MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

December 11, 1979

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 11:00 A.M. on Tuesday, December 11, 1979 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
Robert C. Weaver

The following Representatives were present:

Jerome Belson
Jules V. Lane
Leonard Nadel

The following members of the Staff were present:

Robert F. Vagt
Stephen J. Weinstein
John G. Bove
H. Andrew Decker
Linda S. Dinkin
Maxine H. Gillman
Terri L. Posner
Christopher H. Richmond
Margaret F. Scott
Adam Sherman

Also present by invitation of the Board were: Allen L. Thomas, Stephen E. Fox and Paul S. Pearlman of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; John J. Keohane of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Stephen Berger, Consultant to the Corporation; Sidney Schwartz, Bernard Kabak, Abe Greensstein and Abe Biderman of the Office of the Special Deputy
State Comptroller; Alexandra Altman and Leressa Crockett of the City Office of Management and Budget; John Bender and Michael J. Zino of the New York State Financial Control Board; David Hack of the City Comptroller's Office; John McLaughlin of the United States Treasury Department; and Jack Bigel and Allen Brawer of Program Planners, Inc.

Adoption of Minutes

Mr. Rohatyn stated that the proposed minutes for the Board of Directors meeting of October 31, 1979 had been circulated to the Board to be considered for adoption.

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 31, 1979 be and hereby are adopted.

Proposed Financing -- Series 21 and 22 Bonds

Mr. Keilin stated that the Corporation intended to sell its Series 21 and 22 Bonds to the Financial Institutions and City Pension Funds, under the 1978 Bond Purchase Agreement, on December 14, 1979. He stated that the coupon rate on the bonds to be issued, which had been established pursuant to that Agreement, was 8-3/4%, which reflected the relative stability of the secondary market for the Corporation's obligations.
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Mr. Keohane reviewed the proposed Series 21 and Series 22 Resolutions, summarizing the provisions stating the purposes of the issues, interest rates, maturity dates, paying agents and the refunding of the Corporation's 1975 Series A Bonds.

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

RESOLVED, that the Series 21 and Series 22 Resolutions, substantially in the form as presented to the meeting, with such non-substantive changes as General Counsel and Bond Counsel may in their discretion require, be and hereby are adopted; and

FURTHER RESOLVED, that the Official Statement for the offer and sale of the Series 21 and 22 Bonds be and hereby is approved and distribution of the Official Statement be and hereby is authorized.

Mr. Rohatyn stated that the half-way point of the Four Year Financial Plan for the City had been reached. He cited the need for a greater national market for the Corporation's bonds, particularly if the Corporation would have to provide more of the City's long-term financing.

Dr. Netzer observed that the national investment community's essential perception of the Corporation remained one of association with the City of New York.

Mr. Rohatyn said that the relationship between the Corporation and the City had to be viewed realistically, and that "New York" was the Corporation's family name.
He observed that, with other cities and local governments experiencing some of the same problems with regard to financing that New York had experienced, the particular New York perception problem might lessen.

Mr. Rohatyn noted that the City intended to issue a report in January with regard to a program to close its budget gap and that the Corporation would review that report when issued, but would not undertake to review the City's budget position in advance of that report.

United States Trust Company of New York

Mr. Vagt reported that he had met again the previous day with officials of the United States Trust Company of New York with regard to their review of accounts and procedures at the Corporation's request. He stated that the Trust Company had reported that its vault count had been completed and that its independent accountants, Coopers & Lybrand, would issue their report within the next few days. He said that the Corporation's independent accountants, Price Waterhouse & Co., would review the Coopers & Lybrand report when issued, and that he expected that the results of that review would be presented to the Board at its next meeting.

Report of Program Planners, Inc.

