House of Representatives

Transcript of Proceedings

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Subcommittee on Economic Stabilization

Hearings on

New York City's Fiscal and Financial Situation

Washington, D. C.
Tuesday, 21 February 1978

MONICK - SULLIVAN
Official Reporters
444 North Capitol Street
Washington, D. C. 20001

NATIONWIDE COVERAGE
STATEMENT OF:

FELIX G. ROHATYN,
Chairman, Municipal Assistance Corporation

HARRISON J. GOLDFIN,
Comptroller, City of New York

OSBORN ELLIOTT,
Deputy Mayor for Economic Development of the City of New York

JACK BIGEL,
President, Program Planners, Inc., and Actuarial Consultant to Municipal Labor Committee, accompanied by
WILLIAM SCOTT,
Adviser to the United Federation of Teachers

ELMORE C. PATTERSON,
Chairman of the Executive Committee, Morgan Guaranty Trust Company of New York

JOHN W. RABER,
President of the Savings Banks Association of New York State and Chairman of Green Point Savings Bank, Brooklyn, accompanied by
MR. RADACK and
MR. RASSNICK
Hearings on
New York City's Fiscal and Financial Situation

-- --

Tuesday, 21 February 1978

U. S. House of Representatives,
Committee on Banking, Finance, and Urban Affairs,
Subcommittee on Economic Stabilization,
Washington, D. C.

The subcommittee met at 9:35 a.m. in room 2128 of the
Rayburn House Office Building; the Honorable William S.
Moorhead, chairman of the subcommittee, presiding.

Present: Representatives Moorhead, Blanchard, Lundine,
Vento, Barnard, Watkins, Ashley, La Falce, Pattison, Mc Kinney,
Stanton, Kelly, Caputo and Steers.

*   *   *
Mr. Moorhead, The Subcommittee on Economic Stabilization will please come to order.

At this moment I had intended to introduce the new member of the committee who was here and welcome him.

We do want to welcome you, Ned Pattison of New York, as a new member of this subcommittee. I'm sure that the fact that you are here right at the beginning shows you will be serving as well.

I am not going to proceed with an opening statement but I would at this time yield to Mr. McKinney, if he cares to make an opening statement.

Mr. McKinney. Thank you, Mr. Chairman.

Mr. Chairman, approximately two and a half years ago in an atmosphere of weekly financial crises this subcommittee took the first congressional action to help New York City avoid bankruptcy. That exercise resulted in the passage of the New York City Seasonal Financing Act of 1975, a program of direct loans from the Treasury to the city which has helped carry New York through some pretty rough spots and which has, incidentally, earned more than $200 million in interest for the American taxpayer.

Unfortunately, but not unexpectedly, we are here today to listen to many of the same voices describe many of the same circumstances.

This is not to imply that the city is not in better shape
than it was in 1975; without qualification it is. But
everything is relative in this world and so it is in New York
City, too. Compared to the conditions of 1975, New York has
cut its budget deficit by half: the imminent threat of
bankruptcy has been removed. Compared to a fiscally sound city,
New York still has a budget deficit of at least $1 billion:
the potential threat of bankruptcy is still there.

The Seasonal Financing Act of 1975, along with severe
measures supported by city and state officials, municipal
employees, and all other affected parties, has bought time for
the city. That is all that we realistically could expect from
a short-term approach. Any member of Congress who thought
that the problem was laid to rest on December 5, 1975, did not
understand the nature or scope of the difficulties facing New
York City. Federal loans have helped New York cope with some
of its problems, but many still remain. The extent of
progress that has been achieved in 29 months is commendable.
But the city had problems of a long-term nature as well.
This is the point that we should emphasize during our consider-
ation of the current fiscal condition of the Big Apple.

The city is regaining fiscal credibility, but the fact
that it was unable to market a $200 million note issued in
November illustrates the tenuous nature of the situation.
City officials can see light at the end of the tunnel. What
Congress does, or does not do, will determine whether it is
the sunlight of fiscal soundness or the headlight of the bankruptcy express.

None of us wishes to play the role of Cassandra, but the potential impact if Congress decides not to provide further assistance to New York must be appreciated by all members.

Congress and the public need to be educated about the severity of the problem New York City faces. And I might parenthetically add, many other cities. Our panel of witnesses today and tomorrow are well qualified to discuss the probable events that might occur after the expiration of the Seasonal Financing Act of 1975 and absent any further federal assistance for New York.

The fact that we are again discussing the possibility of a New York City bankruptcy adds emphasis to the need for a long-term solution to financial problems. I think that the longer Congress and the Administration avoid facing the issue, the more serious will be the crises facing the cities of this nation in the future. New York City and its problems will not go away until Congress recognizes the need for some form of long-term assistance.

Thank you, Mr. Chairman.

Mr. Moorhead. Mr. Pattison, would you like recognition?

Mr. Pattison. Not at this time.

Mr. Moorhead. Mr. Caputo?

Mr. Caputo. No thank you, Mr. Chairman.
Mr. Moorhead. Well, the subcommittee is pleased to open
this hearing again on the subject of the ability of New York
to survive without further federal assistance and the
consequences of the alternative if it can't make its payments
when they are due.

We are pleased to have with us Mr. Felix G. Rohatyn,
Chairman of the Municipal Assistance Corporation, and
Mr. Harrison J. Goldin, Comptroller of the City of New York,
to give us their very knowledgeable assessment of the financial
picture of New York.

And we will start with you, Mr. Rohatyn.

STATEMENT OF FELIX G. ROHATYN, CHAIRMAN,
MUNICIPAL ASSISTANCE CORPORATION.

Mr. Rohatyn. Thank you, Mr. Chairman.

It is always a pleasure to testify here in a somewhat
more benign environment.

Comptroller Goldin and I will address ourselves to
slightly different, although complementary and undoubtedly
overlapping aspects of the current debate. In my testimony
last December, both before this committee and before the Senate
Banking Committee, I tried to make the following points with
respect to a New York City financing plan.

One, that it is as important to a lender as it is to a
borrower to provide the appropriate amount and type of
financing, since both borrower and lender are tied to the same
umbilical cord, that the large amount of financing required
under any New York City plan from banks, unions, public
markets, et cetera, can only be obtained as part of a plan
which promises to provide a permanent resolution to the
city's endless budget and financing problems. Absent such
promise, no prudent man, trustee, bank director, public
investor would be likely to commit any significant funds, and
last, that in order to have the prospect of such a solution,
true recurring budget balance must be achieved while the
city's financing needs are reduced and brought into balance
with the market's ability to handle them.

We must always bear in mind that a solution in order to
be lasting requires easy, continued, unforced access to the
national long and short-term bond markets by the city.
Markets cannot be force fed.

We had, city and MAC, recommended a plan involving total
long-term financing of about $5 billion. As a result, four
years hence, the city with a then balanced budget would have
total annual financing requirements of less than $2 billion
for both seasonal and capital requirements. These would be
well within the market's ability to absorb. An integral part
of the plan consists of long-term federal loans or guarantees
in the amount of $2.25 billion; these are required due to the
fact that MAC at best has $2.5 to $3 billion of additional
borrowing power and the city, currently, has no direct access
to the market.

The Senate Banking Committee has recommended a series of city and state actions designed to assure the city's credit-worthiness. These include the establishment of a long-term fiscal monitor, increasing MAC's borrowing authority, accelerating the phaseout of capitalized expense items, citywide labor agreements and increasing state aid to the city. We at MAC totally agree that these steps are necessary and desirable to make the city creditworthy. We have long supported these positions which, I believe, the city has also endorsed.

The Senate Banking Committee acknowledges that these steps will take time; even under the committee's schedule the budget will not be truly balanced for four years. The committee assumes, however, that the initiation of these steps will suffice to make the city self-sufficient with respect to credit. This is where we disagree.

The Senate Banking Committee has recommended a plan involving in the aggregate $3.5 billion of long-term financing and $1.8 billion of seasonal financing, with no further federal participation. The brunt of the long-term financing would be borne by the city pension systems; the main part of the seasonal financing by the state pension systems and the banks.

We believe this aspect of the plan to be unworkable. The Senate Banking Committee plan has the appearance of
plausibility by cutting back long-term financing requirements by $1.6 billion. Instead of strengthening the plan, however, this only makes it weaker and less likely to succeed. Failure to bond out the state advance maintains high levels of seasonal financing as well as the fiction that all past deficits have been funded; failure to finance MAC capital reserve funds and to refinance high interest/short maturity MAC bonds create greater budgetary deficits and therefore postpone the city's own reentry to the market; forcing the maintenance of excessive levels of city-related paper on the pension systems is poor public policy. The fact of the matter is that the city, as opposed to MAC, will not be regarded as truly creditworthy on the scale required nationally until it has shown capability to truly balance its budget Recurringly as a result of its own will, combined with the discipline of the long-term monitor. This will be years.

Regardless of amounts, however, we believe that neither the financing institutions nor the union pension systems will participate in a plan devoid of continued federal credit assistance. I do not wish to be a prophet of doom; prophets of doom, especially if they turn out to be correct, are usually blamed for the doom and have a dim future themselves. Suffice it to say that it is my personal conviction that the Senate Banking Committee plan carries with it a very serious risk, if not to say a likelihood, of city bankruptcy.
Why, one might ask, should not the pension systems and banks be in effect compelled to invest under the implied threat of bankruptcy? The answer, in my judgment, will be that the fiduciary and the liability facets of their decisions will more than counterbalance the fear of bankruptcy. You must bear in mind that since the crisis of 1975 major litigation has been brought against the banks and pension systems and the SEC has harshly criticized the financial institutions, lawyers, and rating agencies involved with the city. The absence of federal credit assistance will, in my opinion, make the risk too great for fiduciaries.

For any fiduciary to invest $2.25 billion in unguaranteed city paper seems to be highly unlikely. MAC by itself does not have the borrowing power to carry the city for the three or four years required even if it had perfect access to the market. The events of the last few months clearly lead to the conclusion that a recognized long-term solution to the city situation is needed for MAC to have satisfactory market access. Without a credit bridge, provided by the Federal Government, the structure of any long-term solution is too weak.

In addition, let me remind you that the word "credit" is derived from the Latin "credere," or "to believe." It is faith as well as figures. The psychological impact of the Federal Government perceived as abandoning New York City cannot
be overestimated. It could be, in some ways, more of a factor in dooming the plan in view of the other participants, than anything else.

The unequivocal conclusion I have reached is that without continued federal credit assistance it is not possible to put together a workable financing plan. The risk of bankruptcy in that event is obviously of a very high order. As I said earlier, the world of credit is a world of faith and psychology, as well as pure figure work. For that reason, I do not wish, as Chairman of MAC, to sit here and prophesy the certainty of bankruptcy. It is not a banner to be unfurled carelessly. Suffice it to say that the risk is there, and it is most serious. The question we ask of our government is, "Why run it?" What is to be gained by such a gamble? In the next few days you will examine its possible impact on the social life of the city, in the delivery of services, on the banking systems, on the state, on the Federal Government, on the dollar. On all of these you will not get absolute answers but again, somber warnings of risk. On perhaps the most important of all probably no one will speak: our image in the world. In the ideological competition in which we exist, worldwide, a bankruptcy of New York will be viewed as a bankruptcy of the free enterprise, capitalistic system; as proof of the impotence of our system to solve difficult, but nonetheless finite, problems. And I think that under the circumstances
that will be a correct interpretation.

The test of statesmanship is to preempt crisis. To avoid running huge risks for small stakes. That is the principle on which the insurance industry rests. We have proposed a plan which avoids this risk at no cost to the Federal Government. Not only can the safeguards presently existing under the seasonal loan plan be preserved, they can be extended. The long-term monitor, successor to the Control Board, can maintain the fiscal discipline. The federal credit risk, if any, can be secured. The federal role can be conditioned on an enhanced state involvement and accelerated city reform.

We believe the program we propose to be an insurance policy for the benefit of the Federal Government against the risks of a city bankruptcy while providing the bridge to bring the city back to solvency. I don't ever want to find out, Mr. Chairman, if I am right in my assessment of bankruptcy. I am sure no one on this committee wants to find out. There is, luckily, no need to find out. Let us proceed with a plan that will not only avoid bankruptcy but help the city to the one objective that I am sure we all share, to get us out of your hair once and for all.

Thank you,

Mr. Moorhead. Thank you, Mr. Rohatyn.

Mr. Goldin, will you proceed, sir.
STATEMENT OF HARRISON J. GOLDIN, COMPTROLLER,
CITY OF NEW YORK,

Mr. Goldin. Thank you, Mr. Chairman.

I am pleased to respond to the subcommittee's invitation to deal with the issue surrounding the needs of the city of New York following June 30th of this year.

We who represent the city in elective office are grateful for the attention and concern which you, Mr. Chairman, and the committee members and staff are exhibiting on this matter.

The city is like a wheelchair convalescent who must give the wheelchair back to the medical supply company on June 30th. We are very eager to walk without assistance, but when we tried to take a few steps last November, in the direction of the public credit market, we were told by Dr. Moody and the followers of Dr. Moody that we were not ready to do so because the prognosis was still too uncertain.

Now, we approach a new milestone on June 30th, and hope to pursue a rehabilitation program which could involve some cautious first steps toward public credit in fiscal year 1979 and the achievement of full and permanent recovery by the end of four years.

What we wish to avoid above all is a repetition of last November at which time we were rejected for short-term credit because there was inadequate assurance and confidence concerning the outlook over the long term.
We have therefore proposed and submitted to the Treasury on January 20, a package which addresses itself not only to the city's need for financing over a four-year period but also to the equally compelling need to achieve recurring budget balance in accordance with generally accepted accounting principles for municipalities.

We know that only the achievement of genuine, recurring budget balance will put the city firmly back on its own feet and insure that these hearings in 1978 will not be repeated several years hence.

The questions are now raised: Do we need the full package as submitted, and can we obtain the financing we need after June 30 without a federal involvement?

Finally, what would be the likely consequences of a complete termination of federal financing help on June 30th?

These are fair and proper questions.

As the city's chief fiscal officer I believe that the amount of long-term financing which the city must obtain in the next four years in order to remain solvent, to perform in accordance with its responsibilities, to complete the elimination of unsound practices, and to help bring the budget into a state where permanent balance can be expected, is the amount identified in the plan: approximately $5.1 billion.

If the full need for long-term financing is securely provided for, the short-term financing problem will become more
manageable, first, because there will be a lesser amount to be borrowed, and second, because the city's credit will be improved with the lifting of uncertainty over the source of long-term capital.

I believe in short there will be things the city can do on its own and with the assistance of others to hold down its seasonal financing needs if its long-term financing and budgetary problems are provided for. We can move up the payment dates for real estate taxes and seek earlier transfer of state aid. But we have already learned, I believe, that an assured source of short-term money even in the form of federal seasonal loans, does not provide assurance of reentry into the public credit market, nor does the significant fiscal reform accomplished by the city in accordance with the 1975 credit agreement.

To the question as to whether adequate financing can be obtained after June 30 without a federal involvement, my best judgment is that it cannot.

The Senate Banking Committee suggests that the long-term financing package would be within the capability of non-federal sources if the total amount were reduced to $3.5 billion instead of $5.1 billion. But in order to achieve this reduction, the Senate Banking Committee would eliminate the very pieces of the package which are designed directly to restore credit by improving the prospects for future budget balance.
An example is the proposed refunding of certain debt of the Municipal Assistance Corporation, the importance of which can be further explained by Mr. Rohatyn.

The plan we submitted does call, as you know, for a majority of the long-term funding to be provided by non-federal sources. But since fiduciaries are involved in the provision of much of this money, there needs to be a financing package with positive budgetary consequences sufficiently comprehensive and dependable that a fiduciary can legally and responsibly commit trust funds to such an undertaking.

Surely the very least that a fiduciary must require, in view of his attorneys, is assurance that the entity to which he is lending will be creditworthy to the investing public as of a predictable date. Yet if the financing package is chopped back to $3.5 billion, or some other sharply diminished amount, it can no longer achieve the positive budgetary consequences which make it, one, capable of restoring public credit and, two, therefore appropriate for investment by fiduciaries.

I therefore believe that while there is a degree of potential financing capability available to the city from non-federal sources, as the Senate Banking Committee asserts and as the city's own plan incorporates, the fact that this capability is not sufficient to do a complete financing and recovery job makes the proposed federal piece the indispensable
ingredient.

To put it bluntly, despite everything the city has done and is now able and prepared to do, despite what the state has done and what the state may be willing and able to do, despite the enormous contributions made by the municipal unions in the form of pension fund investments, the city has no credit after June 30th unless it has credit with the Federal Government.

What will happen, the subcommittee asks, if the city has no credit after June 30th?

According to current cash flow projections, which must be viewed in light of the fact that a budget for the next year has not been adopted, the city will be short of cash to the extent of $289 million in the month of July alone.

