Minutes of a Special Meeting of the Board of Directors

November 30, 1982

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 9:30 A.M. on Tuesday, November 30, 1982, at the offices of Price Waterhouse, the Corporation's independent auditors, 153 East 53rd Street, 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
Kenneth J. Bialkin
George M. Brooker
Eugene J. Keilin
Dick Netzer
Andrew P. Steffan
Robert C. Weaver

The following Representative was present:

Leonard Nadel

The following members of the staff were present:

Heather L. Ruth
Denise N. Dean
Maxine H. Gillman
Steven J. Kantor
Stephen J. Weinstein
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Also present by invitation of the Board were Stephen Berger, Consultant to the Corporation; Allen L. Thomas, Ronald Soiefer and James Thornton of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Steven Levine, John Wolff and Kathy Blyn of the City of New York; Eugene Crowley of Salomon Brothers Inc; and Frederick Werblow and Steven Kober of Price Waterhouse.

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 October 13, 1982, be and hereby are adopted.

State and City Budgets

Mr. Rohatyn stated that the purpose of the meeting was to provide an update with respect to the budget situations of the City and State and to present to the Board a copy of a letter, dated as of November 29, 1982, addressed to various State officials and signed by Mr. Kresky and himself, expressing alarm over the poor and potentially worsening fiscal condition of both the City and State and its implications and urging corrective action. The Board
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directed that a copy of this letter be appended to the
Minutes of the meeting.

(Dr. Weaver joined the meeting at this point).

Mr. Berger, Consultant to the Corporation on budget
matters, reported that the intertwining of the State and the
City's budget difficulties which prevailed in 1975 was once
again at hand. He noted that, unlike 1975 when the fiscal
condition of the State was strong, the State now faced
carrying an over $400 million deficit for the present fiscal
year into its fiscal year beginning on April 1, 1983 and a
projected deficit for that fiscal year, under current
parameters, of over $1 billion. He recommended that the
State consider redesigning its aid programs so that certain
costs would be deferred to later years, but noted that,
despite the recent conversion of the State accounting system
to generally accepted accounting principles, it was not the
State's practice to engage in detailed financial planning
for fiscal years beyond the current fiscal year, as the City
was required by law to do. Furthermore, he noted the
relative inflexibility for expenditure reduction imposed
upon the State by a budget whose expenditures consist of
approximately 60% aid and 40% services and the resultant
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need to concentrate on increasing revenues. Finally, he noted that the need for the State to resolve its budget crisis at almost any cost in order to accomplish its Spring borrowing rendered unlikely the receipt of all the additional aid required by the City to mitigate the size of its projected budget gaps.

Mr. Rohatyn emphasized the need for a bipartisan, rapid effort to design a consolidated program for the City and State providing a short-term solution to the budget crisis which would ameliorate the problem until the national economy improves. In addition to the lingering national recession, which has caused revenue growth to slacken, he pinpointed City and State labor settlements, which he characterized as excessive in the current context, as a major factor in having created the existing budget difficulties. He noted that, in difficult times, the citizenry must be prepared to make sacrifices such as bearing an increased tax burden and decreased but reasonable service levels, and that labor should, as before, prefer protecting employment over exorbitant wage increases. To that end, Mr. Rohatyn expressed his hope that a compromise could be struck in the present labor contracts so that wage increases are brought in line with the prevailing inflation
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rates. He noted that the City, State, and the nation should plan on a slow recovery, and stated that the Federal Reserve Board must bring down interest rates in order to achieve accelerated growth.

Mr. Keilin expressed his view that what was needed was a State program providing solutions to both the City and State budget difficulties which would extend beyond one legislative session. He noted that, because of the State's own crisis, it could not appropriate the large sums to the City provided in 1975. Mr. Kresky agreed with Mr. Keilin, adding that the City and State budgets should be read as a consolidated statement, and that sacrifices in the form of tax increases and service reductions should be evenly distributed between the two levels of government.

Mr. Bialkin stated that City officials were properly concerned over the financial difficulties of the City and were taking the appropriate actions. He stated his belief that the City's recent demonstrated fiscal integrity would shield it from losing market access.
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Financing Update

Mr. Rohatyn reported that the Council on Municipal Priorities had discussed a potential increase in the Corporation's statutory debt issuance limitation, and stated that the Corporation had no intention to request such an increase. He noted that, rather than increasing the amount of debt carrying the State's moral obligation, it was important for the City to raise increasing funds on its own behalf so that it may become totally creditworthy.

Mrs. Ruth reported that documentation for the Corporation's expanded commercial paper program was nearing completion, and that a meeting of the Board would be called in December to approve the documents so that issuance under the new program could begin early in January 1983. She stated that, following expansion of the commercial paper program, the Corporation would have completed its scheduled financings for fiscal 1983, but that, at the City's request, the Corporation would consider additional refunding during the next six months. In this regard, Mr. Rohatyn noted that the Corporation would do what it could to provide the City budget relief in fiscal 1984 and 1985.
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Mr. Keilin, Chairman of the Finance Committee, noted that the Corporation's October 1982 bond sale had taken place on the final day of the autumn rally, and that interest rates have increased since then. In response to a question from Mr. Keilin, Mr. Kantor reported that, as of the date of the meeting, approximately $43 million of the $59.505 million Series 36 Bonds and approximately $2 million of the $100 million Series 28 Bonds had been issued upon exercise of warrants.

