MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of the Annual Meeting of the Board of Directors
September 30, 1982

The Annual Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 9:30 A.M. on Thursday, September 30, 1982, at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation, 345 Park Avenue, New York City.

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

Felix G. Rohatyn, Chairman
Edward M. Kresky, Vice Chairman
Francis J. Barry
George M. Brooker
Eugene J. Keilin
Dick Netzer
Andrew P. Steffan
Robert C. Weaver

The following Representatives were present:

Bradford J. Race
Leonard Nadel
Robert W. Seavey

The following members of the staff were present:

Heather L. Ruth
Denise N. Dean
Maxine H. Gillman
Steven J. Kantor
Stephen J. Weinstein

Also present by invitation of the Board were: Allen L. Thomas, Ronald Soifer and James Thornton of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Donald J. Robinson, John J. Keohane and Jack M.
September 30, 1982
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Schrager of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Michael Zino of the Financial Control Board; Bernard Hecht and Brian Perlee of the Office of the State Special Deputy Comptroller; Leslie Buch, Charles Rosenwald and Brian Moore of the City of New York; Gedale B. Horowitz of Salomon Brothers Inc; Jonathan Plutzik of First Boston Corporation; Frederick Werblow and Steven Kober of Price Waterhouse; and Thomas Lincoln and Rochelle Siegel of The Bank of New York.

Adoption of Minutes

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

RESOLVED, that the Minutes of the Special Meeting of the Board of Directors held on August 31, 1982 be and hereby are adopted.

Administrative Matters

Mr. Rohatyn stated that the agenda of the Annual Meeting of the Corporation included the appointment of officers for the coming year and the approval of revised fee schedules for the Corporation's general counsel, Paul, Weiss, Rifkind, Wharton and Garrison; its bond counsel, Hawkins, Delafield & Wood; and its independent auditors, Price Waterhouse. Mrs. Ruth noted that a list of the present officers and committee
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members, 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
Edward M. Kresky

Executive Director
Heather L. Ruth

Deputy Executive Director & Counsel
Stephen J. Weinstein

Deputy Executive Director & Treasurer
Steven J. Kantor

Associate Counsel & Secretary
Maxine H. Gillman

Administration Committee
Robert C. Weaver, Chairman
Francis J. Barry
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. Steffan, Chairman of the Corporation's Audit Committee, reported that, in recommending that the revised
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fee schedules set forth in a memorandum circulated to the
Board prior to the meeting be adopted, the Audit Committee
had examined the total billings of the Corporation's general
counsel, bond counsel and independent auditors and the amount
of service requirements anticipated for the coming year.

Mr. Rohatyn noted the downward trend of the annual total
billings for the law firms since the inception of the
Corporation, and attributed it in part to the assumption of
certain responsibilities by the staff. He stated that the
outside counsel, throughout their association with the
Corporation, have demonstrated both professional and
conservative service.

Dr. Weaver stated that, with regard to the increase in
fees proposed for the coming year, the Administration
Committee surveyed the fees of comparable law firms and
accounting firms and, in light of this comparison and the
satisfactory services provided, found the proposed fee
increases acceptable.

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

RESOLVED, that the schedules of revised fees for
the services of the Corporation's general counsel, bond
counsel, and independent auditors as presented to the
Board in the Memorandum from the Executive Director
dated September 28, 1982, be and hereby are adopted.
September 30, 1982
MINUTES
Page 5

The Board directed that a copy of the Executive Director's Memorandum setting forth the fee schedules be appended to the minutes of the meeting.

Mrs. Ruth directed attention to the Corporation's 1982 Annual Report, copies of which were distributed at the meeting. She noted that, for the first time, a section entitled "Management Report" was included. She stated that the purpose of the new section was to explain changes made in the reporting of the Corporation's financial statements; for example, changes in the presentation of the Corporation's operating budget.

Investment Policy

To update a discussion which took place at the meeting of the Board on August 31, 1982, Mr. Rohatyn stated that, practically speaking, the Corporation no longer invests funds in repurchase agreements, and that the investment of funds was now accomplished with complete safety.