Since we are committed to the eventual recovery of public credit and committed to the requirements of law, too, the city would never, at least while I am Comptroller, deliberately choose to defer its own debt service. But even if such a move were hypothesized, it would account for only $93 million of the gap.

Another type of deferral that has been recently urged upon the city is the monthly obligation to the retirement systems. Even were this highly controversial move resorted to, it would provide only a one-month respite of $96 million.

For the city's chief fiscal officer to indulge in the
rhetoric of bankruptcy is to risk a self-fulfilling prophecy. I shall not do so. But the numbers are inexorable. No entity remotely as large as New York City can long survive without credit. Furthermore, the kind of desperation measures that merely defer insolvency for days or weeks create a panic atmosphere that is tantamount to bankruptcy. This kind of panic tends to feed upon itself, making it harder each day to forestall total collapse.

It must also be questioned how long the state could retain its own credit should its largest city be deeply and hopelessly in default.

It is precisely to avoid risk of this tragedy that the city asks the Congress to provide the indispensable keystone element to the financing package which will, we believe, together with other fiscal constraints and reforms, restore the public credit of the city.

We ask for a 90 percent guarantee of a limited amount of bonds, to apply only to securities purchased and not resold by the tax-exempt pension funds of the city and state.

Obviously, the substantial amounts of federal aid which flow to the city could be assigned as security against the remote possibility that the guarantees would ever require an outlay of federal cash.

It is proper that we come here and make our case, and at the same time conjecture as best we can the possible
consequences of inaction. But we agree, I am sure, that nothing is to be gained by brinksmanship. When the degree of risk is unacceptable, when the consequences cannot be known because they are literally unprecedented, then prudence, I think, dictates that risk should not be taken.

The question which confronts the Congress is whether there is more risk in action or inaction. Our confidence, our future, is in your judgment.

Thank you.
Mr. Moorhead. Thank you, Mr. Goldin. I realize that you
gentlemen, in your positions, are avoiding the word "bankruptcy"
like the plague. But I think that we, in the Congress, have to
consider and actually use that word because Mr. Goldin says
that, after June 30, New York City will not be able to borrow,
will not have credit. Is that correct, Mr. Goldin?

Mr. Goldin. That is correct, in the absence of the federal
piece, Mr. Chairman.

Mr. Moorhead. And you state that at the very least there
would be a panic condition tantamount to bankruptcy if there
is no federal action; is that correct, sir?

Mr. Goldin. In view of what we anticipate and what I
described as the extent of the cash shortfall after July 1,
we have to expect that conditions would begin to feed upon
themselves and that close-to-panic would start to prevail.

Mr. Moorhead. Mr. Rohatyn, we understand that you do have
a bicameral legislature; and suppose there is no action and
suppose that either bankruptcy were, as Mr. Goldin has described
it, "a panic condition tantamount to bankruptcy," is MAC immune
from such bankruptcy or the equivalent thereof?

Mr. Rohatyn. Well, Mr. Chairman, again, I would like to
separate out the issue of MAC's access to the market and the
ability to raise money for the city from MAC's security and
ability to pay back its bondholders. Our entire structure and
all of the legal opinions that we have are based on the theory
to immunize MAC from a city bankruptcy in terms of the ability to repay our existing outstanding bonds. And I would certainly maintain that position.

On the other hand, there is no question in my mind that MAC's access to the markets is sharply limited by the city's financial condition and its prospects and that in the case of a city bankruptcy I don't believe for a second that MAC's access to the markets would be sufficient to finance the city.

Mr. Moorhead. Mr. Rohatyn, I know that you worked very closely with Governor Carey. As a matter of fact, in our hearings in New York City, you appeared with the Governor.

What would the effect of the failure of the Federal Government to take action be on the state's financial position?

Mr. Rohatyn. Well, again, Mr. Chairman, that is a matter of conjecture. I don't believe it has ever happened in the history of this country to have a state faced with even the shadow of insolvency.

But, simply going back to what happened in 1976, the State of New York had great difficulty raising its own requirements of $4 billion for seasonal requirements in the face of a city where the risk of bankruptcy existed. The State had difficulty raising the money, and it paid a very heavy price for it -- I think over 7 percent.

Last year, absent the risk of a city bankruptcy, the State had no problem coming to the market and, I think, raised money
at 3-1/2 percent.

I think there is, again, no question in my mind that faced with a city bankruptcy the state's financial position would be put in serious difficulty.

Mr. Moorhead. Is the New York City financial problem unique, or are its debt problems in any way similar to those of other cities?

Mr. Rohatyn. Well, in my view, Mr. Chairman -- and I would very much appreciate having the comptroller speak to that issue -- I think New York City financing requirements are totally unique with respect to any municipal government in this country. I mean, between the city and MAC, we have almost $12 billion of securities outstanding. The need for financing annually, at best, even if we worked with the comptroller's very ingenious plans to bring down the city's seasonal requirements to maybe, at best, maybe a billion dollars a year, you would still be faced with at least $2 billion a year of requirements, and I think that is far and away more than even -- I think that is probably 10 times what any other city in this country needs. So, I would say it is quite unique.

I wondered if the comptroller wanted to speak to that.

Mr. Goldin. Mr. Chairman, if I might just add to that, the quantity of the city's financing requirements makes the situation qualitatively unique.

I might also add that, while many localities around the
country have in recent years indulged in one or another of the expedients in techniques that the city used over the course of the years to try and balance its budget, at least superficially, if not in accordance with generally accepted municipal accounting principles, it is, I think, fair to say that New York uniquely used the variety of techniques that it did, and therefore it is hardly surprising that it would require the period of time and the extent of reform that it does need in order to end all. And, as a consequence, its financing needs, both on an ongoing basis and for purposes of total reform and repair, are qualitatively unique.

Mr. Moorhead. Mr. Rohatyn, you are an experienced and well-respected member of the investment banking community. If the Congress and the Federal Government should, in some form along the lines you have proposed, guarantee bonds, would this disrupt the financial markets?

Mr. Rohatyn. No, Mr. Chairman. I think what would disrupt the financial markets is if you don't do it.

I think that the limited kind of guarantee that we have been talking about certainly doesn't create either precedents or ripple effects or any other theological damage to the securities markets.

On the contrary, I think it would show that the Federal Government can, in effect, take limited action, but appropriate to cure a particular problem. And I think that far from
weakening the markets, it would strengthen them. I think it 
would strengthen both the securities markets here and possibly 
could avoid the damage to the dollar that I could see a New 
York bankruptcy causing.

I think I would just like to add one thing on this subject 
of the impact of any large insolvency, which is, Mr. Chairman, 
that you really have to try to postulate within what kind of 
context that would take place. You can have a large insolvency 
in the context of a very strong economy and of a banking system 
that has no problems, and it might not have the kinds of impacts 
that it would have in a different context.

Now, I think that, personally, I am rather pessimistic 
about the economy, and I am rather pessimistic about the 
international monetary situation. I think you have to at least 
consider the risk that things may get worse and that in the 
next year or year and a half or two you may be faced with a 
very difficult economic problem here and that to have this 
sort of situation simmering in the background and possibly 
coming up to bite you just at a time when the country is in the 
throes of a difficult economic situation would be really com-
ounding the problem.

So, in terms of my own posture, it has been very much, 
both with respect to the conviction that this is the right way 
to do it, but also with the conviction that we may be entering 
very dangerous times where this kind of a situation, left
untended, it is just a timebomb ticking away out there.

Mr. Moorhead. Thank you.

Mr. McKinney?

Mr. McKinney. Thank you, Mr. Chairman.

To start with a few brief questions, the Senate Banking Committee suggested that the authorization -- borrowing authorization of MAC be increased by, I think, $3 billion. What would you see as the prospects for this kind of legislation, number one, and would it make any difference if there weren't a federal guarantee behind it?

Mr. Rohatyn. Well, we have been working with the state legislature on this particular legislation, and I would think that I would see no problem with getting that legislation in the near future.

As I said earlier, we have at MAC the revenue stream to support that kind of additional borrowing, roughly, whether it is somewhere between $2-1/2 to $3 billion. But I just don't think we will have access to the market. We may be able -- we may have economic power, but unless we find people to buy our bonds, it really won't make any difference, and we saw in December, in the midst of the Proxmire hearings, that we had great difficulty selling a $250 million issue -- great difficulty -- simply because of uncertainty.

Now, if you take away the uncertainty but replace it with a certainty that there is no further government involvement,
then I don't think that we can sell those bonds, regardless of
the legislation.

Mr. McKinney. What was the actual drop in MAC bonds
after the Senate's statement?

Mr. Rohatyn. Well, it was a lot of money. I don't think
there is any particular need to wave numbers around. At one
point -- again, it depends upon what day you take it. We have
eight different issues. At one point in December and January
it was as much as $300 million or $400 million.

Mr. McKinney. Mr. Goldin, one of the problems we had, of
course, in 1975 was that we had a figure-of-the-week club here
as to the city's budget. When do you expect or at what point
do you think we can count on the new accounting system, IFMS,
to give us a fully acceptable financial statement for the city?

Mr. Goldin. Well, I'm pleased to report to you, Congressman
McKinney, that for this year -- and indeed, on the current basis
from this point forward -- the system is capable of providing
definitive and accurate numbers.

The problem comes that projections are made from current
figures based on current assumptions, respecting the future
levels of either funding or revenue or expenditures, and
obviously those figures are going to vary depending upon
assumptions and on changes from day to day. But it was just
in December that our outside auditors, Peat, Marwick, Mitchell
& Co., advised the city, based on a preliminary review, that
they knew of no reason that they would not be able to provide 
the city with unqualified certifications of its financial 
statements for their current year.

What does happen, however, I want to reemphasize, is that 
even though current data as it is developed is accurate as of 
the time it is developed, when we project into the future the 
numbers can and do vary and will continue to vary from time to 
time depending on the assumptions and depending upon who is 
doing the extrapolation.

Mr. McKinney. Mr. Rohatyn, as the chairman said, you are 
a very respected expert in your field. Do you feel that any 
fiduciary could possibly, without a continued basis of security, 
buy the type of bonds that the Senate Banking Committee has 
discussed them buying and not be left wide open to attack by 
those people he was fiduciary for in the court systems?

Mr. Rohatyn. Well, Mr. McKinney, I testified earlier that 
I did not see how, especially in terms of the amounts involved, 
namely $2-1/4 billion, that the fiduciaries I did not think 
would be in a position to make those kinds of commitments without 
opening themselves up to serious risks.

Now, they will have to speak for themselves, but simply 
speaking from my own experience as a director of a variety of 
companies and a trustee of some organizations, I would have 
great difficulty, especially with the history of what has 
happened legally since 1975.
Mr. McKinney. One of my greatest arguments with the past administration when the subject of help to New York City came up was that three years was not enough and that there was just no logical way New York could solve its problems in three years. Now we are talking about four.

Do both of you honestly feel that it can solve its problems in four?

Mr. Rohatyn. Well, I would say this, Mr. McKinney, that it seems to me that, given an appropriate economic climate -- and you cannot take New York City simply in abstraction and take it out of the economic environment in which the country is operating and the levels of unemployment and the levels of economic activity and the levels of inflation -- but given a satisfactory resolution at the national level -- and you can speak to that better than I --- it would seem to me that there is reasonable prospect for the city to bring its budget into balance over the four-year period which would mean a seven-year period from beginning to end.

As I said earlier, I don't think that four years will be enough to totally establish the city's credit in the amounts that we are talking about, which is why I think that during that four-year period there is the need for a credit bridge. I think at the end of the four-year period, if the city has indeed brought itself into balance and if we have a reasonable economic climate, I think the city can be self-sufficient
financially at that point.

Mr. Goldin. Mr. McKinney, I think that the problem three years ago wasn't only that it was 36 months or three years that was contemplated for the intervening period, but also that up front it was understood that the reforms that were necessary to restore the city to a posture in which it would have finally abjured all of the past financing and related techniques and solved them, that it was understood three years ago that they would not be completed at this point, but it was assumed that the progress to date would be sufficient to reassure creditors respecting the direction in which the city was heading and that that reassurance would translate into a willingness of creditors to lend money.

We now know that, even though the city has adhered to each and every one of the milestones that was comprehended at the time the seasonal loan act was passed in December 1975 and that the progress is at least as great if not greater than was anticipated three years ago, that creditors are not accepting partial, even substantial, even dramatic evidence of reform, that what they are insisting upon is a completion of the reform program. And we have empirical evidence of that, derived from the city's experience last November in attempting to sell a limited note offering pursuant to the most extraordinary security features ever attached in the history of American public financing note offering, that failed.
I might say I think it is clear to everybody that when you have an entity as large and as complex as New York City, which is permitted to deteriorate as long and to as great an extent as the city was, that it should hardly be surprising that the process of recovery and reform cannot be completed in three years and requires the extent of the change contemplated by the city's new four-year plan.

Mr. McKinney. One last question, because I think my time is up.

But, Mr. Rohatyn, I wonder if you could give me a matter of opinion. The dollar is fast becoming one of the most worthless pieces of paper in the world. We see it falling off the shelf because of our coal strike, our trade deficits, right on down the line.

You have alluded to international implications of a bankruptcy on the part of New York City. I wonder, what do you actually feel that this would do to the dollar in the European markets, say, or the Western markets?

Mr. Rohatyn. Well, Mr. McKinney, you know, I grew up in Europe, and my firm is a firm with European roots. We have sister firms in London and in Paris. What I think is difficult to visualize here is the extent to which New York City is identified with the United States of America abroad.

Mr. Giscard D'Estaing, in France, or Mr. Brezhnev, I'm sure, have no particular know-how of the way municipal finance
is conducted in this country, and if New York City goes bankrupt, it will be seen as a bankrupt city of the American economic system. It will also be seen as, in my judgment, as the incapacity of the American Government to deal with the relatively finite problem, and I think it will be just disastrous for the dollar as well as for the image of this country.

I find it very difficult to think how we can try to convince the Italians or the French that communism isn't something they ought to consider, if our biggest city goes bankrupt and we don't seem to know how to cope with it even though it is a relatively finite problem. I mean, $2 billion in terms of guarantees for a government that has issued, I think, $280 billion of guarantees to everything from Zaire to cattle loans would seems to me to be a rather limited problem; and if we can't cope with that, I think it is difficult to say that this is a very well-functioning system.

(The article referred to by Mr. McKinney follows.)
Mr. McKinney. Thank you, Mr. Chairman.

Mr. Moorhead. Mr. Blanchard.

Mr. Blanchard. Thank you, Mr. Chairman.

Both of you gentlemen have made it very clear that you disagree with the Senate Banking Committee report. And I guess my question is: what alternatives would you like us to examine with an eye toward helping New York City, and how much money is involved?

Mr. Goldin. Mr. Blanchard, the City has submitted to the Treasury and to the Congress a comprehensive plan designed to achieve two broad results: one is that the expiration of four years to have brought the City to a condition in which it will be able to effect ongoing, recurring balanced budgets; and second, during the four-year period, to have completed the process of reform to an extent that will enable the City, in combination, at the expiration of four years, not only to adhere fully to generally accepted municipal accounting principles, but be able to borrow on an ongoing basis, to a limited and disciplined extent, on its own.

The plan recognizes that during that four-year period the City is going to have financial requirements. And it proposes, in a careful and integrated fashion, participation among various levels of government and by various types of entities, to provide for the financing needs of the City during that period.
Those financing needs are of three general kinds. First is seasonal loan financing. And the City contemplates that the Seasonal Loan Act would be extended, but a reduced extent, with the amount of seasonal loans available to the City to be diminished each year.

Second, it comprehends long-term financing needs for the City relating to its essential physical or capital requirements during that period, so that the physical plant of the City can be kept together and prevented from deteriorating even further.

And third, it contemplates sufficient long-term financing to enable the City to complete the program and process that has been carried so far along over the last three years, essentially to phase out and fund the accumulated effect of the financing techniques and expedients used over a period of years that helped to get the City into trouble, which the City is now prevented from using again.

Now, in connection with those three types of financings, there is, as I said at the outset, proposed participation by various types of entities. What the plan comprehends is that the Federal Government would never provide credit assistance that would exceed the aggregate amount of credit assistance that was provided by the Seasonal Loan Act in the first place in 1975.

However, it is contemplated under this plan that the mix would change. As the amount of Seasonal Loan assistance
diminished, we request that the Federal Government phase-in long-term guarantees. The purpose of those long-term guarantees are essentially twofold: one is to enable the other elements in the package to come together so that all will be able to be pieced together as part of a comprehensive plan; and secondly, to provide the City with the long-term budgetary relief that it requires so that ongoing budget balance can be assured.

And finally, I might add, the plan comprehends and anticipates that the Federal Government will have all of the security and all of the oversight that is required in order to ensure that the City completes reform and adheres to all these noble milestones respecting reform.

