<td>Interactive Systems Inc.</td>
<td>Computer Software Services</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Decus</td>
<td>Computer Software Services</td>
<td>265.00</td>
</tr>
<tr>
<td>Software House</td>
<td>Computer Software Services</td>
<td>3,600.00</td>
</tr>
<tr>
<td>Compucaul Systems Inc.</td>
<td>Calculator Repair</td>
<td>91.50</td>
</tr>
<tr>
<td>IBM Corporation</td>
<td>Copier Rental and Maintenance</td>
<td>7,215.70</td>
</tr>
<tr>
<td>BP Air Conditioning</td>
<td>Computer Cooling Maintenance</td>
<td>1,359.00</td>
</tr>
<tr>
<td>Xerox Corporation</td>
<td>Word Processor Maintenance</td>
<td>4,245.00</td>
</tr>
<tr>
<td>Inta-Boro Acres Inc.</td>
<td>Car and Messenger Service</td>
<td>1,826.00</td>
</tr>
<tr>
<td>IPC Communications, Inc.</td>
<td>Traderphone System Services</td>
<td>60.00</td>
</tr>
<tr>
<td>Monroe Systems for Business</td>
<td>Trader Calculator Maintenance</td>
<td>246.00</td>
</tr>
<tr>
<td>E. G. Bowman Insurance</td>
<td>Data Processing Insurance</td>
<td>1,381.00</td>
</tr>
<tr>
<td>Moody's Investors Service</td>
<td>Rating Services</td>
<td>84,000.00</td>
</tr>
<tr>
<td>Standard &amp; Poor's Corporation</td>
<td>Rating Services</td>
<td>22,500.00</td>
</tr>
<tr>
<td>Fitch Investors Service, Inc.</td>
<td>Rating Services</td>
<td>27,000.00</td>
</tr>
<tr>
<td>U.S. Trust Company</td>
<td>Paying Agent and Registrar</td>
<td>222,669.99</td>
</tr>
<tr>
<td>Citibank</td>
<td>Paying Agent</td>
<td>133,631.29</td>
</tr>
<tr>
<td>Chase Manhattan Bank</td>
<td>Paying Agent</td>
<td>34,989.05</td>
</tr>
<tr>
<td>Bank of America</td>
<td>Paying Agent</td>
<td>209.10</td>
</tr>
<tr>
<td>Kelly Services</td>
<td>Temporary Employee Services</td>
<td>6,366.44</td>
</tr>
<tr>
<td>Name</td>
<td>Purpose</td>
<td>Annual Expense</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>----------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Morrell Services</td>
<td>Temporary Employee Services</td>
<td>$410.63</td>
</tr>
<tr>
<td>Solo Word Processing</td>
<td>Temporary Employee and Placement</td>
<td>$3,859.50</td>
</tr>
<tr>
<td>Tempositions</td>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Morgan Guaranty Trust Co.</td>
<td>Temporary Employee Services</td>
<td>$530.40</td>
</tr>
<tr>
<td>Intermarket Insurance Agency, Inc.</td>
<td>Escrow Agent</td>
<td>$1,518.17</td>
</tr>
<tr>
<td>Giaccone Insurance Company</td>
<td>General Accident Insurance</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>State Insurance Fund</td>
<td>Office Insurance</td>
<td>$1,420.00</td>
</tr>
<tr>
<td>Chemical Bank</td>
<td>Workmen's Compensation Insurance</td>
<td>$847.33</td>
</tr>
<tr>
<td>Allen W. Wasmund &amp; Sons</td>
<td>Payroll Services</td>
<td>$905.21</td>
</tr>
<tr>
<td>Kenny Information Systems</td>
<td>Binding Services</td>
<td>$2,079.60</td>