City Labor Settlement

Mr. Rohatyn noted that a concern expressed at the August 31, 1982 Board Meeting regarding the City labor settlements had come to fruition, namely, that the City had agreed to the repayment of certain wage deferrals negotiated
in 1975 with the non-uniformed coalition and anticipated funding the repayment with money borrowed from the City pension systems. He stated that his concerns were twofold: the implications of such a plan on a budget that must be balanced according to generally accepted accounting principles, and the fact that the plan did not reflect the agreement made at the time of the deferral. He stated that an alternate plan which would entail paying the deferrals over a period of years through application of the City's normal budget process was a much more acceptable plan. He stated that he will recommend disapproval of the plan to borrow funds from the City pension systems to repay the wage deferrals.

(Mr. Brooker joined the meeting at this point.)

Mr. Rohatyn also opined that the settlement negotiated with the non-uniformed coalition was high in relation to the prevailing rate of inflation, and expressed concern that the City would have difficulty in paying it. He directed the staff to make a thorough review of the City's budget situation at such time as the labor settlements have been completed and a new four year financial plan has been presented for approval to the Financial Control Board, and to present a report to the Board at that time.
September 30, 1982
MINUTES
Page 7

Mrs. Ruth noted that a memorandum on the non-uniformed coalition's proposed settlement from the Office of the Special State Deputy Comptroller had been circulated to the Board members and representatives prior to the meeting.

Financing Plans

Mrs. Ruth discussed the current four year plan of financing developed jointly by the Corporation and the City and its relation to the Corporation's financing plans in the near future. Mrs. Ruth explained that a portion of the Corporation's scheduled financings for the 1983 fiscal year would be accomplished through the proposed increase in the commercial paper program to $250 million from $100 million and the issuance of Series 28 Bonds and Series 36 Bonds pursuant to the exercise of warrants, which may be exercised through January 18, 1983. Mrs. Ruth noted that, of the authorized $59.505 million of Series 36 Bonds, approximately $34 million had been issued to date. Another factor to be considered, she noted, was the outcome of the City's proposal for waiver of the prepayment requirement contained in the 1978 Federal Loan Guarantee Act for federally guaranteed City bonds, which was under discussion between the City and the U.S. Treasury Department, and its impact on funds available to the City for capital financing.
Mrs. Ruth stated that the Corporation was scheduled to sell bonds publicly the week of October 18, 1982. Mr. Rohatyn emphasized that no final decision had been reached as to whether such sale would take place. Mrs. Ruth then asked the Board to consider a resolution authorizing the sale on a competitive basis of $100 million of bonds which, if approved, would occur on October 19, 1982, and requested Mr. Robinson to discuss briefly the salient provisions of the resolution.

Mr. Robinson noted, among other things, that the Resolution authorized $100 million of Series 40 Bonds to be sold on a competitive basis, delegated to the Finance Committee authority to set the terms of the bonds, and provided for alternative uses of proceeds: for City capital financing, for making a deposit into the Second Resolution Capital Reserve Fund, and for refunding, provided that the refunding results in a reduction in maximum annual debt service or that the refunding bonds have a lower true interest cost than the bonds to be refunded.

Mr. Keilin, Chairman of the Finance Committee, stated that, at the present time, there were more bonds required to be issued by the Corporation for refunding purposes than for City capital financing. He noted that the use of the proceeds of the Series 40 Bonds would be announced before
their sale, if approved, and that the Series 40 Bonds could be the initial sale in a lengthy refunding program.

Mr. Rohatyn stated that the Corporation's refunding efforts would be calculated to level debt service requirements in order to keep debt service as low as possible.

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

RESOLVED, that the Series 40 Resolution in substantially the form presented at the meeting be and hereby is adopted, and that the Finance Committee be and hereby is authorized to prescribe the terms and conditions of sale of the Series 40 Bonds and the use of the proceeds thereof.