Mr. Rohatyn welcomed Mr. Jack Bigel, president of Program Planners, Inc.
Mr. Bigel stated that his firm served as financial consultant to the City's Pension Funds, which together represented the Corporation's largest single investor, and noted that those investments had been made not to bail out the City but to protect the retirement systems. He stated that the combined value of the systems' portfolios was approximately $12 billion, and was expected to increase to approximately $14 billion by June 1980. Further, he said, the systems' City-related holdings will have been reduced from a high of 33% to approximately 23% of their portfolios by June 1980. He said that while the pension funds would continue to contribute to the four year financing plan for the City which expires in 1982, that they would not be willing to participate in any additional financing after June 30, 1982, and that therefore other sources of future financing should be found.

Mr. Bigel said that it was his view that the preparation and review of four year financial plans for the City was a bizarre and unproductive exercise, and one that was arcane and childish, inasmuch as it was impossible to predict budgetary revenues and expenditures as much as four years in advance. He noted, for example, that the Office of the Special Deputy Comptroller had recently expressed its concern about City labor settlements in 1982 and 1984.
Mr. Bigel stated that he had not intended to discuss labor issues, noting that he was not a labor leader but a financial consultant, and that the report of Program Planners, Inc. which had been previously furnished to the Corporation did not even address labor issues. However, he said that he did wish to comment on the labor situation, in light of recent press reports, stating his concern about efforts to move the bargaining season up. He observed that a recent New York Daily News article regarding negotiations between municipal workers and the City of San Francisco had neglected to make reference to certain substantial union gains including an actual increase of about 7% in take-home pay. He said that the City of New York should consider seriously whether or not it is in a position to take a strike by municipal employees, observing that City workers had essentially had a wage freeze for the past six years, which had also been a strike-free period. He commented further that in the past eight years there had been more than 1,100 public sector strikes in the United States but only three in New York City. He stated that the up-coming City labor negotiations would be the most sensitive ever, and that if a strike were to materialize all of the efforts of the past five or six years would have been lost.
Mr. Bigel said that his recently-issued report addressed the issue of market access for the City and presented substantial data with regard to other cities in relation to New York for comparison purposes. He stated that the intent of the report was not to criticize the monitors charged with overseeing the financial affairs of the City, but rather to examine what the City actually had done during the period in question. He said that the report responded to two often-voiced platitudes: first, that the City relied too much on Federal and State aid; and second, that the City had not done enough. He pointed out those sections of the report which dealt with the actual performance of the City in contrast with predictions of various monitoring agencies, and to those sections of the report presenting comparisons between New York City and other local governments in the state and other cities in the nation, noting the considerable increases in municipal payrolls in other places compared with a small decline in New York City. He also pointed out the findings of a United States Treasury Department report which concluded that the City had weathered recent economic changes well.

He stated that over the past few years the projections of the Office of Special Deputy Comptroller, the State Financial Control Board and the Municipal Assistance Corporation had been consistently pessimistic, and stated that
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if the projections had been taken as real, the City would have had to either lay off more than 20,000 employees or increase its sales tax by 1 to 1-1/2%. He referred to specific reports and statements by the Financial Control Board, the Special Deputy Comptroller and the Corporation and officials of those agencies in 1977 and 1978 and their reviews of the City's proposed 1979 and 1980 budgets. He said that those predictions contrasted sharply with the City's actual performance during the periods in question. He observed that it was very difficult to deal with all of the monitors in concert making ominous projections, and stated that it was arrogant and presumptuous of them to do so without correcting their public statements in the light of actual results. He said that staffing and expenditures at all three monitoring agencies had increased substantially, while the City payroll was to be reduced by approximately 43,000 employees by attrition over the next three years.

Mr. Rohatyn stated that good communications between the Corporation and the Pension Funds and Mr. Bigel were essential and that all parties should strive to improve those communications. He noted Mr. Bigel's remarks with regard to the Pension Funds' investments in the Corporation's obligations, and that the Corporation should not look to the Pension Funds for additional financing after June 1982. He stated that it was the Corporation's intent to reduce reliance on private investors, but that it was difficult at
present to see the financing situation beyond June 1982. He noted that if the Corporation were to do all of the City's $950 million of long-term financing in 1981 and 1982 that the Corporation would approach its statutory issuance limitation. However, he stated that the Corporation did not intend to approach the Pension Funds for additional financing, while noting that some of the funds holding the Corporation's securities had recently liquidated certain of those holdings at substantial profits.