</tr>
<tr>
<td>Technical Data</td>
<td>Securities Evaluation Service</td>
<td>$900.00</td>
</tr>
<tr>
<td>Telerate Systems Inc.</td>
<td>Financial Information</td>
<td>$2,036.30</td>
</tr>
<tr>
<td>Doremus &amp; Company</td>
<td>Financial Information</td>
<td>$9,050.00</td>
</tr>
<tr>
<td></td>
<td>Publication of Official Notices</td>
<td>$674,360.12</td>
</tr>
<tr>
<td></td>
<td>(production and newspaper charges for</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sinking Fund Redemptions of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>February 1986 and July 1986, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optional Redemption, Refunding</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and Report Notices)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paul, Weiss, Rifkind Wharton &amp; Garrison</td>
<td>General Counsel</td>
<td>$82,315.86</td>
</tr>
<tr>
<td>Hawkins, Delafield &amp; Wood</td>
<td>Bond Counsel</td>
<td>$124,698.66</td>
</tr>
<tr>
<td>Carter, Ledyard &amp; Milburn</td>
<td>Trustee Counsel</td>
<td>$37,182.06</td>
</tr>
<tr>
<td>Name</td>
<td>Purpose</td>
<td>Annual Expense</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>White &amp; Case</td>
<td>Counsel to Managing Underwriters of Negotiated Offerings (Blue Sky fees)</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>Price Waterhouse</td>
<td>Independent Accountants</td>
<td>89,249.00</td>
</tr>
<tr>
<td>Ernst &amp; Whitney</td>
<td>Accounting Services</td>
<td>3,000.00</td>
</tr>
<tr>
<td>U.S. Trust Company</td>
<td>Trustee and Investment Services</td>
<td>385,020.53</td>
</tr>
<tr>
<td>Citibank</td>
<td>Investment Advisor</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Citibank</td>
<td>Issuing Agent - Commercial Paper</td>
<td>4,788.00</td>
</tr>
<tr>
<td>Kellner &amp; Osburn Associates</td>
<td>Graphic Design</td>
<td>109,095.38</td>
</tr>
<tr>
<td>Georgian Press, Inc.</td>
<td>Quarterly Reports Printing</td>
<td>45,361.40</td>
</tr>
<tr>
<td>United States Banknote Corp.</td>
<td>Securities Printing</td>
<td>106,500.60</td>
</tr>
<tr>
<td>E-Z Addressing Service</td>
<td>Mailing Services</td>
<td>5,863.01</td>
</tr>
<tr>
<td>R.R. Donnelley &amp; Sons</td>
<td>Financial Printing</td>
<td>120,295.62</td>
</tr>
<tr>
<td>American Bank Note Company</td>
<td>Securities and Check Printing</td>
<td>2,222.00</td>
</tr>
<tr>
<td>S.D. Scott Printing</td>
<td>Annual Report Printing</td>
<td>76,697.00</td>
</tr>
<tr>
<td>Salomon Brothers Inc; Citibank; and First Boston Corporation (Jointly)</td>
<td>Commercial Paper Placement</td>
<td>106,283.70</td>
</tr>
<tr>
<td>Discount Messenger Service</td>
<td>Messenger Services</td>
<td>11,496.64</td>
</tr>
<tr>
<td>Zoom Messenger Service</td>
<td>Messenger Services</td>
<td>687.36</td>
</tr>
</tbody>
</table>
APPENDIX C