Mr. Robinson recommended that the Series 40 Resolution be amended to authorize the Finance Committee to rescind such resolution in the event it was decided not to offer the Series 40 Bonds at this time.

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

RESOLVED, that the Series 40 Resolution be and hereby is amended to authorize the Finance Committee to rescind such resolution.

Commercial Paper

Mrs. Ruth reported that Citibank, N.A. had been invited to present by October 1, 1982, a proposal for a line of credit to support the proposed $150 million increase in the
commercial paper program. This proposal would be reviewed by the Finance Committee and, if found to be unacceptable, the Corporation would consider inviting competitive bids for the $150 million credit line.

Mr. Rohatyn stated that, as he had said in the past, the Corporation would issue no more than $250 million of commercial paper, an amount which presently constituted approximately 3% of the aggregate amount of outstanding debt and which would constitute approximately 2½% of the aggregate amount of debt which the Corporation was presently authorized to issue. He noted that the interest cost of the commercial paper was approximately half that of the Corporation's long-term obligations. He noted that an important consideration for the award of the additional $150 million credit line would be a reduction in the fees which the Corporation was paying in connection with the initial $100 million program.

Other Matters

Mrs. Ruth reported that the Corporation would be buying $100 million of the City's general obligation bonds that afternoon from amounts raised and set aside in the 1981 fiscal year to finance capital expenditures in the 1983 and 1984 fiscal years. In response to a question from Mr. Kresky,
Mr. Kantor stated that approximately $800 million remained set aside for this purpose.

Mr. Rohatyn remarked that the post-election Albany legislative session would be of interest to the Corporation, particularly with respect to the mass transit situation in the metropolitan area, which he characterized as a problem for the 1983 fiscal year, and the proposed City labor settlement, which, he stated, was more troublesome in the 1984 fiscal year.

In response to a question from Mr. Rohatyn, Mr. Horowitz opined that a public issuance of the Corporation's bonds, if sold at the present time, would bring a coupon rate of less than 11% for bonds maturing in 2008, and less than 10% for bonds maturing in 1992. He stated that the announcement of a possible sale of the Corporation's Series 40 Bonds would have some effect on the market for the Corporation's bonds. He stated that the budget situation of New York State, which was presently reporting a deficit for the State's 1982-1983 fiscal year, would be crucial to the Corporation's continued success in the tax-exempt market, and that the market could be expected to react to the City labor settlement. Mr. Rohatyn concurred with Mr. Horowitz's statements about the effect of New York State's financial condition on the Corporation, and added that, in effect, the
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State's credit rating was the highest rating the Corporation could hope to achieve. Mr. Horowitz responded that, in any other financial environment, the Corporation could have expected better ratings than presently exist because of the high ratio of available revenues to debt service. Mr. Kresky agreed that the Corporation's bonds were rated below that which circumstances warranted, but added that the Corporation enjoyed market receptivity. Mr. Horowitz concurred that the need for New York tax-exempt obligations was substantial, and, in this regard, remarked that the provision of the 1982 Federal tax legislation requiring all tax-exempt obligations with a maturity in excess of one year to be issued in registered form would have little or no effect on the market for the Corporation's bonds.

Adjournment

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

Maxine H. Gillman
Secretary
28 September 1982

To: Members of the Board of Directors, Representatives

From: Heather L. Ruth, Executive Director

Re: Certain matters to be considered by the Board at the September 30 Annual Meeting.

Leading up to the Corporation's Annual Meeting, committees of the Board have considered several matters and recommend their adoption or consideration by the Board of Directors, as follows:

A. Reappointment of Officers and Committees.
B. Adjusted fees for Price Waterhouse
C. Adjusted fees for General Counsel and Bond Counsel
D. FY 1983 financing plans.

A brief discussion of each of these items follows. In addition, because it has been historically considered at the Annual Meeting, I attach a summary of the Corporation's 1983 fiscal year budget which the Board approved this year in June, in advance of the beginning of the fiscal year. (See Exhibit E).