We have submitted a comprehensive program along these lines. And members of the City Administration, and I'm sure members of MAC, would be more than pleased to sit down with any member of the staff and go through it in great detail.

Mr. Blanchard. With regard to guarantees, the conditions under which we might enact such guarantees: we have stated some conditions in legislation passed by this Committee. Back in 1975, it turned out, we did not enact that particular piece of legislation. As you know, we took the President's proposal instead.

Are there conditions in our earlier piece of legislation relating to guarantees that you find repugnant? Or would we be talking about similar types of conditions?
Mr. Goldin. There were, as you know, Congressman Blanchard as number of proposals before the Congress respecting milestones and types of reforms that would be imposed on the City that were not in the end enacted.

I would have to examine any particular proposal in order to be able to comment on that question intelligently with specificity. But I might say, in the main, the City was prepared, remains prepared, continues to be prepared, to adhere to all reasonable milestones respecting fiscal reform.

The City recognizes the errant ways that it pursued in the past. The City thinks that there is nothing to be gained by pulling the plug on it now, especially in the face of analysis of independent arbiters respecting the extent to which the City has adhered fully and completely to each and every one of the milestones that were contemplated in connection with the plan that was instituted three years ago.

The City recognizes that certain reforms have not been completed. It recognizes that other reforms that were not contemplated in 1975 need to be achieved, and so any program involving participating by the Federal Government can and should involve assurance to the Congress, to the Administration, to the American people, that the plan is part of a comprehensive program, pursuant to which the City will be required, over a four-year period, to complete the kind of budgetary structural and fiscal reform sufficient to achieve
two end objectives: one, recurring balanced budgets at the end of the planned period; and two, largely as a concomitant thereof, the restoration of the City's credit and its ability to borrow; and collaterally, of course, that the Congress and the Administration would preserve the rights of oversight and review on an ongoing basis that would satisfy the Congress and the American people that even after the expiration of the planner period, at least for the duration of the long-term guarantees, the City would continue to adhere to the requirements of fiscal probity.

Mr. Blanchard. Thank you.

Mr. Moorhead. Mr. Kelly?

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Chairman, I ask unanimous consent that I be permitted to insert into the record a written statement at this point.

Mr. Moorhead. Without objection, the statement will be admitted.

(The complete statement follows.)
Mr. Kelly. It would seem that if the people of the United States and the Congress have a typical bovine mentality, that what we are doing here this morning should be very successful, and that is, to raise a great hue and cry, and then the whole nation stampedes.

Because it seems to me as though the Senate said that they, meaning you, stated further that at the end of the three-year seasonal loan period, or perhaps sooner, New York would have a balanced budget and be able to meet its financing needs directly from the credit markets.

Now they did not say which balanced budget we were talking about, because you have several in New York, several different varieties. But I judge that they thought at that time that you could be trusted, and that you were talking about the same balanced budget that the rest of the country talks about, that is called "honest, normal, accepted accounting principle, balanced budget."

Now, if we must forget that, then if we must forget that New York City is paying a sanitation worker a total wage package of $28,033 a year, and the average fireman $35,288 a year, the average teacher $30,288, the social worker $31,000 a year, and that you have engaged in this kind of nonsense where you have said, "We have done everything we can. We have reduced our workforce by 20 percent. And therefore we are virtuous and deserving of your help."
But the truth is, although you have reduced your work force you have not reduced your payroll but 1 percent. What happened to the other 19? The same big unions that are running New York got that wholesale.

Now, pretty clearly, what we should be talking about is what you can honestly do to save yourself. The Senate of the United States, by its subcommittee and by its Banking Committee, has said that you can do these things, and you haven't had any conversation about them this morning on an item-by-item basis, and I notice that in your testimony Mr. Goldin, that you said that something to the effect about the possible impact on the social life and on the value of the dollar.

Now I want to ask you something. Are we going to improve the image of the dollar in America and improve the image of America in the world by financing the kind of nonsense you have been practicing in New York? Or are we going to improve that image by causing you to start operating your town on a basis of thrift, hard work, honesty, and accepted principles of accounting?

Now as an accountant, which would instill the greatest confidence: financing which you have been doing, so that you may continue to do it? or for you to start operating that town like it is a fiduciary obligation, as it should be?

Mr. Goldin. Well, Congressman Kelly, I might say that when it comes to a contribution to the common good, New York
will defer to no section of the country, respecting what it
has given to this country both in terms of physical as well as
human contributions.

And I think it is important to emphasize that.

Mr. Kelly. Well, if you have given that, why are you
asking us to pay the bill?

Mr. Goldin. We're not asking you to pay the bill. I
might point out, Congressman Kelly, that the City is not asking
the Congress of the United States for a cash contribution to
this credit problem. We are seeking standby assistance, and if
we did not require the standby assistance we would not be asking
for it.

Mr. Kelly. Let me ask you this: are you recommending
that the Federal Government do for every town and city, every
county, and every state in the United States, what you are
asking that we do for New York City?

Mr. Goldin. Congressman Kelly, if you will permit me --

Mr. Kelly. Do you have an opinion about what would be the
impact of that? Is that a good thing?

Mr. Goldin. Yes, I do. This colloquy is somewhat
reminiscent of an exchange that occurred either before this
committee or its predecessor in 1932, in 1933, when Federal
Deposit Insurance was sought. And when some of the members
of the Congress argued that for there to be legislated federal
deposit insurance would be an invitation to the bankers of

American to be profligate in the way they granted loans.

Others argued -- correctly, I think we all now see -- that for a banker to be profligate deliberately and allow his institution to come into a position where federal deposit insurance would have to be invoked would involve a condition so extreme that it was hard to imagine that anybody would deliberately do it.

Mr. Kelly. Let me ask you something: didn't you do this deliberately? I didn't understand that you were the victim of an earthquake.

Mr. Goldin. We may not have been the victim of an earthquake, but we were the victim of somewhat self-imposed and somewhat superimposed forces of a social nature which nonetheless have brought the City to this impasse.

It would be my view, Congressman, that when an entity, partly through profligacy and part through other factors, is as penitent as New York, it is not only not becoming but not productive for the nation to be vindictive respecting its efforts to help itself reform itself.

Mr. Kelly. If you are suggesting that my questions indicate a vendetta or vindictiveness, let me put you straight: All I'm asking you to do is to do what the people you are asking to pay the bill have already done, and that is, live within their means.

The indication here is that you have the highest per
capital debt in the United States of America. You are the
richest city in America.

Now, if you can't live within your means when you are the
richest City in America, how do you expect the rest of us to
finance you?

Now that is a great piece of nonsense. It has just got
to be, as a financier, as a person, that is really couched
in the disciplines of finance. How does it make sense for the
poor to support the rich in the manner to which they are
accustomed and come out with any kind of fairness. And that
is what you are asking the rest of the country to do.

Mr. Goldin. No, sir. There was a time when we did not
live within our means, and we got into deep trouble.

Mr. Kelly. Do you now?

Mr. Goldin. We are now rapidly approaching a condition
in which, by every reasonable definition, we will be living
within our means. We have already eliminated a $1 billion
deficit, and we are seeking to complete the process within a
reasonable period of time.

Mr. Kelly. Wouldn't it be a good thing for you to go
into your labor negotiations and come back with some demon-
stration that you intend -- you people in New York intend
to cause those labor unions to be adequately restrained so
that you can survive?

And then, when you have done that, to then have us
consider whether or not you've done all that you can. But up to this point, it has all just been a hodgepodge and mish-mash. There is no substance to New York is willing to help itself.

Mr. Goldin. Federal law requires that the City bargain collectively and in good faith with its municipal unions, and it will do so. And we very much hope that upon the completion of collective bargaining negotiations we will have resolved one of the issues that has been raised as a precondition to the completion of a new four-year plan.

Mr. Kelly. Now you pay the highest wages in the United States of America to your municipal employees. Do you intend to ask them to accept a 10 percent cut or a 20 percent cut so that they will come down into the realm where the people work that you are asking to finance the City of New York?

Mr. Goldin. Congressman Kelly, the premise is incorrect.

Mr. Kelly. It is?

Mr. Goldin. Yes, it is.

Mr. Kelly. Tell me about that.

Mr. Goldin. Independent studies have established that New York City employees are not the highest paid in the United States, unless you are attributing to them the effects of depreciation on physical plant and other costs which I can't imagine -- it is hard to understand how one could maintain that New York City's employees, especially when you factor in
the standard of living, are anywhere near the highest paid
municipal employees in the country.

Mr. Kelly. Let me ask you this: Didn't the temporary
committee on finance and the General Accounting Office come
up with these figures that I gave you about the $35,288
for the firemen? I think they did.

Now that seems to be a fairly objective source. And I
think that those figures are reliable. They're certainly more
reliable than the figures that you have from the labor unions.

Mr. Goldin. Well, Congressman Kelly, as you know, as a
result of conditions over the last several years, the position
of New York City workers relative to other public employees
around the country, has deteriorated significantly. And when
you consider at the same time what the contribution of our
municipal employees has been to resolving New York City's
problems, I think it is unfair to berate them and to use them
as a whipping boy.

The fact of the matter is that the Mayor has enunciated
a policy respecting labor negotiations which we're going to
go forward with very shortly. And we do agree that the City
will have to complete its collective bargaining process as
part of the plan of which our proposal today is a piece.

Mr. Kelly. Well, let me ask this: How did you wind up
according to the reports you have reduced your labor force
20 percent, and yet it is costing you as much now for salaries
as it did before you reduced the labor force 20 percent?

Doesn't that kind of a statistic bother you, or is that bad
information also?

Mr. Goldin. No, sir, it is not bad information, and it
is troublesome.' It demonstrates the effects of a number of
costs.

First of all it shows that the City, especially in its
life support services, although it has reduced a number of
its personnel, has had to increase over time dramatically.
And as a result in order to maintain police services, fire
services, other essential services, we have had to compen-
sate for a reduction in the number of bodies on the work force
by increasing the per capita time that is given by each of the
municipal employees.

Mr. Kelly. What did you cut the payroll? Wasn't that
to accomplish an economy, or were you just mad at your workers?

Mr. Goldin. No, sir, it wasn't an effort to accomplish
an economy, as a matter of fact. Because of some of the
factors I was about to recite there is no question that if we
had retained the number of people on the work force, the cost
of the payroll would have risen more dramatically.

Mr. Kelly. The Chairman has indicated that I should
wind up, and I thank you for your answers.

Mr. Moorhead. Thank you, Mr. Kelly.

Mr. Vento.
Mr. Vento. Thank you, Mr. Chairman.

I guess I enjoyed reading your testimony. I think that all of us fall into a temptation to review all of the activities in municipalities, and I guess we're all frustrated administrators. And I know that that happened in another service that I performed. And I see the same temptation here to look at every aspect of the New York budget.

Obviously, we should give such close scrutiny to where we spend our money. And we will probably find many problems. And indeed, I wish that I could.

But nevertheless, focussin on this, I guess there is always the temptation to make those kinds of trips, and to look at the wheelchair as being --

But nevertheless I have some questions that I think will show an interest in your problems.

One of the keystones all the way through is that the Federal guarantee of the dollars be $2.25 billion guarantee, the 90 percent guarantee. I am interested in that aspect, because I guess where I think there is a federal guarantee of that nature, or a state guarantee, that they really ought to have a lower interest rate. Nothing against public employees, or if that money is first liable, that the bonds behind them ought to have a reduced interest rate. And I am interested in your reaction to my wonderment. Obviously, they won't. 8 percent does not represent that type of
interest. What is your response to that?

Mr. Rohatyn. First of all, I don't think we have fixed any rate of interest for these bonds. I think that there are probably some numbers used, because we had to use numbers in the plan to show what kind of cash flows we were going to have.

And I guess we've used, on the assumption that a federally guaranteed bond would be valued in the marketplace as a taxable bond, that it would carry an interest rate somewhat above that of federal bonds, of United States Government bonds.

What rate we ultimately negotiate with either the city or the state pension systems is a completely open matter still.

Mr. Vento. Well, I think there are forces that go in both directions. When you want to see the public employee, obviously, those pension funds aren't, because if you have an unfunded liability in terms of a pension fund, that represents a different problem. And so you want them to earn as much as they can.

I expect that those were not unfunded right now. If I'm wrong you can correct me.

But in any case -- in fact, what is the level of those three funds we're talking about. Do you have any round figures on those?
Mr. Rohatyn. The retirement systems?

Mr. Vento. Yes.

Mr. Rohatyn. I think Mr. Bigel will be testifying later today, and he would have that.

Mr. Vento. Well, I hope that I'm around to ask that question, because I think it is important to know that.

But in any case, assuming that they get a high interest rate, in other words, if there is great risk, I don't see the 90 percent guarantee that there wouldn't be.

Isn't it fair to say that absent federal participation that the risk would be greater?

Mr. Rohatyn. Absolutely.

Mr. Vento. And that the interest rate would be higher?

Mr. Rohatyn. Well, I think absent federal guarantees the bonds could not be sold regardless of interest rates.

Mr. Vento. I think that is really the question here, whether or not, for instance, one of the suggestions as Mr. Goldin made in his testimony, is that we ought -- one way to reduce the risk is to pledge future federal assistance to the bonds issued.

Why can't that be done? Is there some constitutional problem in terms of doing that without the involvement of the 90 percent federal insurance?

Mr. Goldin. I think there would be serious questions, Congressman, respecting the viability of the ongoing
assuredness that could be provided to other creditors in the
face of the failure of the Federal Government to participate.

I might remember that last November an analogous effort
was made of that kind. The Legislature of the State of
New York, as I remarked a little earlier, did legislate
not only extraordinary far-reaching security arrangements, but
indeed, arrangements that would have involved an interruption
and a segregation of governmental reimbursement to the city
for the protection of note holders.

And yet Moody's Investors Service was unwilling to give
the notes an investment grade sufficient to enable them to
be sold.

So the failure of the Federal Government to be willing
to participate in the program must be viewed, I think, in
two contexts: one is the degree of assuredness that could be
provided investors, private investors, pension funds, and the
like; and the second one, of course, as Mr. Rohatyn so
effectively commented in his prepared testimony, what the
failure of the Federal Government would signal to potential
investors respecting the future of this situation and why
the essential faith and confidence that is requisite here
that is represented by Federal participation would be lacking.

Mr. Vento. Well, I think that is the argument that you
use, that we ought to accept that as a security, and your
suggestion is that the market won't accept that as security;
the bonds won't be sold; you will have problems.

One of the analogies that one might make is in terms of a review of the capital expenditure program which is a ten-year capital expenditure program that has been projected here. And I think that looking for other solutions besides the one -- one that we could apply equally is, for instance, a guarantee of certain types of capital expenditure efforts by the Federal Government, not just for New York, but for the communities.

For instance, we have for instance various types of benefits that we pass along if the program were achieved, providing a guarantee for capital expenditure. What would that, for instance, under these circumstances, how would that relate to the type of financing that you are requesting?

Could that achieve somewhat the same purpose or not? I realize that while we are talking about advance financing bonds, the other of course is completely different. But how would those two relate? I don't know how they would relate, and that's why I ask the question.

Mr. Rohatyn. It is very difficult to answer in the abstract.

Our proposal carries with it certain debt-service schedules, certain cash flows for the City. The bonds we are talking about guaranteeing are bonds, the proceeds of which would be used solely, essentially, for capital purposes.
But they are 20 or 25 year bonds, and the debt service on those bonds is calculated on that kind of a schedule, even though, as you know, we have never talked about 20- or 25-year guarantees, because we think we can live with somewhat more limited guarantees.

So it is impossible for me to answer your question, because it would have to be done within some comparable schedule of what you have in mind in terms of moneys coming to the City, on what schedule and in what form.

Mr. Vento. Well, the thing I'm talking about is instituting -- if we had a new program to deal with all types of municipal bond issuance for capital purposes, rather than solely just for New York.

Mr. Goldin. In general, Congressman, the answer to your question, subject to the qualifications that Mr. Rohatyn just described, would be that that could be an acceptable affiliation. If we are talking, as we are, about an aggregate long-term financing program during a four-year period sufficient to enable the City to meet its essential needs with $5.1 billion.

The attachment of the Federal guarantee to one or another of the moving parts is a negotiable aspect of this program.

Mr. Vento. Well, the projected capital spending comes out almost -- I think it is right around $2 billion, if
my memory serves me correctly.

Mr. Goldin. It is about $2.6 billion.

Mr. Vento. So it comes out about the same way if we
had a federal guarantee on it. In other words, do you think
that they could be integrated?

One of the other aspects, of course, and I know my time
is quickly running out, Mr. Chairman, but -- is the Secretary
of the Treasury, and the provision that was requested, at
least, in the Mayor's plan, as I read it, providing him
with some flexibility to waive first claim.