Date: 26 November 1985
To: Board of Directors
From: Stephen J. Weinstein
Re: Personal Services Contracts for the Quarter Ending September 30, 1985

The Corporation's Personal Services Contract Guidelines require that the Executive Director report quarterly to the Board of Directors on the status of the Corporation's personal services contracts. In particular, the Guidelines mandate the reporting of the terms and selection process utilized for personal services contracts newly entered into during the quarter. The continuing contracts listed in earlier reports remain in effect under the terms and conditions previously described.

During the quarter, the Corporation retained Doremus & Company and E-Z Addressing Company for services associated with the notice publication and distribution of the Fourth Quarter Financial Statements and the 1985 Annual Report. Charges for such services were $3,098.28 and $806.80 by Doremus and E-Z Addressing, respectively, for the Fourth Quarter Statements, and $2,731.05 and $2,326.73, respectively, for the Annual Report. These firms were selected on a non-competitive basis due to the level of charges involved and the limited sources available.

On September 30, 1985, the Corporation retained R. R. Donnelley & Sons Company, following a competitive bidding process, for financial printing services in connection with the Corporation's competitive sale of $125 million of Series 55 Bonds. The estimated cost of such printing services is $40,000.

On August 18, 1985, the Corporation entered into a contract with S. D. Scott Printing Company, Inc. to print the 1985 Annual Report, following a competitive bidding process. This contract resulted in total charges of $76,697.
31 January 1986

To: Board of Directors

From: Stephen J. Weinstein

Re: Personal Services Contract Report for the Quarter Ending December 31, 1985

The Corporation's Personal Services Contract Guidelines require that the Executive Director report quarterly to the Board of Directors on the status of the Corporation's personal services contracts. In particular, the Guidelines mandate the reporting of the terms and selection process utilized for personal services contracts newly entered into during the quarter. The continuing contracts listed in earlier reports remain in effect under the terms and conditions previously described.

During the quarter ending December 31, 1985, the Corporation sold $125 million of Series 55 Bonds and $123.75 million of Series 56 Bonds pursuant to the Second General Bond Resolution in connection with which the Corporation entered into several contracts during the quarter. On the basis of a competitive bidding process conducted in September 1985, the Corporation retained R. R. Donnelley & Sons on December 2, 1985 for financial printing services for the Series 56 Bonds at an actual cost of $28,548.31. The Corporation also retained United States Banknote Corporation on October 11, 1985 and December 12, 1985, for the printing of the Series 55 Bonds and Series 56 Bonds, respectively, at an actual cost of $10,814.00 and $10,806.40, respectively, pursuant to provisions of the Guidelines exempting securities printing from a competitive selection process.

On October 28, 1985, the Corporation entered into a contract with Georgian Press for the printing of four Quarterly Financial Statements in the amount of $42,030. This contract followed the completion of a competitive bidding process. Also, in connection with such Quarterly Financial Statements, the Corporation retained Kellner & Osburn for graphic design services at a cost not to exceed $60,000, on a non-competitive basis due to the impracticability of competition.

During the quarter, the Corporation retained Doremus & Company for advertising services in connection with the publication of the September 30, 1985 Quarterly Report (retained on October 18, 1985 at an actual cost, including
newspaper charges, of $3,115.45) and the Notice of Sale for the Series 55 Bonds and Series 56 Bonds (retained on October 2, 1985 and December 9, 1985, respectively, at an actual cost, including newspaper charges, of $2,196.00 each). The Corporation also retained E-Z Addressing Service in connection with the mailing of the September 30, 1985 Quarterly Report at a cost of $817. Doremus and E-Z Addressing Service were retained non-competitively due to the low levels of charges involved and the limited sources available.

Finally, on December 20, 1985, the Corporation obtained data processing insurance with The Hartford Insurance Company through the services of E. G. Bowman & Company at an annual premium of $1,381.
APPENDIX E

MEMORANDUM

Date: 14 May 1986

To: Board of Directors

From: Stephen J. Weinstein

Re: Personal Services Contract Report for the Quarter Ending March 31, 1986

The Corporation's Personal Services Contract Guidelines require that the Executive Director report quarterly to the Board of Directors on the status of the Corporation's personal services contracts. In particular, the Guidelines mandate the reporting of the terms and selection process utilized for personal services contracts newly entered into during the quarter. The continuing contracts listed in earlier reports remain in effect under the terms and conditions previously described.