Also, for your information, OSDC's brief analysis (dated September 15) of the budget impact of the recently announced collective bargaining results is attached as Exhibit F.

A. REAPPOINTMENT OF OFFICERS AND COMMITTEES.

Exhibit A lists the current officers of the Corporation, Committees of the Board and Committee Chairmen. The By-Laws provide that appointments be made at the Annual Meeting.

B. ADJUSTED FEES FOR PRICE WATERHOUSE

The Audit Committee of the Board recommends adoption of revised fees requested by Price Waterhouse for their services as the Corporation's independent auditors. If approved, the new fees would be effective for services during the 1983 fiscal year. The proposed new fees and expenditure history are shown in Exhibit B. The estimated net impact of this fee adjustment in the annual cost of services rendered by the Corporation's auditors would be approximately 4 percent over the 1982 fiscal year.
C. ADJUSTED FEES FOR GENERAL COUNSEL AND BOND COUNSEL

As part of a process begun in the Corporation's 1980 fiscal year, the Corporation has made adjustments in both the structure and level of fees for General Counsel for the Corporation (Paul, Weiss, Rifkind, Wharton & Garrison) and the Corporation’s Bond Counsel (Hawkins, Delafield & Wood). The objective of these adjustments, in addition to recognizing cost increases since the establishment of the Corporation in 1975, has been to establish a comparable structure of fees between the two firms, which would have no impact on the respective firms' staffing decisions. The proposed new fees are consistent with these objectives and, for the first time, provide identical structures for the two law firms. (See Exhibit C).

The Administration Committee recommends that the Board adopt the proposed fees, which would become effective on January 1, 1983. The estimated net impact of this fee adjustment in the annual cost of legal services from the two firms would be approximately 8 percent.

D. 1983 FINANCING PLANS

The Debt Issuance Plan, jointly developed by the Corporation and the City, provides that the Corporation sell $600 million of debt during the current 1983 fiscal year. (See Exhibit D.)

The Corporation's successful attainment of $100 million outstanding of tax exempt commercial paper in August and the exercise of $34 million in warrants through September 27 (principally, the Series 36, with coupon of 12 3/4 per cent) leave a balance of $466 million to be raised during the remainder of the fiscal year. According to the Plan, $250 million of the $466 would be for the purpose of refunding outstanding debt of the Corporation.

At the last meeting, the Board endorsed a plan to expand commercial paper, if possible, to the maximum of $250 million, for a net increase of $150 million against the remaining $466 million to be sold. Up to an additional $125 million might be issued to warrant holders by January 18, 1983. On the needs side, pending further discussion with the U.S. Treasury, the City may find it is required to begin refunding its guaranteed bonds during this fiscal year (a factor not yet reflected in the Debt Issuance Plan).

In view of the range of contingencies, some of which are highly sensitive to market conditions, the Finance Committee (and the staff) will continue to monitor developments closely. We continue routinely to schedule a quarterly bond issuance with the Comptroller's Securities Coordinating Committee and evaluate the need as each date approaches. The next scheduled bond issuance of the Corporation on the State's calendar is for the week of October 18. It is
possible that the Finance Committee will recommend authorization of an issuance at the Annual Meeting. In addition, we will brief you on the status of the commercial paper program.

Exhibits A through F.
ANNUAL BOARD MEETING
September 30, 1982

APPOINTMENT OF OFFICERS

Vice-Chairman
Edward M. Kresky

Executive Director
Heather L. Ruth

Deputy Executive Director
Stephen J. Weinstein
& Counsel

Deputy Executive Director
Steven J. Kantor
& Treasurer

Associate Counsel
Maxine H. Gillman
& Secretary

ADMINISTRATION COMMITTEE

Robert C. Weaver, Chairman
Andrew P. Steffan, Chairman
Francis J. Barry
Kenneth J. Bialkin
Dick Netzer
George M. Brooker