And I think that those of us in Congress who look at
our own might feel a sense to be invoked somehow
in that decision. I'm sure you are not surprised by our
interest in it.

What is the purpose of that flexibility, if either of
you would like to respond, and what would be the implications
of action by Congress to be involved in those determinations?

Mr. Goldin. Well, Congressman, we would have assumed
that it would be the wish of the Congress to develop a plan
to develop a plan that would not only be capable -- if
achieved and adequately monitored and properly implemented --
of fully reforming the City and enabling it to stand on its
own two feet at the expiration of the plan period, but also
one that would offer reassurance to the Congress that it could
get this issue out of its hair. And in order to provide
for contingencies, we would have thought that the Congress would have been prepared and willing to provide certain flexibility to the Secretary of the Treasury respecting contingencies.

But clearly, it remained an option and a perogative of the Congress, on an ongoing basis, to continue to look at this situation, to enact further legislation as the Congress wished; or indeed, in the initial legislation up front to provide, if the Congress so wished, and its authority to have to be invoked again under certain circumstances.

Mr. Vento. Well, I would just conclude by saying I think that New York City is exploring the problems that many urban areas are going to have. As I look down at the capital expenditure needs, it is very obvious that many of those need to go forward in terms of city water and in terms of environmental problems, bridge repair and road repair. I would look to that program.

The only role that I question is the economic development role. If, for instance, we come back with a guarantee of some sort, in certain parts of those bonds economic development role is going to have to be something. Either there's going to have to be private sector incentive and some risk taking in terms of debt.

I really wonder, as I look at this, if indeed we do insure these, one of my fears is that we're never going to get
to a circumstance where Moody's Investors will really be willing to assume the risk.

In other words, as long as they can have both New York City, the state and the Federal Government to buttress the bond issuance, why not reduce risks? And that is one of the things that concerns me about various private sector interests today.

Mr. Rohatyn. I would quarrel with that. I think that Moody's, with whom we have had a dialogue --

Mr. Vento. Well, I don't want to pick on Moody's specifically.

Mr. Rohatyn. Well, I do; I have.

But in this case, though, Moody's, in the note sale that Comptroller Goldin referred to with respect to notes that from the credit point of view technically were really good credit, Moody's main concern was that the risk of a City bankruptcy still existed, and that looking down the road, especially past June 30th, '78, they did not really see where this was coming out.

There is very little question in my mind -- again I think you have to -- the question of economic development and private sector investment, and the tax structure, obviously, are going to make or break the city in the long run. But in terms of pure credit rating, it seems to me that if there is a plan of the kind that the Comptroller and dare
talking about, in place, if there is a fiscal monitor in place, 
if there are annual audits showing the City on track, that the 
City will get its credit rating.

Now whether it will have market access in the amounts 
required, that is really the open question. But my professional 
judgment would be that the credit ratings would be there.

Mr. Vento. Well, I would just state that as a concern, 
not necessarily as a hard, fixed viewpoint. But I do think 
it is something that we have to keep in focus as we try to 
resolve this problem.

Thank you, Mr. Chairman.

Mr. Moorhead. Mr. McKinney has asked me to have 
permission to insert in the record immediately following his 
questions an article from the Wall Street Journal dated 
February 13th, and without objection, that will be inserted 
in the record.

Mr. Caputo.

Mr. Caputo. Thank you, Mr. Chairman.

Gentlemen, I would like to move briskly over a lot of 
questions, so if you could confine your answers to a minimum, 
I would appreciate it.

I would like to verify first that the City never asked 
for, nor did it receive, some special form of assistance for 
nothing. It requested to pay, at commercially competitive 
rates, for loans. It has repaid every installment of those
loans on or before time in full with interest. Is that
accurate?

Mr. Goldin. Yes, that's correct. And as you know,
Congressman Caputo, we calculate -- and I think independent
analysts have calculated -- that the federal taxpayer has
earned $30.5 million in the transaction.

Mr. Caputo. As of the end of the last calendar year,
the Treasury had borrowed and paid about $140 million in
interest on its borrowings, for the money it got, it used
to loan to New York City.

That budget indicates a $3 million expenditure on
administering the loans. And the City of New York has paid
to the Treasury $163 million of interest as of that date,
meaning that in clear and indisputable profit, of about
$20 million to the Treasury. Is that accurate?

Mr. Goldin. We calculate, and we believe others have
calculated, that the indisputable profit is somewhat higher.
But the figures, nonetheless, are impressive.

Mr. Caputo. And if this money had not been taxable,
there would have been the absence to the Treasury of a
windfall of a greater magnitude; yes, I understand that.

But there is a clear, very difficult, indisputed profit
to the Federal Government on these transactions. So far
from being a burden to the taxpayers of Florida or anywhere
else, and far from being a drain on the Treasury, has helped
the taxpayers.

The question isn't how much America has sent to New York, but the question is how much New York City people have sent to the Treasury. That is a fair assessment of what has happened and what you are asking for now?

Mr. Goldin. Yes.

Mr. Caputo. Let me go over the history of where we started.

The Federal Government, perhaps legitimately, at the time of the seasonal loans asked that several things happen in the City of New York: that there be a substantial increase in state aid to the City, New York State aid to the City, and that happened in the form of CUNY and many of the forms; isn't that right?

Mr. Goldin. Yes, sir.

Mr. Caputo. It was requested by the Federal Government -- I think the White House directly -- that local New Yorkers' taxes be raised to help balance the budget. That happened?

Mr. Goldin. Yes, sir.

Mr. Caputo. It was requested that certain nontax revenues be increased, like charging tuition at City University for the first time and raising the transit fare; did that happen?

Mr. Goldin. Yes, sir.

Mr. Caputo. Is it true that the median fulltime tuition
at City University is about $840 this year?

Mr. Goldin. Yes, sir.

Mr. Caputo. That the transit fare was raised 45 percent to 50 cents?

Mr. Goldin: Yes, sir.

Mr. Caputo. It was also asked that the City decrease spending in certain ways. To accomplish that, some 61,000 persons were laid off?

Mr. Goldin. Either laid off, Congressman Caputo, or their positions were eliminated; yes, sir.

Mr. Caputo. Now we talked about figures of the week analysis; those are Social Security numbers that are 1975, at the advent of the loan program, were on the City's program that are not there now. Is that accurate?

Mr. Goldin. Well, as I just explained, either actual bodies that are no longer on the payroll or positions that would have been filled that have not been filled.

Mr. Caputo. In addition, fire houses have been closed; hospitals have been closed; and other services that used to exist no longer do?

Mr. Goldin. That is correct.

Mr. Caputo. The Federal Government asked the State of New York to loan money to the City. Did that happen after the loan program began? I'm talking about the State advance.

Mr. Rohatyn. The State invested three-quarters of a
billion dollars in short- and long-term MAC bonds, and to do
that -- I would also suggest, Congressman Caputo, that the
Federal Government asked us to do another thing, which was to
put in a moratorium on $1.8 billion of City notes, which is
something that we cannot do again, hopefully, and should not.

Mr. Caputo. Are there new accounting systems?

Have accounting systems been developed since the seasonal
loan program began in response to a request from the Federal
Government?

Mr. Goldin. Yes.

I might also add, Congressman Caputo, that as you know,
of the State advances, loans the City $800 million each Spring
in order to enable the City to meet its cash flow requirements.

Respecting the accounting system, yes, there has been a
thoroughgoing revision of the accounting budgetary control
and management information systems.

Mr. Caputo. Mr. Rohatyn, in your position, you're some-
what familiar with this kind of thing. Would you say that
this meets -- that we have progress about as rapidly as one
could have in developing this kind of accounting system since
the advent of the seasonal loans?
Mr. Rohatyn. I think that, again, as a private citizen who has been rather virginal in terms of the government processes which has changed since, that the city has made, as far as I can see, about as much progress as any large government unit that I know of has done within that period of time.

Mr. Caputo. Do you think it is fair to say, both of you, that what was agreed to by the Federal Government, including the Senate, the commercial credit markets, and every other party to the 1975 agreement, has substantially been accomplished, whatever the wisdom of those decisions were, the plan was implemented on time to the degree required?

Mr. Rohatyn. Yes, I do.

Mr. Goldin. To my knowledge, the city has met or exceeded every single one of the milestones.

Mr. Caputo. I'm not sure what your familiarity is with intermunicipality pay or comparisons of pay between cities, but let me read to you from a Labor Department publication, to see if you think this is consistent with New York.

Firemen in the City of New York start at $13,000. In Los Angeles, they start at $15,000. In Chicago, they start at $13,000. In Milwaukee, a city not of comparable size but randomly selected for my comparison, they start at $15,000.

Is that consistent with your impression?

Mr. Goldin. I do understand, Congressman Caputo, that there are other cities in which municipal employees are paid
more than in New York City.

Mr. Bigel, who has that information with him, would be able to testify to that in detail.

Mr. Caputo. Let me just go over some comparisons quickly.

Typists in your city start at $7000. The Federal Government employees start at $8900. Milwaukee starts at $8200 when they work for the municipal government. In Los Angeles, $8300.

I would like to, if I may, Mr. Chairman, submit for the record these publications on comparisons of pay between municipalities as of October 1977.

Mr. Moorhead. Without objection, so ordered.

(Tables follow.)
Mr. Caputo. Whatever the conditions were in 1975, when
the first loan program began, I think that the facts are
different today.

Let me go on, if I may. I am concerned about how you can
guarantee a fraction of the life of an instrument and convince
the purchaser that it is a guaranteed obligation. Could you
help me understand that, Mr. Rohatyn?

Mr. Rohatyn. Well, the theory behind it, Mr. Caputo, is
that if the city, indeed, does what it is expected to do over
the next four years or so, that it will be a respectable and
acceptable creditor, and at some point down the road, not
necessarily to the full length of the bonds, although that is
a subject of negotiation between us and the potential purchaser,
that the underlying security will be creditworthy, and therefore
the need for a government guarantee will no longer exist.

I say that within the context of a security that is sold
privately and that would not be resold publicly. You could not
do this with a bond that was sold on the public market, for
instance. But we have tried to, in effect, tailor something
that does what we are trying to do, which is to have a bridge
to walk over and not to have permanent government backing and
still enable the fiduciaries representing these pension systems
to buy a security that will be -- that will give them the
security they are looking for.

Mr. Caputo. What does that do for the residual of the
financing requirement if you provide some shorter-term guarantee
than the length of the life of the instrument for a special
class of creditors, presumably the state pension funds? How
does that affect the marketability of the balance of the
issuance, say, the MAC issues?

Mr. Rohatyn. Well, we were talking about a special issue
of either city bonds or MAC bonds that are purely backed with
a city bond as the security requiring a guarantee because it
does not have MAC's stream of revenue behind it.

I have absolutely no qualms in feeling that if we did
create that special class of securities to be bought by a
special class of investors, that we could purely with MAC's
first- and second-resolution bonds get a combination of the
financial institutions and the public market to provide the
balance of what we need without the federal guarantee.

Mr. Caputo. So, I guess that the answer to the two
questions is that you have negotiated or discussed with the
state pension funds the acceptability to them of a guarantee
which does not run for the full length of the instrument and
have some reason to believe that that would be acceptable to
them; and further, that if the state pension funds would buy
that quantity on that basis, the MAC instruments, with their
attached revenues, would be acceptable to the commercial credit
markets. And you have some feeling -- and I know there is no
assurance but some feeling -- that this is a marketable
combination?

Mr. Rohatyn. The latter of the two points you make is correct. I have no assurance, from the state pension system or from Comptroller Leavitt that he would be satisfied with a limited guarantee, nor do I have such assurance from the city pension system.

I do think -- and I think Comptroller Goldin agrees with me -- that, depending upon the length of the guarantee and depending upon what we do in terms of additional security from state guarantees or from other assurances that we might provide, that we can structure an acceptable instrument that should be worthy of their purchase. But I have no commitments of that kind whatsoever.

Mr. Caputo. Thank you, Mr. Chairman.

Mr. Kelly. Mr. Chairman, I wonder if I might ask Mr. Caputo just a couple of questions about the charts he put into the record.

Mr. Moorhead. Mr. Caputo's time has expired.

Mr. Barnard?

Mr. Barnard. Thank you, Mr. Chairman.

Mr. Goldin, the report of the Senate committee hearing on February 9 indicated that they felt that certain things could be done to accelerate real estate tax collections and so forth to eliminate the need for the seasonal cash needs. Do you think that is a practical suggestion?
Mr. Goldin. I think, Mr. Barnard, that in the event the long-term financing were to be in place that there are a variety of possibilities that could reduce significantly the city's need for short-term financing.

One of them is the possible acceleration of real estate tax payments.

Mr. Barnard. Another aspect of the report was that they felt that a four-year labor contract would be in order. When does the scheduling for your new labor contracts come forward?

Mr. Goldin. Some of the municipal labor contracts have already expired. Some of them expired June 30. Certain contracts, as a matter of fact, expire on March 31. Negotiations are shortly to commence, and the municipal labor committee representing the bulk of municipal workers has agreed to negotiate with the city in concert. Those negotiations, as I have indicated, are scheduled to begin next week.

Mr. Barnard. Would you be optimistic that you could secure a four-year labor contract?

Mr. Goldin. It seems to me, Congressman Barnard, that that is one of the issues that would have to be negotiated between the city and its employees, collectively and in good faith, at the bargaining table, and could certainly be an issue that would be on the table.

Mr. Barnard. I have no further questions.

Mr. Moorhead. Mr. Ashley?
Mr. Ashley. Mr. Chairman, I just got here, so I would defer.

Mr. Moorhead. Mr. LaFalce?

Mr. LaFalce. At the time that we passed the seasonal loan in December of 1975, it was fairly predictable that we would have to be back here, going through once again what we went through in 1975 during this-subcommittee's deliberations. I do not believe that would have been the case had the product of this subcommittee's deliberations been enacted, rather than the seasonal loan.

Let's go over the Season Loan Act of 1975 and some of the provisions that were in it, to see whether or not the very terms of the presidential proposal and congressional legislation mandated your return.

Was it not a term of the credit agreement that the state pass a moratorium on indebtedness?

Mr. Goldin. That was one of the essential requirements of the arrangement in '75; yes, sir.

Mr. LaFalce. And was not the solvency of New York State predicated upon the constitutional validity of such state legislation?

Mr. Goldin. We argued to no avail in Washington that the city's ability to recover would be impeded, if not prevented, during the pendency of the moratorium legislation, and I argued strongly against it. But, as you know, we did not prevail.
Mr. LaFalce. Could you tell me whether a lawsuit was brought against that legislation and what the outcome of that lawsuit was?

Mr. Goldin. Predictedly, Congressman LaFalce, the constitutionality of the moratorium was challenged, and the court of appeals which is the court of last resort in New York, in November of 1976, adjudged that it was unconstitutional.

Mr. LaFalce. And the indebtedness upon which a moratorium was declared involved, as I recall, $1.8 billion; is that correct?

Mr. Goldin. Yes, sir.

Mr. LaFalce. Would you say, then, that this federal condition, which you argued would be unconstitutional, is a significant factor in your appearance here today?

Mr. Goldin. Yes, sir.

Mr. LaFalce. Thank you.

Now, is it also not true that one of the budget defects that you were criticized for is the legal balancing, but the genuine imbalancing caused by a state advance to the city of approximately $800 million per fiscal year?

Mr. Goldin. That continues to be a device which the city uses to maintain its solvency, which we are convinced has got to be eliminated before the city will be adjudged creditworthy.

Mr. LaFalce. And was not that provision for which you
are criticized specifically approved because of its inclusion and acceptance within the credit terms by the then-secretary of the treasury?

Mr. Goldin. The continuation of the $800 million annual state advance was comprehended by the credit agreement, and in the arrangements that were completed at the end of 1975; yes, sir.

Mr. LaFalce. And Mayor Koch, in his candor in the presentation of the budget difficulties, has said that this prevents a genuine balancing as opposed to a legal balancing, according to the terms of the federal-state agreement; is that correct?

Mr. Goldin. Yes, sir.

Mr. LaFalce. Now that we have that in some perspective, I believe we must go the guarantee route, at least in part, and the reason we are talking about short-term guarantees, I believe, is because the soundings we get from the Treasury Department -- I don't think you would be talking about that otherwise -- and because of the desirability of the Federal Government's involvement being brought to an end as quickly as is reasonably possible.

So, I find that a reasonable approach to take. However, in your comments, Mr. Goldin, you referred to a limited guarantee. I assume, when you refer to a "limited guarantee," you were talking both about dollar amount and term.

Mr. Goldin. I was talking about dollar amount, term, and
the extent to which there would be a coinsurance provision;
yes, sir.

Mr. LaFalce. You also mentioned a limited guarantee only
insofar as bonds that are concerned that would be purchased
by city or state pension funds.