However, Mr. Rohatyn stated, he did take issue with Mr. Bigel's remarks regarding the performance of the Corporation and other monitoring agencies. He indicated that the Corporation's staff had prepared in draft form written comments on the Program Planners report which showed, among other things, that approximately 80% of the actions taken to close the gap in the City's budget were attributable to non-City actions and only approximately 20% to City actions. In addition, he commented, many of the City's gains were attributable to non-recurring actions, and the cost to be incurred by the City in connection with the coming labor negotiations were not reflected at all in the report. Mr. Rohatyn stated that the Corporation was being realistic rather than apocalyptic or cataclysmic. He said that he had not seen anything with regard to the covered organizations that would lessen the past and present concerns expressed by the Corporation and its representatives.
Mr. Rohatyn stated his view that municipal labor strikes would indeed be very damaging to the City, and expressed his personal appreciation of the involvement of the labor movement during the past five years in solving the City's financial problems.

With regard to the reference in the Program Planners report to the costs of operating the Corporation, Mr. Rohatyn indicated that the Corporation would make available data with regard to staff and salary levels.

Mr. Vagt noted that in spite of a general 5% salary increase in January 1979, there had been an actual decrease in the operating costs of the Corporation during the past year. He stated that particulars would be contained in the Corporation's report.

Mr. Rohatyn concluded that he was quite comfortable with the record and performance of the Corporation to date. He stressed that the City must be examined in terms of what it has done for itself to date, in contrast to those actions taken by outside sources which are not likely to recur.

Mr. Berger observed that labor strife is painful for all involved, and responded to Mr. Bigel's remarks regarding, first, the role of City monitors and, second, the performance of the City. Mr. Berger stated that independent analysts over the past decade had been fundamentally correct with regard to the pattern of revenues and expenditures
facing the City. With regard to the second point, Mr. Berger stated that the City of New York had been in a real deficit situation for decades. However, he also noted, the City had made substantial progress during the past few years, due in large part to the efforts of the Corporation and the municipal labor force. He further noted that the Program Planners report dealt only with the past and not with the future, and asserted that the Corporation's June 1979 Budget Review analysis was never more accurate than at present. The main differences between the situation today and that in 1975, he concluded, was that there was far less City debt outstanding at present, and that there were dramatically improved information systems in place with regard to City finances but that the City faced the same kinds of structural budgetary problems that it did in 1975.

Mr. Schwartz thanked Mr. Bigel for his characterization of the Office of Special Deputy Comptroller with regard to competence. He stated that the very concept of a monitoring role was to comment upon the probabilities as of a particular date should no subsequent corrective actions be taken. He stated that the reports of his office were meant to show the dimensions of possible gaps including upside potentials and downside risks, trying to quantify to the extent possible. He said that, when dealing with future numbers, errors were inevitable, and that he was willing
to acknowledge mistakes when made. He observed that the City had survived to date and he presumed that the City would close future budget gaps. He noted that the cost of the operations of his office was a matter of public record.

Mr. Rohatyn stated that there was really no comparison between the City situations at present and in 1975. He stated that in 1975 there was no financing mechanism in place, there was no dialogue with labor leaders, and there was no reporting system with regard to the City's finances. However, he stated that the City did have a major budget problem today that should be dealt with earlier rather than later.

Mr. Bigel said that there was not the slightest resemblance to the situation in 1975, but that the budget problems of the Health and Hospitals Corporation and the Board of Education had not been dealt with as they should have been. He stated the real City budget problem was systemic and concluded that he appreciated the role of monitors to speak out on such subjects.

Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 12:45 P.M.

[Signature]

Stephen J. Weinstein
Secretary