CITY BUDGET COMMITTEE

Dick Netzer, Chairman
Eugene J. Keilin, Chairman
Edward M. Kresky
Edward M. Kresky
Andrew P. Steffan
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)
### Table B-1

**FY 1982 AND PROPOSED HOUURLY FEES FOR PRICE WATERHOUSE**

<table>
<thead>
<tr>
<th></th>
<th>Current: Fiscal Year 1982</th>
<th>Proposed: Fiscal Year 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>$135</td>
<td>$145</td>
</tr>
<tr>
<td>Manager</td>
<td>$105</td>
<td>$105</td>
</tr>
<tr>
<td>Senior Accountant</td>
<td>$50-63</td>
<td>$55-67</td>
</tr>
<tr>
<td>Staff Accountant</td>
<td>$30-42</td>
<td>$35-46</td>
</tr>
</tbody>
</table>

### Table B-2

**TOTAL BILLINGS BY PRICE WATERHOUSE SINCE 1977**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Billings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>$170,258</td>
</tr>
<tr>
<td>1978</td>
<td>87,863</td>
</tr>
<tr>
<td>1979</td>
<td>63,802</td>
</tr>
<tr>
<td>1980</td>
<td>70,940</td>
</tr>
<tr>
<td>1981</td>
<td>79,854</td>
</tr>
<tr>
<td>1982</td>
<td>96,298</td>
</tr>
</tbody>
</table>
Table C-1

CALENDAR 1982 AND PROPOSED HOURLY FEES
FOR GENERAL COUNSEL* AND BOND COUNSEL**

<table>
<thead>
<tr>
<th>Current: Calendar 1982</th>
<th>Proposed: Calendar 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Counsel</td>
</tr>
<tr>
<td>Senior Partners (1983)</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Partners (1983)</td>
<td>N/A</td>
</tr>
<tr>
<td>All Partners (1982)</td>
<td>$140</td>
</tr>
<tr>
<td>Associates:</td>
<td></td>
</tr>
<tr>
<td>5th Year and over</td>
<td>$115</td>
</tr>
<tr>
<td>3rd &amp; 4th Year</td>
<td>$100</td>
</tr>
<tr>
<td>1st &amp; 2nd Year</td>
<td>$85</td>
</tr>
</tbody>
</table>

Table C-2

TOTAL BILLINGS BY THE TWO LAW FIRMS SINCE 1976

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Counsel</th>
<th>Bond Counsel</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>$1,448,004</td>
<td>$984,699</td>
<td>$2,432,703</td>
</tr>
<tr>
<td>1977</td>
<td>702,681</td>
<td>404,544</td>
<td>1,107,225</td>
</tr>
<tr>
<td>1978</td>
<td>384,749</td>
<td>431,641</td>
<td>816,390</td>
</tr>
<tr>
<td>1979</td>
<td>383,283</td>
<td>454,315</td>
<td>837,598</td>
</tr>
<tr>
<td>1980</td>
<td>123,676</td>
<td>221,279</td>
<td>344,955</td>
</tr>
<tr>
<td>1981</td>
<td>168,447</td>
<td>205,183</td>
<td>373,630</td>
</tr>
<tr>
<td>1982</td>
<td>121,624</td>
<td>220,360</td>
<td>341,984</td>
</tr>
</tbody>
</table>

* The Corporation's General Counsel is Paul, Weiss, Rifkind, Wharton & Garrison.
** The Corporation's Bond Counsel is Hawkins, Delafield & Wood.
<table>
<thead>
<tr>
<th>Sources</th>
<th>FY 1983</th>
<th>FY 1984</th>
<th>FY 1985</th>
<th>FY 1986</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sales of the Corporation's Bonds</td>
<td>600(a)</td>
<td>350</td>
<td>300</td>
<td>-</td>
<td>1,250</td>
</tr>
<tr>
<td>Public Sales of the City's G.O. Bonds</td>
<td>300</td>
<td>400</td>
<td>700</td>
<td>1,100</td>
<td>2,500</td>
</tr>
<tr>
<td>Proposed Water &amp; Sewer Financing (b)</td>
<td>-</td>
<td>150</td>
<td>315</td>
<td>330</td>
<td>795</td>
</tr>
<tr>
<td>Cash Adjustment (c)</td>
<td>60</td>
<td>99</td>
<td>15</td>
<td>-</td>
<td>174</td>
</tr>
<tr>
<td>Subtotal</td>
<td>960</td>
<td>999</td>
<td>1,330</td>
<td>1,430</td>
<td>4,719</td>
</tr>
</tbody>
</table>