Mr. Goldin. Yes, sir.

Mr. LaFalce. Again, is this something that you would find
desirable, or something that you would suggest because of
your soundings from the Treasury Department?

Mr. Goldin. We have had ongoing discussions with the
Treasury Department. On the other hand, the city's plan is
the city's own plan. The mayor and I have said repeatedly
that the plan can be the subject of discussion and negotiation,
that it has, as we have put it, many moving parts to it and
that it is possible to reconstitute elements of the plan.

We all await the secretary's testimony on the hill the
week after next for the announcement of the Administration's
position, but I think that it would be misleading to say that
our plan represents in any way the Treasury's thinking. It
is the city's best judgment to this point as to how this matter
could be resolved comprehensively within a reasonable period.

Mr. LaFalce. Now, I would personally favor a short-term
-- depending upon how you define "short-term" -- guarantee for
political purposes more than anything else. I think it would
be easier to sell here in Congress than with long-term and
long-term federal involvement.

I am very concerned, though, as to the bonds that we would be guaranteeing. Philosophically, I do not know that I would want the Federal Government to be involved with a city. I would much prefer a state agency. So I think it would be preferable to limit the guarantee to state- or state-agency-issued bonds.

Now, does that come within the purview of your thinking?

Mr. Rohatyn. Congressman, that is why essentially we had also -- and I think with the city's support -- suggested that that guarantee flow through MAC, which is a state agency, and then that we set up a separate series of MAC bonds, with a special third-resolution series which would also carry with it the state's coinsurance function, and through that guaranteed issue MAC would then purchase city bonds, and the levels of involvement would flow from the Federal Government through MAC as a state agency to the city.

Mr. LaFalce. Mr. Goldin, I do not believe that ERISA is applicable to the state- or state agency-issued bonds that would be purchased by a city or state agency. Am I correct in my legal interpretation?

Mr. Goldin. That is correct, Congressman LaFalce. On the other hand, as of course you know, common law principles of fiduciary responsibility as well as statutory standards other than ERISA would have to be adhered to.
Mr. LaFalce. Yes.

One of the difficulties I had with the Seasonal Loan Act of '75, as opposed to the bill reported out by the subcommittee, had to do with the nature of the preconditions that would be imposed. The Seasonal Loan Act envisioned a credit agreement with the Secretary of the Treasury where he pretty much could decide what preconditions should exist.

Our legislation spelled them out statutorily and in addition to giving the Secretary latitude to impose additional preconditions. I think that is essential, both politically in order to get this passed and essential in order to insure the continuation of the austerity measures which the city has undertaken, and not only to insure the continuation but even to enhance those austerity measures.

Another question is what preconditions should there be. How about a federal precondition for a four-year contract?

Mr. Goldin. I would think, Congressman LaFalce, that from the standpoint of the Federal Government, the taxpayer, the citizen of the United States, specific details respecting municipal policy are not a matter that ought to be legislated. I think there are overall requirements that are significant from a credit standpoint that should be legislated.

For example, creditors, guarantors, need to be assured first that the budget is going to be in ongoing balance. It seems to me therefore proper that there should be a requirement
for the achievement of balance within a prescribed period
pursuant to independent certification.

Secondly, in that regard, I think that outside review
and certification is correct. But I would regard it as not
in the interest of the American taxpayer that there be legis-
lated with great specificity and particularity how the aggre-
gate of expenditures and revenues at any given time should be
in balance.

Mr. LaFalce. I think there certainly is a balance that
has to be reached between the specificity that we include within
the federal legislation and the totality of the preconditions
we would like to see imposed prior to a guarantee or a con-
tinuation of any seasonal loan.

As a means of striking that balance, I would suggest the
creation of a federal board of sorts, again envisioned by the
product of this subcommittee; and while we would not have to
lay out legislation in specifics, this board would be empowered
to do so.

What is your reaction to that?

Mr. Rohatyn. Let me try, Congressman, on this one for
a moment. I think that you should handle a credit or a guarantee
to New York City just the way the IMF would handle a credit to
a country in difficulty, or the World Bank would.

Mr. LaFalce. I've made the same analogy myself in referring
to the conditionality of IMF loans, and very similarly talked
about the conditionality of loans to New York City or New
York State.

Mr. Rohatyn. A board, whether it is a federal board or
any other board, I think there should be some preconditions
to the legislation, but not so rigid and not so absolutely
immovable that changes can't be made as you go along, if they
make sense, to provide for contingencies that you can't fore-
see.

New York City in some ways financially has to be looked
at much more like an underdeveloped country than like a nest
of wealth, because it really isn't, and I think you ought to
treat it as such.

Mr. LaFalce. One last question, and then my time will
expire. Some say it has already expired.

One of the inherent difficulties with a precondition to
a guarantee, whatever the term of the guarantee, is that that's
it -- a one-shot effort, and then any board or any body that
exists thereafter can only act in an oversight capacity. And
I am wondering about the feasibility of renewable guarantees
during a certain period. For example, a nine-year guarantee,
possibility: certainly for the first three years and renewable
at the end of every three years.

I like the idea, conceptually, with the one possible
difficulty of its marketability, and I would ask you to comment
on that, and I wonder if you have considered that as a possible
option.
Mr. Rohatyn. Well, first of all, the guarantee as we visualize it in the plan really, you would not be guaranteeing irrevocably the $2 1/4 billion because that amount comes in over four years, roughly, in even amounts. It would seem to me that certainly a condition for every succeeding installment would be the city having fulfilled the obligations in terms of its budget, in terms of its other financings that are envisaged in the whole plan.

So that you would have continuing triggers here, it seems to me, all the way through.

In addition, I think you would write into the guarantee what a life insurance company would write in in terms of what a life insurance company would write in in terms of an agreement with a borrower, that the city would have to continually fulfill these certain number of conditions and failure to fulfill is default in which event you have your own security to look to.

Mr. LaFalce. So the guarantee would not be a one-time shot, and the preconditions would not be a one-shot effort. In effect, what we would be doing would be authorizing the guarantee of bonds for a certain period of time, and then each time they would be up for issuance, which might be over the course of a four-year period or so. The particular preconditions that would be imposed at that time would have to be adhered to.

Mr. Rohatyn. Sure. In terms of making sure that
the city does not throw up its hands and forgets about
austerity from day, that you keep the city's obligations to
fulfill its promises going on a day-to-day basis or
year-to-year basis. You can build into this all of the
safety and all of the rigors that you have in the seasonal
loan, and at the same time provide an instrument that really
works instead of an instrument that does not do the job.

Mr. Goldin. If I may add to that, Mr. Chairman, indeed
I think it is important to emphasize, Congressman LaFalce,
that the contemplated guarantee, although, to be phased in
during and over a four-year period, would provide the Federal
Government with continuing leverage thereafter for the duration
of the guarantee to secure the city's compliance with all of
the ongoing requirements of fiscal rectitude, because, as we
conceive it, there would be adequate security for the Federal
Government to assure that the city, even after the four-year
period over the lifetime of the guarantee, continued to
adhere to all of the sensible requirements of the guarantee.

Mr. LaFalce. Thank you.

Mr. Moorhead. Mr. Pattison?

Mr. Pattison. Thank you, Mr. Chairman.

I'm not sure whether I should address this to Mr. Rohatyn
or Mr. Goldin.

As you may know, although I come from New York State, I
come from a different part of New York State, a part of New
York State where aid to New York City is not particularly popular. In fact, we regularly beat up on New York City as
New York City sometimes beats up on the state of New York.

So I think it is important for me to understand and for my constituents to understand the kind of impact this legislation that we're talking about, this assistance to New York City, will have if we either give it or don't give it to the constituents of districts like my own,

And we have discussed the international implications of a default or of a failure of this Congress to act. I'm wondering if you could expand a little bit on the impact of New York State's solvency and New York State's borrowings and the impact of that on borrowings of towns and villages, school districts, cities, counties in the rest of the state, and then perhaps in the rest of the nation under the circumstance where there was an actual default, or the other way, if there is no default at all.

Mr. Rohatyn. Mr. Pattison, in '76 when the city was still -- even though a three-year credit agreement had been entered into with the Federal Government there was still a crisis atmosphere. The state raised $4 billion for its spring borrowing with a great deal of difficulty, I think at an average rate of about 7 percent.

A year later the state paid 3 1/2 percent, roughly, on the same.
Mr. Pattison. Could I interrupt you a second.

The state's spring borrowing -- what does the state do with the money that it borrows in the spring?

Mr. Rohatyn. It pays it out to localities.

Mr. Pattison. Localities such as school districts; the second half of the state aid payments, municipalities, the regular state revenue-sharing program, et cetera?

Mr. Rohatyn. That is correct.

Now, a 3 1/2 percent interest differential on $4 billion for an average period of maybe eight months is $100 million a year. That is a lot of money, and that is all of your school aid and your revenue sharing and your aid to localities.

In addition, I think there is about a $2 1/2 billion of state agency financing for the dormitory authority and the housing authority, and a whole variety of state agencies that operate not in New York City but they operate all over the state. They almost could not finance at all at that point.

Mr. Pattison. Would it be possible, for instance, lacking the ability of the state to get into the credit markets, for its spring borrowing, that school districts that rely upon that spring borrowing to pay their own credit obligations, their own ongoing bond obligations, that there could be serious questions of default at that point since they have no capability at that time to go back to the taxpayers on an annual tax bill?
Mr. Rohatyn. Well, it is axiomatic almost that if the
good financial difficulty, as I think it would be
in the case of a New York City bankruptcy, that every financing
unit in the state would be in financial difficulty. I don't
think there is any question in my mind about that.

Mr. Pattison. This is not the same domino theory that
we heard some years ago; this is the way the domino theory
really does work, is what you're saying?

Mr. Rohatyn. Well, I think this is the way the domino
theory might work, and I just don't really ever want to find
out.

Mr. Pattison. I thank you.

I have no further questions.

Mr. Moorhead. Mr. Lundine?

Mr. Lundine. Thank you, Mr. Chairman.

I guess this would be addressed to Mr. Goldin,

In your judgment, are the budget projections which we
have been given upon which this plan is predicated realistic?

Mr. Goldin. Well, we believe them to be, Congressman
Lundine, and I might say that we have invited, and indeed
there has occurred, an independent review of these budgetary
numbers. They are not figures that are developed solely by
the city without independent review and examination.

The assumptions are available for consideration.

It is important to understand that they are predicated
on relatively conservative assumptions respecting levels of
economic activity and the like. Were there to be a significant
deterioration, obviously, there would be a change, and by the
same token, were there to be improvements in certain
underlying factors there would be a positive impact. But we
believe them under the circumstances, as a function of the
assumptions to be acceptable.

Mr. Lundine. What would happen if some of these projec-
tions — I mean, in serious amounts — could not be met?

For example, is it true that these projections are based
upon the assumption that there would be no wage increases for
four years?

Mr. Goldin. Yes, sir.

Mr. Lundine. Suppose that can't be met?

Mr. Goldin. That would mean that the city, out of its
available revenue, would have to find a way of paying for any
increase in expenditures, whether relating to employees or
higher fuel costs or because the Arabs raised the price of
oil or higher cost of interest, because there was a
deterioration in credit markets, any expenditure which rose
unanticipatedly, as contemplated by the plan, would have to be
offset either with other expenditure reductions or with
revenue generation.

Mr. Lundine. Is it also true that the amount of the
lawsuits against the city have been estimated at up to
$1 billion; and yet next year's budget only contemplates payment of $77 million or something on that order?

Mr. Goldin. The amounts provided for the settlement of litigation for judgment and claims we believe to be an adequate amount, given the city's experience in recent years respecting pay-outs for these purposes.

Mr. Lundine. In other words, one of the issues -- not unlike my colleague, Mr. Pattison -- of real concern to people upstate in New York is, is this a part of a continuing saga or are we really talking about this being the last time that we have to go to that brink.

In your judgment, according to prudent municipal management criteria, this is a plan, or some variations of it would represent a plan which could reasonably be expected to contemplate the last federal participation in terms of loaning or guaranteeing loans to New York City?

Mr. Goldin. For two years, yes, Congressman Lundine, assuming there were not to be a further unanticipated deterioration in the economic conditions.

Reason No. 1 is that this plan, unlike the plan that was developed in 1975, provides that at the expiration of the plan period, the city would have reached a condition of recurring budget balance pursuant to generally accepted municipal accounting principles to be independently certified. The prior plan contemplated budget balance pursuant to criteria
established by law as the Congress knew and understood but not pursuant to generally accepted municipal accounting principles as provided and contemplated by this plan.

Second, this plan undertakes to identify all of the as yet unresolved outstanding credit issues which would interfere and do interfere with the city's ability to borrow on its own in the public credit markets.

The original plan in 1975 contemplated that despite the progress that would be achieved in 1978, there would continue to be unresolved credit issues. This plan recognizes that they must all be resolved before the city would be able to borrow on its own and provides for their solution on a comprehensive and integrated basis by the conclusion of the plan period.

Mr. Lundine. All right, let's take the other alternative. Somebody said they didn't mind getting older when they considered the alternative, and I do think we have to consider the alternative.

Mr. Pattison explored briefly what might be the consequences of the city's bankruptcy to other units of local government in New York.

I would like to ask you, would there be credit consequences, in your judgment, as a result of the bankruptcy of New York City to cities and other municipalities outside of New York State?
Mr. Goldin. We believe, Congressman Lundine, that the scenario that was outlined by Mr. Rohatyn is not a scenario that is in any respect beyond the pale.

Assuming that the city were to experience the kinds of problems that are conceivable and entirely possible after June 30th in the event we were not to get installed the kind of plan which we are talking about, which depends upon the limited federal participation that is described, we believe that there could be adverse consequences of a serious nature for the state of New York and its localities, and that in the event that were to happen, given the virtually unprecedented impact that that would have, at least for the first time in 100 years in American public finance, that the effect on credit markets and localities across the country could be severe and adverse in the extreme.

Mr. Lundine. Thank you, Mr. Chairman.

Mr. Moorhead. Mr. Steers?

Mr. Steers. Mr. Rohatyn, I hope that you would do me the honor to convey my greetings to your Mr. Andre Meyer, whom I had extensive conferences with some years ago.

Turning to Mr. Goldin, I would like to make a distinction between an accounting system which is typified by accuracy. We might call that the technical side of accounting. And contrast it with the financial plan which might relate more specifically to solvency.
Now, I would automatically, almost, excuse your office, you and your office from any responsibility for the financial plan, but I would like your comment on why your accounting system was not technically in order in view of the fact that I am told you have been in office for five years.


And if I may, I would remind the Congressman and the committee that shortly after taking office, I commissioned three outside independent accounting firms to come into my office and examine the condition of the city books, records, accounts, and related matters.

Their reports were made a matter of public record and received considerable notoriety, not only in the city, but around the country in the summer of 1974.

Based on those reports I predicted publicly that there would be serious adverse consequences unless major reforms were initiated and urged that such reforms be initiated and began to take steps to implement them. And within a matter of months my office had developed a total revision of the city's accounting and budgetary control and management information systems, which was reported to the world on the front page of the New York Times.

Mr. Steers. Well, then, I gather I evidently have overstated the five years. It is a little over four years.
You believe that you moved with as much expedition as is reasonably available to you?

Mr. Goldin, Yes, sir.

Mr. Steers, My second point is something that I'm not going to require, not that I could require you to answer anyhow, probably, but I would leave it strictly optional because I do not want to impose on you any substantial additional burden, and I would say that if you prefer to answer this later, with the chairman's permission, you could submit the answer, or you can try to answer it at this point.

I come from Maryland, and I'm very proud of Baltimore City, which has never been under the gun, so to speak, with respect to Baltimore City's accurate accounting system. And, secondly, they ended up last year in '76, that is, with a $50 million surplus.

My question, of course, relates to what is so different about Baltimore from New York? They both have urban problems, and I just wonder what it is about New York City which is to be contrasted with Baltimore, recognizing that there are other cities that are not doing much better than New York City, but I'm wondering how much of the credit goes to the city government of Baltimore and perhaps also the State of Maryland government; and then, on the other hand, whether it is just some peculiar characteristics of that great urban center and port, Baltimore.
Mr. Goldin. Well, I think there are several differences, Congressman Steers, that are relevant, but for purposes of your question I would identify one that has perhaps the greatest impact of all.

The city over a period of years pursued policies which we now all understand very clearly were detrimental to its fiscal and financial posture. The city used financial expedience which cumulatively helped to bring it to a point in 1974 and 1975 where its ongoing credit requirements were massive, not only for its current financing needs at the time but also to enable it to continue to finance and refinance accumulated deficits and the remaining impact of previously pursued financing policies.