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
November 29, 1982

The Honorable Hugh L. Carey
Governor of the State of New York
The Honorable Mario M. Cuomo
Lieutenant-Governor
The Honorable Stanley Fink
Speaker of the Assembly
The Honorable Warren Anderson
Senate Majority Leader

Gentlemen,

We wish to express to you on behalf of the Board of the Municipal Assistance Corporation, our deep concern over the State's and the City's budgetary and credit conditions. MAC's legislative mandate, as a State agency, is to provide financing for New York City until December 31, 1984 and to review the City's budget. Primary responsibility over the City's budget rests, of course, with the Financial Control Board. The State's economic vitality and its creditworthiness are the most important conditions required to accomplish these objectives.

The current economic crisis in the United States, and the resulting federal policies, have been harshly felt in this part of the country. There is little cause for optimism when the best-case economic scenarios call for a weak recovery in 1983.

During New York City's 1975-1976 crisis, and in the succeeding years, the strong financial condition of the State was basic to the survival of the City. A rapidly recovering national economy, a weak dollar and strong revenue growth were vital elements for both City and State. We also learned that in times of extreme difficulties there is no distinction between upstate and downstate, city and suburb, Republican and Democrat. The statesmanship exhibited both by the Democratic and the Republican leadership in 1975-1976 testified to this reality and provided the foundation for the prosperity of both New York City and New York State.

Now, for the first time, the City, practically all counties, the State, and State agencies such as the MTA are facing critical budgetary problems simultaneously. These problems are real, they will not go away and may get worse,
and they have to be dealt with in a comprehensive manner (i.e. the State and local government budgets have to be viewed almost as a consolidated budget). Simply transferring deficits from one level of government to the next will solve nothing.

As a result of these uncertainties, the State's credit ratings, as well as that of certain State agencies (not including MAC), have recently been reduced. If the State and the City do not come to grips with their budgets in an orderly, timely and rational way, further action by the rating agencies cannot be ruled out. For the State, at a minimum, this would mean higher interest costs at a time of severe budgetary pressure. Every one percent of increased interest rate, on the State's spring borrowing, could add at least $40 million to the State's potential deficit.

We recognize and respect the realities of political life, the requirements of different constituencies and the pressures brought to bear on political leaders. However, we believe that the magnitude of what we are certain to face is such as to require prompt bipartisan action.

We would urge that what can be done now, not be put off until next year. This applies to the MTA's current deficit as well as to corrective actions dealing with the City's and the State's budgets. These are the province of the Legislature and the FCB, respectively. The overriding objective of these actions would be to reduce the magnitude of deficits to be dealt with in the spring, and to limit, as much as possible, the size of the State's spring borrowing. The $4 billion or so required by the spring borrowing is huge by any standards, regardless of the recent strength of the bond markets.

It is obvious that, once again, real sacrifice will be demanded from all of our constituencies as we try to buy time until a national recovery takes place. Hopefully, a bipartisan approach will minimize the long-term social and economic damage of these actions. Fortunately, although it is grim solace, many of our neighbouring cities and states are facing similar problems and considering similar actions. Rational actions on our part should allow us to maintain our relative competitive position. We believe some tax increases are inevitable. They should be equitable, they should be enacted in such a way as to drive as few taxpayers out of the City and the State, they should not be the subject of political blame.
Control and reduction of expenditures, including reductions in the size of the workforce, are also inevitable. In the service and employment area, every effort should be made to maintain services and minimize unemployment. This will require the same enlightened business/labor/government cooperation which prevailed in 1975-1976. The "social contract" implied by the arrangements entered into at that time must be renewed: Wage restraint in exchange for job security. This may well mean, both at the city and state level, an adjustment to existing labor contracts. It is quite evident that the funding of existing contracts, at increases considerably over the rate of inflation and revenue growth, will require significant personnel cutbacks and service reductions. Deliberately increasing unemployment still further, instead of limiting the growth in wages and benefits, would be a terribly shortsighted policy on the part of the City, the State, and the labor leadership. We trust that all parties concerned will recognize that reality and deal with it as promptly as possible.

It is noteworthy that the last crisis we faced occurred shortly after a change in the State Administration; it came as a surprise to many and was overcome by the most strenuous efforts on the part of the Executive and the Legislative Leadership. This crisis will also occur shortly after a change in Administration, but it will surprise no one. The requirement to deal with it is for prompt action, cooperative action and courageous action. We are confident, once again, in your ability to provide it.

Very truly yours,

Felix G. Rohatyn
Chairman of the Board

Edward M. Kresky
Vice Chairman of the Board