Withdrawals from the Corporation's Reserves For Future Capital Requirements

<table>
<thead>
<tr>
<th></th>
<th>FY 1983</th>
<th>FY 1984</th>
<th>FY 1985</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>515</td>
<td>300</td>
<td>-</td>
<td>815</td>
</tr>
</tbody>
</table>

Total Sources

|                                | 1,475   | 1,299   | 1,330   | 1,430 | 5,534 |

Uses

|                                | 1,125   | 1,249   | 1,330   | 1,430 | 5,134 |
|                                | 100     | 50      | -       | -     | 150   |
|                                | 250     | -       | -       | -     | 250   |

Total Uses

|                                | 1,475   | 1,299   | 1,330   | 1,430 | 5,534 |

(a) A total of $134 million of this amount has been satisfied through the issuance of commercial paper ($100 million) and issuance of bonds to warrantholders ($34 million through September 27, 1982).

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

(c) City changes in General Fund advances and restricted cash.
MUNICIPAL ASSISTANCE CORPORATION
OPERATING FUND
($ Thousands)

|                      | FY 1982 Expenditures | FY 1983 Budget  
|----------------------|----------------------|------------------
|                      |                      | (Approved 6/3/82) |
| DEBT ISSUANCE        |                      |                  |
| Bonds                | $ 830                | $ 745            |
| Commercial Paper     | 732                  | 1,892*           |
| Subtotal             | $ 1,562              | $ 2,637          |
| DEBT ADMINISTRATION  | 1,054                | 1,280            |
| OVERSIGHT:           |                      |                  |
| OSDC                 | 1,771                | 2,356            |
| FCB                  | 1,622                | 1,532            |
| Subtotal             | $ 3,394              | $ 3,888          |
| INVESTMENT           | 125                  | 145              |
| FINANCIAL REPORTING  | 385                  | 594              |
| GENERAL ADMINISTRATIVE| 904                  | 1,042            |
| TOTAL                | $ 7,423              | $ 9,586          |

*Assumes $100 million in commercial paper outstanding; expansion of the program to $250 million will require a corresponding modification of the budget.*
September 15, 1982
Letter Report 35-83
Impact of the Tentative
Labor Settlement on the
City's Financial Plan

Financial Control Board
270 Broadway
New York, New York 10007

Municipal Assistance Corporation
One World Trade Center, Suite 8901
New York, New York 10047

Dear Members & Directors:

On September 10, 1982 the City entered into a tentative labor agreement with a coalition of unions representing non-uniformed employees. The agreement provides for an eight percent wage increase in fiscal 1983 followed by a seven percent increase in fiscal 1984. The fiscal 1983 wage increase is scheduled to begin two months after the beginning of the contract period.\(^1\)

In addition, the agreement provides for increases, beginning in fiscal 1984, in health insurance and other benefits and provides for the eventual repayment, beginning in fiscal 1985, of deferred wage increases.\(^2\)

This memorandum provides a preliminary outline of the cost implications of the labor settlement and its impact on the Financial Plan. It focuses on the cost impact on fiscal years 1983 and 1984 and does not estimate the cost of repaying the deferred wages.

\(^1\) This results in an effective wage increase of 6.7 percent in fiscal 1983.