Therefore, one of the important differences today between New York City and Baltimore is that the city continues to need not only time but help in order to complete the process of total fiscal reform. That process has proceed in the judgment of independent arbiters very far over the course of the last three years. The city, as you know, has achieved, as we commented earlier, Mr. Rohatyn and I in answer to other questions, all of the milestones and have exceeded many that were contemplated as part of the original seasonal loan financing in 1975.

But other effects of the accumulated years pursuing these expedient and fiscal gimmicks remain with us, and the
city needs additional time -- we predict a period of four
years -- in which to complete the process of reform.
Mr. Steers. Mr. Chairman, if I have any further time, I would like to turn it back to Mr. Caputo.

Mr. Moorhead. I think the gentleman has one minute to yield.

Mr. Caputo. I would just like to clarify something that was raised earlier, unless it does not apply to these issues. But there are pre-ERISA restraints on pension funds buying securities of their employers. As I understand it, they were waived. Public Law 94-236, I believe that expires this year, so that the proposal by the City and the State contemplates a renewal of the waiver against those prohibited transactions in the Internal Revenue Code. Without that Act of Congress in the next four or five months, the plan you have envisioned would not be possible.

Mr. Goldin. That is correct.

Mr. Kelly. Mr. Chairman, would the gentleman yield for a question about the reports that he put in the record?

Mr. Caputo. I would not.

Just quickly, I'm concerned about the report by Mr. Oberst, the City Operations Director, what order, in regards to savings to management and supervisory level of efficiencies, what order of magnitude would that encompass if that comes to pass?

Mr. Goldin. Well, as you know, Congressman Caputo, the City's program for balancing its budget in fiscal year 1979,
beginning this July 1st, contemplates city actions of $174 million, producing economies of $174 million.

Out of that some $62 are anticipated to be achieved as a result of managerial efficiencies deriving from implementations of audit recommendations which I and others have made, and through other changes in reforms.

We very much hope that the City's achievements will go beyond that in fiscal year 1979, resulting from structural and management efficiencies, but at the same time, we are programming changes to produce some $62 million in economies.

Mr. Caputo. You have no idea how much money would come from the Oberst report, as recommended by him?

Mr. Goldin. The cumulative impact of management reforms and structural changes that would be achieved in 1979 alone would be at least $62 million.

Mr. Caputo. Thank you.

Mr. Moorhead. Mr. Ashley.

Mr. Ashley. Thank you, Mr. Chairman.

Gentlemen, my apologies for not being here when you began your testimony.

I must say that the subject matter, and at least one of the witnesses, take me back a bit in time, Mr. Chairman. I think Mr. Rohatyn, it must have been something over two years ago that we first met, and the occasion was not unlike that of this morning. That time you last gave your testimony, there
were suggestions that if the Federal Government would play
the role of a helpful partner, that the City of New York, with
State assistance, would vastly improve its managerial
effectiveness, and in fact, would institute a rather broad
spectrum of reforms.

Have those actions taken place?

Mr. Rohatyn. Well, Mr. Ashley, as you said, it was
2-1/2 years, and it seems like 250 years. But, yes, as I
said earlier, I think a lot of actions have been started.

Mr. Ashley. Is there any single thing that you said you
could do that was agreed upon with the Administration, pursuant
to the legislation that was adopted, that has not been carried
out?

Mr. Rohatyn. I don't know of any.

Mr. Ashley. So what we're saying is that the track record
of the City of New York, that is to say in terms of the
obligations that it undertook as a condition for receiving a
measure of credit support, have been filled?

Mr. Rohatyn. Yes, sir. It is just that the medicine
was not potent enough to do the job.

Mr. Ashely. Well, as a matter of fact, there were some
of us who thought that might be the situation at that time.

Would you say so, Mr. Rohatyn?

Mr. Rohatyn. That is correct, Mr. Ashley.

Mr. Ashley. I mean it wasn't that the testimony of the
City of New York 2-1/2 years ago was that with the terms of the legislation as it was enacted that you would never be back for a continuation of assistance.

On the contrary, the City of New York and the State of New York were in a position where they were obliged to accept the legislation because that was all the help that was available. Isn't that a fact?

Mr. Rohatyn. That is correct, Congressman.

Mr. Ashley. So it is nothing that the City has not done to date that caused you to come back here really and truly?

Mr. Rohatyn. I know of nothing that the City has done that caused us to come back, no.

Mr. Ashley. Now, as a further matter of fact, there has been an effort to test the City's access to the money markets; that is true too, isn't it?

Mr. Rohatyn. That is correct.

Mr. Ashley. How did that go?

Mr. Rohatyn. It went terribly.

Mr. Ashley. Were you surprised?

Mr. Rohatyn. Well, frankly, I thought that the note issue, from a credit point of view, was okay. The market just refused to accept it. The Moody's rating was disappointing, and it really -- you see, in the context of the market that just is terribly skeptical about anything that has to do with
the City of New York, probably beyond the bounds of rationality,
but there it is.

Mr. Ashley. Well, Mr. Chairman, I don't really have a
whole lot more. I'm looking back over a period of time here,
and I think you and I and a number of others, and I think even
Mr. Stanton, if I may say so, were of the view -- I mean on
both sides of the aisle -- that the term of the assistance
should be longer than that which the previous Administration
was willing to agree to.

And inasmuch as we felt that the absence -- essentiality
of the legislation -- and frankly our hands were tied. And
if the President was going to sign a bill, it was going to
be his bill and not our bill; and that is what happened. And
I don't say that at all by way of criticism of the previous
Administration or the previous President. He was acting on
some strong advice from his financial and economic specialists.

But I don't see how we can be surprised, quite frankly
at this juncture, and I don't see that the situation has
changed a whole lot. Washington is in a situation where it
is going to shoot dice again, and dice that I don't want to
play with. I don't trust the dice; I don't think they are
straight dice. I think you are right when you say that the dice
aren't going to give you an even break in the marketplace.

And I think there is too much at stake. If we're not worried
about the stock market, if we're not worried about the dollar
in the international marketplaces, well then we can certainly
shoot these dice with some of them. Because if anybody gives
a damn about the confidence in the dollar, whether it is in
equities or whether it is in the dollars that are abroad, then
it seems to me that it is the kind of gamble that makes no
sense whatsoever.

Thank you, Mr. Chairman.

Mr. Moorhead. I think the gentleman, as former chairman
of this subcommittee, did report a bill that would have been
effective and might have prevented this hearing today.

Mr. Stanton.

Mr. Stanton. Thank you, Mr. Chairman.

I, too, apologize for being late. We are on the budget
committee for the whole committee here, and so it is somewhat
related.

But Mr. Chairman I would like to compliment the witnesses
and make some observations.

Mr. Ashley said, "as we look back," and the first thing
I think of is you, Mr. Rohatyn. You know, 2-1/2 years ago
you were pretty well down the list as a witness. We started
with the Governor and Mayor Beame, and so forth. And now,
I think, it is most appropriate that at least your name was
first on the witness list, because you did more, I think, to
instill an element of confidence in many of us who wrestled
with that legislation than any individual that I know of.
Mr. Rohatyn. Thank you, Mr. Stanton. Thank you very much.

Mr. Stanton. One thing that impressed me at the time -- and I wondered if the facts were still true -- you had a great advantage on us, in that we work for our constituents at a pretty good salary -- too good, most people think -- and you were volunteering your services at the time.

Is that still the case?

Mr. Rohatyn. Yes, Mr. Stanton. I think that is probably the greatest protection that a private citizen can have in venturing into these uncharted waters.

I also have the good fortune of being a partner in a very profitable firm, so it is really no sacrifice that I am making. It just seemed like the more appropriate way to do it.

Mr. Stanton. Now I would like to ask you a direct question.

Do you anticipate or plan to stay with it?

Mr. Rohatyn. Well, Mr. Stanton, I went into this for three weeks, you know, in 1975, simply to help create a structure, and it is almost three years. I can't do this much longer, either physically or emotionally or professionally. I would like to see this through. I would like to see a program for the City that will insure it for the next decade, for the foreseeable future. And I think that one should not be taking curtain halls when the audience has left the theater.
Mr. Stanton. For the benefit of New York City and the
State, and probably the country, we hope you stick it out for
awhile longer.

Mr. Rohatyn. Thank you, Mr. Stanton.

Mr. Stanton. Going back to my friend Mr. Ashley -- and
Mr. Lundine touched upon this -- as we look back, in retrospect
on the plan that was adopted, and correct me if I'm wrong, there
was nobody that felt this was the answer. Long-term bonds
might have been the answer, if you did all the things you said
you were going to do. And Mr. Ashley was right. Mr. Caputo
sent us around a checklist of different things that the
Seasonal Adjustment Act asked the City of New York to do, and
maybe there is one or two, but I don't know of any, without
exception, that the City performed. You have 60,000 or so
less employees than you did at that time. You reduced the
force 22 percent, roughly. Things of that nature. The
Seasonal Adjustment Act, though, and this is where it never
as I remembered it contemplated that you would reach in
2-1/2 years a balanced budget.

But on the other hand I don't remember anything 2-1/2
years ago that said that. Now, 4 years from now, if you
follow this play, we will; so nobody told us at that time
that you were six or seven years away from a balanced budget.
I think I'm right on that. Maybe somebody did predict seven
or eight years.
Mr. Rohatyn. Will I think, Mr. Stanton, the difference about what we're talking about now and then, is the question of a budget that is balanced according to the statute, which then gave us ten years to phase out these expense items that are still in the capital budget.

So that this year it required a balanced budget. But a technically balanced budget, even though in reality there are still some $600 million of expense items in the capital budget.

And what the Comptroller and I have been saying is that we were maybe kidding ourselves that the market would just not take city paper in large amounts until all of these expense items have been phased out of the capital budget. And in the current city plan, it is foreseen that that will happen over the next four years, so that at the end of that period you will have a budget that is truly in balance, and not just technically in balance.

Mr. Stanton. Now, somebody kidded somebody 2-1/2 years ago because what the planned Seasonal Adjustment Act, I anticipated anyhow, was based on facts and figures that were brought to Bill Simon's attention and to President Ford. And from those facts and figures they then based their particular plan.

Now as we look back in retrospect -- and I could be wrong on this, but I believe I read it -- was that despite
all the improvements that you're doing, that your anticipated
deficit this year is about the same as it was when you were
here 2-1/2 years ago. Am I right on that?

Mr. Rohatyn. No, I don't think that is correct, Mr.
Stanton, if you are comparing apples and apples.

Mr. Stanton. I am comparing figures that New York City
gives to this committee or gave to the President on which
that plan was based.

Now, can we assume, number one, that the figures you
presented were wrong?

Mr. Rohatyn. No.

Mr. Stanton. There was an underestimate of the deficit?

Mr. Rohatyn. No.

Mr. Stanton. They weren't?

Mr. Rohatyn. No.

Mr. Goldin. Perhaps if I could try to explain this, Mr.
Stanton.

The plan was agreed upon in 1975, comprehended that
at this point, 1978, the City would continue to be financed
with devices that are unacceptable under generally accepted
municipal accounting principles.

For example, the plan contemplated --

Mr. Stanton. Let me stop you there. It was not
anticipated that at this point in time, in the '75 legislation,
that hopefully that the City could go back in the marketplace
under the performance and the rest of it. Wasn't that the plan?

Mr. Goldin. It was hoped for that if the City achieved all the reforms that were then contemplated by the plan, all of which the City has achieved, that the creditors would find that an acceptable level of performance, and that they would accept the remaining reforms to come and be willing to lend money at this point to the city.

We discovered last November, as I put it before empirically, that investors take the position that they want to see the completion of all reforms before they lend money and are unwilling to accept the premise that we all had in 1975, which is, that the degree of reform then contemplated and now achieved would be sufficient to restore confidence in the public credit markets.

Mr. Stanton. All right, let's get back to the deficit.

We anticipated, or you gave the Administration or the Congress in 1975 -- I think, Felix, you were going to answer that question: how much is the deficit today, the anticipated deficit, compared to what it was in 1975, after all of the improvements.

Mr. Rohatyn. Well, again, I think you have to compare comparable numbers. If you compare the numbers with respect to the deficit as defined by the state legislature, by the MAC Legislation that was given to the Congress, the budget this year of the City as we look at it is for 1978 will be
in balance, even though there are still $600 million of
expense items in the capital budget that for purposes of that
legislation were not counted as deficits.

On the other hand, so that from that point of view, the
City did give the Congress and the Administration figures that
weren't kidding anybody. On the other hand, these figures, as
Comptroller Goldin said, do not permit us to go to the market,
because the market will not accept that kind of technical
balance combined with real imbalance.

And therefore we have determined that those expense
items that cover $600 million have to be taken out of the
budget; that it is now provided to be taken out over the next
four years, instead of seven years, as the original legislation
provided.

I think also, Mr. Stanton, there's something we keep
overlooking with respect to the original plan, and that is the
impact of the moratorium, and on the fact that we lost that
decision.

The moratorium was supposed to in effect provide us with
$1.8 billion of long-term financing, simply by the fact that
we would not pay the noteholders. And that long-term
financing, in effect, was not going to be going against
MAC's own revenue stream. In effect, it was going to be
additional long-term financing available to the City.

When we lost that decision, and MAC had, in effect, to
pick up $1.2 billion of that $1.8 billion, it ate up a
large amount of borrowing capacity, as well as, in effect,
hurting the City's borrowing capability in the future.

So the moratorium, which was an integral part of that
original seasonal loan plan, itself, was a very, very big
weakness. And we had to live with it, because it was either
that or going bankrupt. But it was an enormous weakness in
the plan itself.

Mr. Stanton. I think you make an excellent point, and I
do remember that. It was an integral part of the agreement.

Thank you, Mr. Chairman.

Mr. Moorhead. The Chair would like to announce to the
members of the subcommittee that we have four more witnesses
scheduled for today. So that I hope members will not seek
recognition. But of course if any member does want recognition,
the Chair will so provide that.

Mr. Kelly. Mr. Chairman.

Mr. Moorhead. Mr. Kelly.

Mr. Kelly. Mr. Chairman, I would like an additional
brief opportunity to examine these two witnesses.

Mr. Caputo, my colleague from New York, has offered into
the record a Bureau of Labor or Department of Labor statistics.
Do you know the charts that I have reference to? You were
asked questions about them.

Mr. Goldin. No, sir. I would have to examine those
charts before I could comment on them significantly.

Mr. Kelly. All right then, Mr. Caputo, if I may, I did
not object to your entering those charts. But what I want to
find out is, do the charts that you referred to take into
consideration the factor regarding the relative work week
between the cities compared, and did they factor in the time
required to reach the maximum grade, and did they factor in the
fringe benefits and retirement benefits included between the
various cities; and did they factor in work rule benefits
and generous vacation and sick leave packages?

Or were the figures shown on these charts just a
comparison of the bare, takehome wages?
Mr. Caputo. They do reflect the time to maximum grade. They do not reflect fringes.

Mr. Kelly. Then I would like to put this question. You gentlemen seem to feel as though that it is going to really help America in the evaluation that the rest of the world will put upon us and that it will help New York in the financial markets if they can finance what it is they are doing, rather than to quit doing what has bankrupted them. And I have a specific question about that.

For instance, do you realize that in your bankrupt condition that the vast majority of the worker categories for the city work only a 35-hour week, while the other cities that are not bankrupt are working 40 hours and more as a standard workweek? Do you know that?

Mr. Goldin. Well, Congressman, I think it's important to emphasize for you that what the city is seeking --

Mr. Kelly. I know what they're seeking. What I'm trying to find out is do you know that the city's workers are only working a 35-hour week?

Mr. Goldin. I think it is important to emphasize, Congressman, so that there is no misunderstanding, that what the city is seeking is not credit to give it cash to provide the difference between revenues and expenditures. The city is not seeking to finance operating deficits. That is the sort of thing that the city did in the past that got it into
trouble. And the city has abjured that. It is prohibited from pursuing that. It is seeking to phase that out.

The effect of these credits are to enable the city to complete its program of reform.

Mr. Kelly. But did you know that the city's workers are only working a 35-hour week?

Mr. Goldin. The fact of the matter is, Congressman, that in reply to an earlier question, I indicated to you that one of the reasons that the payroll figures were as high as they are is that city workers are working more than 35 hours a week.

Mr. Kelly. But that is on overtime. I'm talking about did you know or did you not know that the city workers in many categories are only working the 35-hour week?

Mr. Goldin. Many city workers do work a 35-hour week. Many work much longer than that.

Mr. Kelly. Then let me ask you another question. Did you know that New York City firemen in your condition of bankruptcy work the shortest workweek in the United States of America?

Mr. Goldin. Does the Congressman have any idea respecting the incidence of fire and the per capita impact upon firemen of the situation of arson in New York City compared to any other municipality in the country?

Mr. Kelly. Just answer my question. Did you know they worked the shortest workweek in the United States of America?
Mr. Goldin. That the workload has an enormous impact upon the effect upon firemen of the hours worked --

Mr. Kelly. Does that mean you don't know? What does that mean?