During the quarter ending March 31, 1986, the Corporation retained R.R. Donnelley & Sons, on the basis of a competitive bidding process conducted in September 1985, for financial printing services for the Corporation's Series 57 Bonds, expected to result in a cost of approximately $65,000. The actual sale of the Series 57 Bonds and other contracts in connection with their issuance occurred in the current quarter and will be included in the next contract report.

During the quarter, the Corporation retained American Bank Note Company to print additional Series CC Bonds in registered form, made necessary by the exhaustion of the previous inventory of those obligations. This company was selected on a non-competitive basis because it had printed those bonds originally in 1976. This resulted in actual charges of $1,335.

During the quarter, the Corporation entered into separate contracts with Digital Equipment Corporation ("DEC") for the purchase of services for DEC software and for maintenance of DEC hardware, at actual costs of $806 and $2,490, respectively. These services were obtained on a non-competitive basis due to the absence of practicable alternatives.

During the quarter, the Corporation retained Doremus & Company for advertising services in connection with the publication of the December 31, 1985 Quarterly Report (retained on January 9, 1986 at an actual cost, including newspaper charges, of $3,423.74). The corporation also retained E-Z Addressing Service in connection with the mailing of the December 31, 1985 quarterly report at a cost of $860. Doremus and E-Z Addressing Service were retained non-competitively due to the low levels of charges involved and the limited sources available.

clm:201
APPENDIX P

Date: 4 August 1986
To: Board of Directors
From: Stephen J. Weinstein
Re: Personal Services Contract Report for the Quarter Ending June 30, 1986

The Corporation's Personal Services Contract Guidelines require that the Executive Director report quarterly to the Board of Directors on the status of the Corporation's personal services contracts. In particular, the Guidelines mandate the reporting of the terms and selection process utilized for personal services contracts newly entered into during the quarter. The continuing contracts listed in earlier reports remain in effect under the terms and conditions previously described.

During the quarter ending June 30, 1986, the Corporation sold $877,450 million of Series 57 Bonds and $290,075 million of Series 58 Bonds, pursuant to the Second General Bond Resolution, in connection with which the Corporation entered into several contracts during the quarter. On the basis of a competitive bidding process conducted in September 1985, the Corporation retained R.R. Donnelly & Sons on April 29, 1986 for financial printing services for the Series 58 Bonds, which has been billed at $47,955.86. The retention of Donnelly for the Series 57 financial printing was included in the previous contract report and resulted in an actual expenditure of $64,495.07. The Corporation also retained United States Banknote Corporation on April 3, 1986 and May 8, 1986, for the printing of the Series 57 Bonds and Series 58 Bonds, respectively, at actual costs of $71,911.00 for the Series 57 Bonds and $12,969.20 for the Series 58 Bonds pursuant to provisions of the Guidelines exempting securities printing from a competitive selection process.

During the quarter, the Corporation retained Doremus & Company for advertising services in connection with public notices of July 1, 1986 mandatory sinking fund redemptions of certain Second Resolution Bonds, at an actual cost, including newspaper charges, of $637,953.64; Notice of Deposit on May 22, 1986 and May 29, 1986 for the Corporation's Series 25, 26, 32, 33, 36 and 39 Bonds, at an actual cost, including newspaper charges, of $11,703.52; and Notice of Deposit on June 24, 1986 and July 1, 1986 for the Corporation's Series 28, 29 and 30 Bonds, at an estimated cost, including newspaper charges, of $7,708.32. The
4 August 1986
Board of Directors
Page 31

Municipal Assistance Corporation
For The City of New York

Corporation also retained E-Z Addressing Service in connection with the mailing of the March 31, 1986 Quarterly Report, at an actual cost of $866. Doremus & Company was selected on a non-competitive basis due to the limited sources available. E-Z Addressing Service was selected non-competitively because of the low levels of charges involved.