\(^2\) We have not yet received sufficient data regarding the part of the settlement relating to deferred wages.
Based on our preliminary calculations, if the terms of this labor agreement were to apply to all City employees, the cost to the City would be $378 million in fiscal 1983 and $1,074 million in fiscal 1984. By contrast, the City's financial plan, which was predicated on the assumption of three percent annual wage increases, provides only $202 million in fiscal 1983 and $386 million in fiscal 1984 for labor settlement costs.

In fiscal 1983, the cost of the labor settlement above the amount provided for in the Plan, $176 million, can largely be absorbed through the use of existing reserves and through other budgetary actions the City has reportedly undertaken. Barring major adverse developments, any remaining gap is of manageable proportions. However, for fiscal 1984 the incremental cost of the settlement above the amount provided for in the Plan is $688 million. When combined with a baseline deficit of $406 million, the City faces a fiscal 1984 gap of approximately $1.1 billion. (Schedule I).

To a significant degree, this large increase in the gap results from the cost of the settlement being weighted heavily towards fiscal 1984 as compared to fiscal 1983. The fiscal 1984 cost of the settlement is nearly three times the cost of the settlement in fiscal 1983.

The City, in the past, has successfully closed gaps of the magnitude currently being projected for fiscal 1984. Schedule II shows how the City was able to eliminate a projected fiscal 1983 gap of over one billion dollars.¹ The gap was eliminated through the use of the prior year's surplus (which had been generated by increases in economically sensitive revenues), increases in State aid, tax increases and budgetary reductions.

¹ Based on the January 15, 1982 financial plan estimates.
However, many of the methods used to close the 1983 gap may not be available in fiscal 1984. The State's ability to render ever increasing assistance is limited by the State's own budget difficulties. The Governor is projecting a State budget gap of over $300 million in State fiscal 1983 and over $1 billion in State fiscal 1984.

Perhaps more significantly, inflation helped keep tax revenues high through fiscal 1981, while the City was able to contain expenditure growth below the inflation rate. Currently, however, the City is forecasting that local inflation will grow by only 5.3 percent annually in fiscal years 1983 and 1984. Personal service costs on the other hand, which constitute the largest component of the City's budget, will grow more rapidly as a result of the current proposed settlement which provides for labor cost increases of 8 percent in fiscal 1983 and 7 percent in fiscal 1984.

There is also evidence that the City's economy, which successfully weathered the national economic downturns of the last few years, may be slowing down. During the past six months there has been a significant reduction in the rate of growth of City tax collections. Sales tax collections grew by four percent in the second half of fiscal 1982 compared to growth of thirteen percent in the first half of fiscal 1982. In addition, estimated tax payments by individuals and businesses, a key indicator of expected revenue performance, have also declined significantly (Schedule III). Such payments declined by 6 percent in the most recent 6 month period as compared to growth of 28 percent and 9 percent in the comparable periods in 1980 and 1981, respectively. Interest income is also likely to be $25 million
to $50 million below planned levels as a result of the recent decline in interest rates.¹

The City will soon be submitting a plan to fund its proposed labor settlements. Obviously, when the Financial Control Board takes action on that plan it must consider data to be provided by the City on how it will fund the proposed settlements not only in the current fiscal year but also on a recurring basis.

The data in this report relating to the proposed settlement were based on information provided by City officials. We were advised that the settlement has not yet been reduced to writing. To the extent that data change or that sufficient data become available on the settlement of the wage deferrals, we will issue a subsequent report on the costs of the settlement.

Very truly yours,

Sidney Schwartz

¹ The Plan assumes interest rates of 12 percent on temporary investments. Currently, such rates are below 10 percent.
### Schedule I

**Impact of Tentative Labor Settlement on the City's Financial Plan**

(millions)