Mr. Goldin. That means if you take what a fireman in New York City is required to do in a given hour and compare it on average --

Mr. Kelly. I'm trying to find out --

Mr. Goldin. I would like to finish my answer.

Mr. Kelly. I don't want your answer. I want an answer to my question.

Mr. Goldin. The only answer I can give is my answer.

Mr. Kelly. Did you know that. --

Mr. Goldin. I would like to finish my answer.

Mr. Kelly. Mr. Chairman, I asked that this witness be instructed to answer now. He is the comptroller of the city. I asked him a direct question, and I think that he should be compelled to give an answer.

Now, my question, Mr. Chairman, is clearly this: As the comptroller of the city, do you know that the New York City fireman works the shortest workweek in the United States of America? Did you know that?

Mr. Goldin. I don't believe that to be true, Congressman.

Mr. Kelly. Then your knowledge is that it is not true?

Mr. Goldin. I beg your pardon?
Mr. Kelly. Your knowledge is, then, that it is not true?

Mr. Goldin. That it is not true, on two bases: One is, if you compare the number of hours actually worked with the number of hours actually worked in other municipalities, you will find that New York City firemen put in a full workweek. And second, if you analyze the work quantity on a proportionate basis, you will find again that the level of workload carried by the average New York City fireman compares favorably if not disproportionately with the workload in other parts of the country.

Mr. Kelly. Then, Mr. Chairman, there being no objection, I offer into evidence the United States Department of Labor Bureau of Labor Statistics' publications indicating that the witness doesn't know what he's talking about.

Mr. Moorhead. Without objection, the documents will be made part of the record.

(COMMITTEE INSERT.)
Mr. Kelly. I thank the chairman.

Mr. Moorhead. Mr. McKinney?

Mr. McKinney. Mr. Chairman, I just have nine questions that I would like to put into the record, and, if possible, have Mr. Goldin and Mr. Rohatyn answer them at a later time for the record.

Mr. Moorhead. Without objection, so ordered.

(COMMITTEE INSERT.)
Mr. Moorhead. Gentlemen, thank you very much for standing up and defending your position so ably. Thank you.

I think the committee might as well continue until we have a quorum call and see how we stand, because we have a lot of witnesses.

Our next witness -- we will have two -- Mr. Jack Bigel, president of Program Planners, Inc., and economic and actuarial consultant to the municipal labor committee; and also Mr. Osborn Elliott, who is, among other things, recently New York's first deputy mayor for economic development.

If you will excuse us, gentlemen, we will go to answer the quorum call, and then we will be right back and try to proceed as expeditiously as possible.

(Brief recess is taken.)

Mr. Moorhead. The Subcommittee on Economic Stabilization will please come to order.

The Subcommittee would now like to hear from Mr. Osborn Elliott, who, as I said earlier, has experience as New York's first deputy mayor for economic development, in addition to other experience which he will relate in his statement.

Mr. Elliott.

STATEMENT OF OSBORN ELLIOTT, DEPUTY MAYOR FOR ECONOMIC DEVELOPMENT OF THE CITY OF NEW YORK.

Mr. Elliott. Thank you, Mr. Chairman.
I would only add that my job most recently previous to being deputy mayor for economic development in the City of New York was as editor-in-chief and chairman of the board of Newsweek magazine.

I much appreciate the opportunity to appear before at least the depleted ranks of this committee, perhaps to give all of you and the American people a somewhat broader view of what kind of citizens we New Yorkers are and how we have responded to our very real municipal crisis.

You have heard from a couple of fiscal experts. I would like to address this matter more as a generalist and as a lifelong resident of New York whose family goes back some 150 years in the city, as well as a nonpartisan journalist who only recently became intimately involved in city affairs.

First, let me try to dispell a few myths about my home-town. Most people, including most of us New Yorkers, tend to think of the city in terms of giantism, the place where the Mobil Oils, the Exxons, the AT&Ts, the IT&Ts, the Chase Banks, the GMs, and the giants of Wall Street make their headquarters, and everytime a Union Carbide, for example, that it is pulling up stakes and moving to the suburbs, an announcement which Union Carbide unfortunately seems to like to make every six months or so, that gets big black headlines in the local press and elsewhere.

Well, all those corporate giants are, of course, a part of
New York, and an important part, to be sure.

But what I think is too little known to this committee --
and to the rest of the country -- is that our city is essen-
tially a place of small business -- just like most of the towns
that members of this committee come from.

Let me give you a few rather startling statistics. There
are, in New York, some 190,000 business firms. At latest
count, 98 percent of these companies employed 100 or fewer
people each; 95 percent employed 50 or fewer people; and 90
percent employed 20 or fewer people. If that's not small
business, I don't know what is.

In short, much of New York's economic base is made up of
the corner grocer, the local shoe repair shop, the hairdresser,
the mom-and-pop candy store, the small plastics molder, the
bandbag maker and the like.

We New Yorkers, believe it or not, are just plain folks,
like everybody else. We are not just a bunch of Manhattan
sophisticates, drinking our soon-to-be-banned three-martini
lunches. We are the veterinarian on Staten Island, the metal-
worker in the Brooklyn Navy Yard, the hospital orderly in the
Bronx, the shoe salesman in Brooklyn, the pizza purveyor in
Queens. And all their wives and husbands and children and
in-laws, too.

A little later in this statement, I'll tell you how some
of these good people have responded to the city's hour of need.
It is, by now, I think, a well-known fact that New York City has lost an unbelievable 650,000 jobs since 1969. What is interesting is that of those 650,000 jobs, only 10 percent were lost as a direct result of corporate headquarters moveouts. The other 90 percent were lost because of the difficulties encountered by small- and medium-sized businesses. New York City never really recovered from the recession of 1969-70, much less the recession of 1974-75, although there are now some encouraging signs of stability.

The reasons are multifold: High costs of labor -- now being equalized by the rising cost of labor elsewhere. The high cost of energy -- no real solution yet on the horizon here. The high cost of a low image -- so assiduously advanced for so many years by the Johnny Carsons of this world. The high cost of local government -- not merely wastrel, but responding in New York's traditionally humanitarian way to the needs of the needy, and to the impression of welfare and other programs by our national government.

Add to this, until recently, the high cost of governmental indifference or outright hostility to the business world. And on top of all that, add, until recently, the high cost of indifference on the part of the business community itself to the problems of the city.

Well, Mr. Chairman, I am happy to report that a lot of this has changed in the past couple of years or so. On the
one hand, there is a new perception on the part of New York's political leaders that it is now acceptable, indeed even necessary, to be receptive to the needs of business. And on the other hand, there is a new acceptance on the part of the private sector that it must improve its constructively in helping the city solve its problems.

Now, I realize that for Houstonians or Atlantans or Pittsburghers, such as yourself, Mr. Chairman, it is simply a given that the private sector -- particularly the business community -- is deeply involved in municipal affairs.

But until now, this has not been the case in New York. Why not? A number of reasons spring to mind -- including the international orientation of so much of New York City's business; the sheer size of the city, with all its fragmentation; a weak chamber of commerce, now in the process of rebuilding itself; and no doubt, a certain fat, dumb, and happy attitude on the part of too many New Yorkers who figured you don't have to get involved if you're "Number One."

But all that has changed, perforce, and for the first time we see the private sector -- and here I include the academic and scientific community and the cultural world as well as business and labor -- mobilizing on the city's behalf.

Let me give you a few examples:

A year and a half ago, under the leadership of David Rockefeller and Henry van Arsdale, head of the Central
Labor Council, the Business-Labor Working Group was formed in New York. This group, consisting of leaders from the business, labor, and academic communities, spent months studying the problems of key New York City industries. They came up with a series of recommendations, many of which have already been adopted and enacted into law.

Another example: In the last year, a new Business Marketing Corporation for New York City has come into being, at the instigation of the city administration. This marks New York's first attempt to market itself to the rest of the world as a good place to do business -- as so many other cities have done so effectively for so long. This public-private, not-for-profit corporation is funded with city and private moneys, and its board of directors of 70 or so people is composed of New York's private-sector leadership.

Another example: New York's labor unions have taken the lead in getting the word out to the oil industry and its suppliers that the city's magnificent harbor should be the ideal location for the bases that will support the drilling for off-shore oil in the Atlantic. Thousands of jobs could be at stake, and our unions want those jobs -- so badly that they are willing to enter into a strike-free contract.

Another example: Equally eager for jobs, New York's bricklayers union voluntarily cut its hourly rates by 14 percent a few months ago.
Going back for a minute to the changed political perceptions that I mentioned earlier, I should like to cite some developments that resulted from this new pro-business, i.e., pro-jobs, atmosphere.

A year ago -- in fact, this week marks its first anniversary -- New York City's Industrial and Commercial Incentive Board came into being. This body is empowered to grant tax exemptions for new construction and reconstruction of commercial and industrial properties; the object being, of course, to create new jobs. In its one-year history, the ICIB has approved tax exemptions on projects with a total value of more than $300 million -- projects ranging from a new motel on Staten island to a $100 million office building on Madison Avenue. Thousands of new construction jobs have been created as a result, and thousands of additional permanent jobs as well.

Traditionally, and unfortunately, New York has tended to tax anything that breathes -- sometimes, alas, until it stops breathing. That trend has been reversed. Last spring, the city put together the most ambitious package of economic development legislation in its history, much of it aimed at easing the tax burden on business. There were 13 bills in all, and 11 of them are now law.

A few examples: The commercial occupancy tax, or rent tax, unique to New York City, is being scaled down by 20 percent.

The manufacturers' sales tax, also unique to New York,
has been eliminated. This four percent tax was particularly burdensome for the printing industry, for one. It meant that when a printer decided to modernize or expand by buying, let us say, a new $250,000 press, he had to pay an extra $10,000 into the city's coffers for the privilege. Happily, that tax is no more.

The stock transfer tax, also unique to New York State, threatened to drive the securities industry out of the city. Potentially, another 65,000 jobs lost. This $250 million revenue item is being phased out over a four-year period.

The city's corporate income tax has been reduced from 10 percent to 9 percent.

In addition to these tax-relief measures, we also devised a couple of lures to attract businesses from out of the state into the city. One of these, the so-called cost-of-move credit, gives a tax credit of $500 for every manufacturing job moved from out-of-state into the city, and $300 for every commercial job moved in.

The other measure, aimed particularly at attracting company headquarters to the city, guarantees any firm moving 100 or more jobs to New York that it will not have to pay any rent increases resulting from higher real estate taxes for a period of 10 years.

Finally, Mr. Chairman, no brief account of the efforts made to revive the city's economy would be complete without
reference to what the plain folks of New York themselves have
done to help their city in its crisis.

There are in New York some 35,000 city blocks, and an
incredible 10,000 of them have formed themselves into block
associations aimed at improving the quality of life in our
neighborhoods. Particularly since the onset of the fiscal
crisis, these block associations, as well as tenant councils,
schools, churches, and other grass-roots groups have "turned
to" in an all-out effort to fill the gaps where city services
have been cut back.

Thousands of people have volunteered their services
directly to the city, and are now working for no pay in any
number of city agencies. Hundreds of thousands give their
time and talents making their neighborhoods a better place
to live, work, and play.

The Citizens Committee for New York City, a nonpartisan
group which I serve as chairman, is the major catalyst encourag-
ing such self-help activities, which seem to have come into
such favor with the current administration in Washington. The
Citizens Committee holds forums on how the people throughout
our five boroughs can help themselves and each other in self-
help projects, ranging from clean-up drives to security
patrols to shopping escorts for the elderly. We also give
small cash awards as incentives for particularly imaginative
and effective neighborhood programs.
Our most recent publication is this "New York Self-Help Hand Book," which enumerates scores of ways that people in New York have been helping out.

If you would like more copies, I would be happy to supply them to all members of this committee.

I believe this handbook offers a model for cities everywhere; indeed, we have had requests for this handbook from all over the country.

What I have tried to suggest in this brief review, Mr. Chairman, is that New York City is quite a different place than it is generally perceived to be -- and different from what it actually used to be. Its citizens at all levels -- from corporation presidents in Manhattan to small businessmen in Brooklyn and teenagers in the South Bronx -- have been pulling together to help their city as never before. As Shakespeare said, "What is the city but the people?" I say that New York's people, in their great spirit, are doing their utmost to make their city great.

But let's not fool ourselves. All the good will in the world, all the tax incentives and business-labor cooperation and citizen involvement and newly enlightened attitudes of our politicians are not going to solve New York's problems by themselves. Without these factors, any solutions will go aglimmering. But they are only a beginning.

The rest must come from Washington -- not in handouts but
in a real understanding that the urban crisis, declared dead
and buried by a former president, is still very much with us.
For good or ill, we are still very much an urban society --
and to paraphrase the bard, "What is the society but the
cities?"

I would hope, Mr. Chairman, that the extraordinary efforts
of New Yorkers to meet their responsibilities will find a
sympathetic and respectful audience here, and that the Government of the United States will recognize those efforts with
continued assistance, encouragement, and support.

Thank you.
Mr. Moorhead. Thank you very much for a very stimulating statement, Mr. Elliott, in view of New York.

The subcommittee would now like to hear from Mr. Jack Bigel, President of Program Planners, Incorporated, and Economic and Actuarial Consultant to the Municipal Labor Committee.

Mr. Bigel?

STATEMENT OF JACK BIGEL, PRESIDENT, PROGRAM PLANNERS, INC. AND ACTUARIAL CONSULTANT TO MUNICIPAL LABOR COMMITTEE; ACCOMPANIED BY WILLIAM SCOTT, ADVISER TO THE UNITED FEDERATION OF TEACHERS.

Mr. Bigel. Thank you, Mr. Chairman, and gentlemen.

To my left is Mr. Scott, who is the adviser to the United Federation of Teachers. And for two of the three years in the fiscal crisis, served as Deputy Comptroller in charge of investments. He was -- prior to that he was Executive Director of the City teachers' retirement system. And Mr. Scott and I, with the permission of the chair, would make this presentation.

I apologize for not having a written statement. I hope, with the permission of the Chair, that I will be permitted to file such a statement in the next few days. The reason for that is that frankly, we just did not know what area the Committee wished us to testify in until we received the Chair's letter on Friday. And I gather that, according to the
letter, we are supposed to deal with the seasonal financing requirements of New York City. Can it be met by public and private resources?

I wonder if I could broaden that a little bit, Mr. Chairman, because it is rather confusing just to address that question when the City's financial plan calls for long-term financing, and the Senate Banking Committee, in its recent report, also calls for long-term financing on the part of the City's retirement systems. And with the permission of the Chair, I would like to broaden somewhat the scope of our remarks.

May I, before turning directly to the material we have --

Mr. Kelly. Mr. Chairman, is there going to be a ruling on the witness' request to submit his written statement?

Mr. Moorhead. Without objection, we would be delighted to receive the written statement.

(Information to be furnished.)
Mr. Kelly. Mr. Chairman, reserving the right to object, to have no objection at all to the witness offering anything that he thinks will be helpful to the Committee. However, I do think that we should get it in the time prescribed in the rules and have an opportunity to inquire of the witness. Otherwise I think that the whole committee system is just going to deteriorate.

Mr. Moorhead. I would advise the gentleman that we had a program of witnesses scheduled which we devised before the Senate Committee came out with its report. And to avoid delaying -- but to get the subject matter before we consider what kind of a package of aid we wanted to get some advice as to whether, for example, as suggested by the Senate Committee, the pension funds could, without federal participation, avoid this pending catastrophe that is viewed by some, or prevent that catastrophe from happening, if the pension funds, for example, were invited. So the fault really, we can't blame the witness in this case.

So I would hope that the gentleman would consider that the written statement would be helpful in that we could proceed.

Mr. Kelly. Mr. Chairman, further reserving the right to object, I have no objection to him giving the testimony now that we have an opportunity to hear and inquire of him about, but to agree to him putting something in the record
without the customary opportunity provided in the rules to
examine the witness, I think, is a bad precedent to establish,
and should not, in this case, be permitted.

But I have no objection to him testifying now without
a written statement.

Mr. Moorhead. Well, why doesn't the witness proceed, and
then if he wants to submit a written statement, we can clear
it with the entire membership of the Committee. And if
anybody objects, it won't be made a part of the record.

Mr. Kelly. All right, Mr. Chairman.

MR. Moorhead. Mr. Bigel.

Mr. Bigel. Mr. Chairman, when I do present the written
statement, I will very scrupulously follow the outline of this
oral presentation. I, again, apologize to all the members of
this Committee.