On April 1, 1986, the Corporation entered into a contract with The Bank of New York, for investment advisory services for the period from April 1, 1986 to June 30, 1987, in the amount of $55,125. The Bank of New York was appointed as Investment Advisor by the Board of Directors on April 2, 1986, after a competitive selection process.
August 11, 1986

Hon. Felix Rohatyn
Chairman
Municipal Assistance Corporation
for the City of New York
One World Trade Center
New York, New York

Dear Mr. Rohatyn:

Thank you for sending me a copy of the MAC report on the City's 1987 budget. I would like to comment on a number of the points contained in the report.

I am in agreement with the report's conclusion (although properly qualified about possible future difficulties) that "Clearly, the City has the means to keep its finances in order". I am also in agreement that the slower rate of revenue growth both in comparison to preceding years and our projections is a source of concern and requires attention. As you know, I have publicly acknowledged this and the Budget Director has issued a directive to all agency heads informing them of our concerns and placing some restrictions on the management of expenses.

It is a fact, as you point out, that the City has significantly expanded its workforce. This expansion began in 1984 and was a product both of the need to improve services, growth in mandated functions and our ability to afford both. The recent approval of the Financial Control Board of the new four year Financial Plan, which incorporates the 1987 budget, suggests a consensus on the City's ability to afford the build-up which substantially ended in 1986. Regardless, therefore, of any future problems, substantially all of the increase in workforce that the report mentions will have been paid for and maintained for at least two years.
Similarly I believe that our collective bargaining agreements in the past have been reasonable and again affordable, as approved by the Financial Control Board. This is not to say that our future collective bargaining agreements are not going to be an important element in the City's fiscal stability and its ability to provide services.

Lastly, with respect to Federal tax reform, I believe most, and possibly all, of the provisions that would disproportionately affect New York will be eliminated.

In conclusion, looking toward 1988, the consequences of the federal budget reductions, potential softening in the national economy and a possible change in the historical relationship of the City's economic activity and revenue receipts, warrants the caution both that you call for in your letter and that I have called for publicly.

Sincerely,

Edward I. Koch
Mayor
6 August 1986

Mr. Paul A. Crotty
Commissioner
Department of Housing Preservation and Development
THE CITY OF NEW YORK
One Gold Street
New York, New York 10038

Dear Commissioner Crotty:

I am writing to inquire about the status of plans and expenditures for the construction of housing units utilizing funds which have been provided by the Municipal Assistance Corporation to the City of New York.

Under the terms of the March 1984 Agreement among the State, the City and the Corporation, the Corporation agreed to make available $1.075 billion of additional revenues to the City through 1988, of which $365 million is to be used for City economic development programs. As specified in the City's report to the Corporation of November 13, 1985, $100 million of those economic development funds are scheduled to be spent by the City on housing for low, moderate and middle-income families -- $40 million in fiscal 1985, $10 million in fiscal 1986, $25 million in fiscal 1987 and $25 million in fiscal 1988.

Last week it was reported by the press, in connection with an account of your announcement of a second phase of this housing program, that to date the first phase had produced only 16 apartments in one building in Brooklyn at a cost of $1 million. If accurate, this is in marked contrast to the 827 units in eight buildings originally comprising the first phase, as well as to the reportedly reduced scope of that program by almost half -- to 450 units. As reported, the two phases together would utilize approximately $50 million. That leaves a balance of $50 million of these housing funds unspent and unplanned for as the third year of the four-year program begins.
I would very much appreciate it if you would furnish our Board of Directors with an explanation of the status of this City housing program so that we can evaluate the need to readjust the schedule of providing funds to the City for this important public purpose.

In addition, we would like to receive as soon as possible the City's certification of the appropriation of economic development funds for fiscal 1987, and its certification of expenditures for economic development projects for fiscal 1986. Both such reports are required by the March 1984 Agreement.

I look forward to reviewing your response.

Sincerely,

Felix G. Rohatyn
Chairman

cc: Ms. Alair A. Townsend
Deputy Mayor for Finance and Economic Development