<table>
<thead>
<tr>
<th>Cost of Settlement</th>
<th>Fiscal 1983</th>
<th>Fiscal 1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>8% increase effective in fiscal 1983</td>
<td>$(378)</td>
<td>$(455)</td>
</tr>
<tr>
<td>7% increase effective in fiscal 1984</td>
<td>-</td>
<td>$(431)</td>
</tr>
<tr>
<td>Health Insurance and Welfare Fund Increases</td>
<td>-</td>
<td>$(63)</td>
</tr>
<tr>
<td>Increase in Pension Costs</td>
<td>-</td>
<td>$(125)</td>
</tr>
<tr>
<td><strong>Total Cost of Contract</strong></td>
<td>$(378)</td>
<td>$(1,074)</td>
</tr>
<tr>
<td><strong>Less: Amounts Included in Financial Plan</strong></td>
<td>202</td>
<td>386</td>
</tr>
<tr>
<td><strong>Incremental Cost of Settlement</strong></td>
<td>$(176)</td>
<td>$(688)</td>
</tr>
<tr>
<td><strong>Baseline Surplus/(Deficit)</strong></td>
<td>176(2)</td>
<td>$(406)</td>
</tr>
<tr>
<td><strong>Gap Including Labor Settlement</strong></td>
<td>$0</td>
<td>$(1,094)</td>
</tr>
</tbody>
</table>

---

(1) Assumes settlement applies to all City employees including custodial employees in the Board of Education.

(2) Assumes that any gap can be largely absorbed by existing reserves and announced budgetary actions. These reserves include $81 million in the general reserve in excess of the $100 million statutory reserve. In addition, the City has announced a budgetary reduction program designed to save $57 million in fiscal 1983. There are also pension savings not yet reflected in the plan of $50 million.
Schedule II

How the Fiscal 1983 Projected Budget Gap Was Eliminated
(in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Better/(Worse)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Budget Gap-Per City Proposed Plan 1/15/82</td>
<td>$ (854)</td>
</tr>
<tr>
<td>Additional Labor Settlement Costs</td>
<td>(206)</td>
</tr>
<tr>
<td>Restated Estimate of Projected Gap</td>
<td>(1,060)</td>
</tr>
<tr>
<td>Gap Closing Measures</td>
<td></td>
</tr>
<tr>
<td>Rollover of 1982 Surplus</td>
<td>$ 281</td>
</tr>
<tr>
<td>Increased State Aid(1)</td>
<td>210</td>
</tr>
<tr>
<td>City Budget Cuts(2)</td>
<td>242</td>
</tr>
<tr>
<td>City Tax Increases(3)</td>
<td>171</td>
</tr>
<tr>
<td>Miscellaneous Revenue Increases(4)</td>
<td>79</td>
</tr>
<tr>
<td>Net Baseline Changes(5)</td>
<td>77</td>
</tr>
<tr>
<td>Total Adjustments</td>
<td>1,060</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

(1) $122 million in Medicaid and $88 million in Education aid.

(2) Assumes the successful implementation of planned reductions in the following areas: $74 million in the Board of Education, $52 million in Mayoral Agencies, $34 million in the Health and Hospitals Corporation and $25 million in MAC Debt Service as part of the adopted plan, and $57 million in additional reductions which were subsequently imposed.

(3) Primarily from the personal income tax and the general corporation tax.

(4) Primarily $45 million in Water & Sewer rate adjustments and $31 million from accelerated real estate tax payments.

(5) Assumes utilization of available reserves and other actions necessary to insure a fiscal 1983 balanced budget.
Schedule III

Percentage Change in Estimated Tax Payments of City Income Taxes
For the Six-Month Period Ending August (1)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Locally Generated Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Income Tax 13.3%</td>
<td>22%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>General Corporation Tax 6.8%</td>
<td>15</td>
<td>20</td>
<td>(2)</td>
</tr>
<tr>
<td>Financial Corporation Tax 2.3%</td>
<td>90</td>
<td>(23)</td>
<td>(46)</td>
</tr>
<tr>
<td>Unincorporated Business Tax 1.4%</td>
<td>12</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Average Growth (Weighted) 23.8%</td>
<td>28%</td>
<td>9%</td>
<td>(5)%</td>
</tr>
</tbody>
</table>

(1) The latest six month period for which 1982 data is available. This period also coincides with the first payments of estimated tax on 1982 tax liabilities.