We participated in the funding of the City from November
26th, 1975, to June 30th, 1978, fully aware that the
investment did not meet the requirements of any concept of
fiduciary responsibility, and did not meet the requirements
of the code of the Internal Revenue Division. And frankly,
I think we were most moved by a statement that was written
by the Association of the Bar -- I should like to leave a copy
of this statement with the Committee if I may -- which was
then chaired by Cyrus Vance, who I understand is now
Secretary of STate; and this statement dealt with the issue
of bankruptcy, and its impact, not only on our city but on
our state, and on the entire national community.

I'm not going to seek to quote from the statement,
although it is relatively brief. I would just like to refer
to one or two paragraphs, and they read as follows:

"Would New York City be able to meet its anticipated
requirements for borrowing after the commencement of a
bankruptcy proceeding, the almost certain reduction in City
revenues in the event of bankruptcy would increase the need for
City borrowing with Federal guarantees, and would therefore
involve the Federal Government to a greater extent than if
there were a guarantee without bankruptcy."

And then in the concluding paragraph Mr. Vance said:

"The bankruptcy of New York City should be avoided if
humanly possible. Several policies should be designed to
help New York restore its credit. We believe that the better,
indeed, the less costly and humane solution, is a Federal
Guarantee coupled with appropriate conditions and controls."

I would say, Mr. Chairman, when the trustees of the
various systems met all during October and November of 1975,
that the most potent document in terms of impact on our
own thinking was this statement of the Association of the
Bar of the City of New York, which is a very prestigious
organization.

Moved by those considerations -- you would note however
that the investment had some rather cloudy circumstances. We made two provisions, both of which were finally met. One was that the State legislature pass a law which would in essence hold the trustees harmless in the event of judgments or legal suits. And then, two, we were advised that the Federal Government would be prepared to sponsor legislation in the Congress, and that was introduced as H.R. 11700, and that was ultimately passed. And basically, what that statute did was to exempt the retirement systems from the exclusive benefit and the prohibitive transactions sections of the IRS code.

Based on that, the investment was made. And that investment consisted of a rollover of $1.2 billion, and the involvement of fresh money of some $3.5 billion, so that on June 30th, '78, the total investment by these five retirement systems will be somewhat under $3.7 billion.

As the Chair and the distinguished members of this Committee know, this additional investment of $3.5 billion was the only new money that has kept the City's services continuing.

We are now asked to make a similar commitment, and the Senate Banking Committee has indicated, and has made a recommendation, that we rollover or we reinvest some $941 million as it comes from '79 through '82, and that we invest new money totalling some $1.3 billion over the
same four-year period, for a total investment of $2.25 billion.

That exceeds even the recommendation made in the City's four-year plan or made by MAC, and I think that presents us with some enormous difficulties.

As a matter of fact, Mr. Chairman, this is the first hearing I have ever attended. This has made a very deep and grave and profound impression on me. I kind of had drawn the conclusion that the City maybe teetering on the verge of bankruptcy, a conclusion probably that I have hesitated to face up until now, and the only reason why I mention this psychological reaction to the atmosphere, from what I've heard here, is that another investment has to be made somewheres around April 1, 1978, of some $500 million, which we call "new money;" and in addition, $182 million, which is a reinvestment; and this would complete, with this last piece of advice, our commitment under the credit agreement of November 26, 1975.

I think that, however, that the trustees of the retirement systems -- and by that way, they're not merely trustees; I don't know what that is constantly said. They're both union trustees and management trustees, and they all have the same fiduciary responsibilities. And one can't escape by virtue of being a publicly elected official, and another one can't escape just by virtue of the fact that he
may have been elected by a union membership of 110,000. 
They're really both in the same boat. And based on everything 
that I've heard, and certainly, based on the report of the 
Senate Banking Committee, I think my actuaries would have 
some grave trepidations, since we seem to be verged once 
again on the verge of bankruptcy, with a number of resources 
already exhausted, as to whether this investment could be made.

I would certainly hope that this investment will be made 
as called for in the credit agreement. But obviously, the 
tremors, the nervousness, and the fears of all of the members 
of the systems are real. And they do not have the sophisti-
cation to read between the lines. They really believe that 
nobody is posturing, nobody is taking any stances.

We have 125,000 people who have already retired, a 
substantial number residing in Florida, I'm happy to say, with 
more poised to go there, hopefully. I know our pension 
payroll in Florida alone amounts to some $100 million a year.

But not only these retirees, but the 300,000 active 
members, are deeply concerned about where Congress is going. 
They believe, as they should believe, everything that they 
haveread, and uttered by Senator Proxmire and others of that 
Committee. And we've had enormous pressure placed on us. And 
I know, wherever we go, very few times I go to Florida, the 
first question we're asked is: is our pension safe? Are 
people eligible to retire? And there are some 72,000 people
eligible to retire today who ask: is there enough money in those systems to pay my benefit? And of course, the reason they're asking that is because of this extraordinary investment that was made on their behalf, they hope, as well as on behalf of the City, although I assume the Chair knows that that investment was made on the basis of representations made to us emanating from the financial advisers to the then-President that such an investment would have to be in place.

And I'm hoping that we can approach the soundness of our retirement systems, and that the trustees can review their fiduciary responsibilities, in a calmer atmosphere, free of pressure, and that the same rules, the same laws, and the same considerations and the same national policy that applies to trustees of all retirement systems, whether they be in the private sector or the public sector, will also apply to them. And these are extraordinarily grave considerations. And Mr. Scott and I have the unpleasant duty and responsibility of constantly discussing this with the trustees, whether they be union trustees or management trustees.

And it is Mr. Scott and I who will have to make our recommendations on where these systems ought to go. Obviously, only the trustees will make the final decision.

I'll have to tell you, Mr. Chairman and distinguished members, that we have a history -- I'm talking now of the five retirement systems -- we have a history dealing with the
investment policies, the policy of the City of New York and of the retirement systems, as you undoubtedly know. Many of our systems go as far back as 1857. Our systems have an actuarial reserve since 1921, and almost from inception, the assets of the retirement systems were used as the primary source for City bonds.

Now, I do not have -- I cannot track at all, since 1921, but I do have in front of me a schedule which shows the ratio of our assets, and in City paper, since 1951. And I just want to take one or two numbers quickly, because I don't want to impose on the attention of the Committee.

And as far back as 1953, 74.8 percent of all assets were in City paper. And I have to tell you, Mr. Chairman, that for many years -- because at that time the larger system was under the sole trusteeship of the Board of Estimate, with no union representatives. We campaigned against such an investment policy, because tax-exempt bonds were extremely desirable then.

Of course there are other forms now for tax shelters. I understand they are called. So maybe tax-exempt bonds are not as desirable as they were in the 50s.

And by 1974, by virtue of many, many hours of discussion, by virtue of the fact that union trustees finally became more sophisticated with respect to investment portfolios, by 1974-75, the percentage of assets of city systems in
City paper had been reduced to 4.3 percent. And as of December, 1977, and that is just a couple of weeks ago, we are now holding 32 percent of all assets in City paper. And that total amount will be, before we meet the commitment I have already referred to, which is due on April 1, 1978, we now hold in these five systems, $3,043,406,000, which represents 32 percent of the assets which as of December 1977 grossed $9,516,000,000.

So you see, the only purpose in citing these numbers is to convey to this Committee that long before ERISA, but fully cognizant of what a balanced portfolio ought to be, that those of us who have been involved in seeking to establish the soundest actuarial systems, that we could devise, have been looking at portfolios, and the whole question of investment in City bonds, for many years long before anybody ever thought there would be a City emergency.

So as of now, our portfolio has shifted drastically. And I just wanted to give you some quick percentages off a schedule that I will file with the Committee. As of 1974, when we held 4.6 percent in City securities, we now hold 32 percent. We have reduced our holdings in corporate bonds from 56 percent to 36 percent. We have reduced our mortgage holdings from 6.5 to 2.7 percent; our holdings in common stock have been reduced from 17 percent to 10.9 percent.

Now you can see, you take where we have had to decrease
our share of the portfolio, it has all gone into the City
dpaper that we hold today.

And the problem we face, practically, aside from all of
the legal considerations, is that our portfolio is becoming
illiquid, that our arteries are becoming clogged with City
dpaper, that if, in fact, there were to be a bankruptcy, which
to me, by virtue of this hearing and some readings of some
committee reports, is extremely real and extremely grim, we
would have to, as we sought over the years, to liquidate
these holdings in order to meet our commitments to these
pensions, in order to seek to retire whatever proportion of
active members eligible to retirement. As we would seek to
liquidate this portfolio, we would start actually with
about 70 percent of the portfolio available to us. The City
dpaper then would be absolutely worthless. We would have to go
into the market and begin to liquidate our holdings, and that
is not a very pleasant thing for us.
Therefore, we have always found it hard to understand that every time there is a problem, that these trust funds which are really today money of the employees who have contributed -- some $1.5 billion of these assets or more are member contributions -- and they have earned their years of service by virtue of their employment, why the first call is always upon these pension funds.

I almost venture to say, Mr. Chairman, except I do not want to be disrespectful, that I thought that the report of the Senate Banking Committee dealt with extraordinary cavalier treatment, almost disregard about the trust nature of these funds. When the moratorium was declared unconstitutional, the first call that was made upon us by the gentleman who sat where Mr. Elliott now sits was for $900 million just like that. You know, they toss $900 million or a billion dollars around like these are inconsiderable sums of money. Of course, to us simple folk, these numbers absolutely confuse and dazzle us. And we had to say at that time that trust funds cannot be used to meet a moratorium consideration although we did cooperate with MAC and we cooperated with the city in meeting that particular obligation, and we stretched our holdings, and we made sure that whatever cooperation could be given would be given.

And so we come here now -- and these are the problems that these trustees are going to face -- and I really don't
know what recommendations we can make.

I heard for the first time here today, Mr. Goldin talk about a limited guarantee.

Now, Mr. Goldin is a trustee. Mr. Goldin is the investment analyst; the first person who would be sued would be Mr. Goldin.

Now, how can we take a limited guarantee in view of -- and, obviously, the members of this committee know all of that. I heard them ask very pointed questions of the previous witnesses -- in view of the fact that these are clearly prohibited transactions, in view of the fact that this does transgress the exclusive benefit clause?

How can they ask us to make an additional investment and, to make it on the basis of a limited guarantee which is still to be spelled out?

By the way, a limited guarantee to be made, it is my understanding, by the Federal Government, a four-year guarantee, which is the only number I've heard mentioned at all, really is a cosmetic kind of guarantee. It would last an extremely short period of time,

... And... don't say that we have, any answers to suggest. What we do have to highlight are the problems that we see, both legally and in terms of the composition of the portfolios. Obviously, we have a big investment in our city, not just the money invested, not just the $3.7 billion; many
of us have personal and emotional ties. We have lived all of our lives there. We will do everything, as we have already done, to save this city and to make it viable. It is our judgment it is on the point of establishing viability, but we wonder -- we wonder, has the bottom of the barrel been reached to the point where the trust funds, of which 125,000 people depend, with another 300,000 a portion of whom will some day be able to retire, possibly sojourn to sunnier climes than the harsh climates of New York, are they the ones who really have to continue to, in essence, weaken and erode the security of their income and retirement?

Thank you, Mr. Chairman.

Thank you, gentlemen, for your consideration and for allowing me to proceed on an oral basis.

Mr. Moorhead. Thank you, Mr. Bigel.

The proposal made by the Senate Committee, which would avoid the necessity of federal financial assistance, assumes, as you said, the $2.25 billion in long-term financing by the city pension funds, keeping and maintaining the investments of 35 percent.

Would you make such an agreement?

Mr. Bigel. On an unguaranteed basis, Mr. Chairman, I would say that probably such an agreement could be made, but then everybody who would sign off on that agreement ought to be prepared to go to jail.
Mr. Moorhead. The question has come up about the
limited guarantee.

I was thinking of it more in terms of a 20-year bond with
a 10-year guarantee, something like that.

Would you buy that?

Mr. Bigel. Mr. Chairman, I would hate to feel this is a
negotiating session. Obviously, 10 years is much better than
four, and 10 years, at least, is genuinely a limited
guarantee, and we would certainly have to consider a limited
guarantee as against a Revlon guarantee.

Mr. Moorhead. Now, if Mr. Elliott's optimism about the
economic future of New York City is justified --

Mr. Bigel. It is absolutely justified.

Mr. Moorhead. Then there certainly would come a time
when a guarantee would not be necessary.

Mr. Bigel. That would be fine. As a matter of fact, I'm
happy the chair made that point. I had an occasion to talk
last night to one of our very large developers in New York
City who made a very splendid economic point. He obviously
called to my attention the fact that money has a velocity
factor. He said that if in fact four or five billion dollars
would be invested in genuine capital improvement on the part
of the city, that he was ready to start a building
immediately, and he said that he could see his way possibly
to doing $500 million over the next five years.
I really believe, because there are many economic indicators indicating and pointing to a change within the city's economy, that if there were in fact to be a capital improvement program, that this would also generate investments by the private sector, and of course, I agree with Mr. Elliott, although I imagine I am a recent convert to his cause.

Mr. Moorhead. Mr. Elliott, you mentioned the unbelievable loss of 650,000 jobs since 1969.

Is the job loss continuing but at a lower rate or is it stabilizing?

Mr. Elliott. The latest figures that I've seen, Mr. Chairman, suggest that the job loss has diminished very rapidly in the last two years and while I believe that there was a net loss in the most recent year that I have figures on of something like 20,000, the vast majority of that loss was reflected by layoffs and attrition in the public sector, and in that year of 1976 there was actually a gain of some six or 7,000 jobs in the manufacturing sector.

Mr. Moorhead. How about the private sector taken as a whole, going broader than manufacturing?

Mr. Elliott. I believe that is about stable, give or take a few thousand, plus or minus.

But it is a very dramatic improvement over the scores of thousands of jobs that were being lost annually in years before this.
Mr. Moorhead. And do you expect that trend to continue?

Mr. Elliott. I think that an awful lot of this depends upon psychology, and one of the things that I learned in my rather brief tenure as Deputy Mayor for Economic Development was that businessmen do tend to make their decisions on the basis of how they feel the future is going to be. In the past year or year and a half I think we have been very successful in stabilizing the psychological atmosphere in New York City. I think we have been very successful in building business confidence. And I think that new confidence is reflected in the kind of conversation Mr. Bigel had last night with his developer friend, and is reflected also in the fact that for the first time in years we are beginning to see actual building of apartments, building of office buildings and other commercial and industrial properties in New York City.

I mentioned in my prepared remarks that under our new tax incentive program more than $300 million worth of new construction and reconstruction projects had been approved in the past year alone.

Now, that is a big change from the situation of a couple of years ago.

So that while I certainly think we would be crazy to say all ahead is golden, but certainly the atmosphere and the stability of the city's economy is vastly improved over
what it was a year or two ago, but a tremendous amount depends on the course of the national economy, number one, and the actions of the Congress and the Administration, number two.

Mr. Moorhead. Thank you.

Mr. McKinney?

Mr. McKinney. Mr. Bigel, I don't know if you are aware of the fact that this very House of Representatives that you are testifying in front of today not too long ago passed a highly touted pension reform bill for the District of Columbia, whose affairs we still muddle in, and one of the most highly touted parts of that reform was that we absolutely forbade any city pension program to invest in any city bonds or any bonds of neighboring jurisdictions.

I would imagine as a trustee or fiduciary of New York City's pension funds you probably wish you had the same law protecting you in the position you find yourselves in.

I think it is interesting that we sometimes down here -- and I would apologize to you -- speak with forked tongues, I think they used to say, where we turn around and say this is a bad policy but then we turn around to you in New York and say, do it to save the city.

In the last federal program we required very stringent measures be put upon the city. Those measures were in effect guaranteed to almost have the force of law because upon them resided the future of the seasonal loan program.
How do you perceive that with a limit of, say, a four-year program we could possibly keep any of these restrictions in force after those four years had gone by? Wouldn't we just end up back where we started?

Mr. Bigel. Which restrictions, Congressman?

Mr. McKinney. Well, the balanced budget, cutting back on city payroll, et cetera, et cetera.

Mr. Bigel. Well, first let me say that the first people with whom the people who the Governor of the State of New York first talked to about the emergency financial control board legislation with the representatives of labor -- now, not because he is necessary pro or anti-labor -- I have no judgments on that -- but because they were a force in that particular state legislature, and I have to tell you, Congressman McKinney, that since I was a participant in that meeting that we agreed with that control legislation, and that night faced the hostility of our board of estimates with whom we had a minor confrontation in Albany. We lobbied that bill through the legislature, and without that lobby, I have to tell you that bill would not have passed. And that was done very early on in September 1975. And I think all of the participants will have to agree that without labor's support, there never would have been any EFCB built.

Now, with all of the strictures folded in by virtue of the seasonal agreement which was finally consummated on
November 26, '75, we have lived with that. I don't think that it has been the greatest control mechanism in the world, but we've had another very interesting development in this city. We had a minor confrontation with our clearing house banks simply because we had never met any chairman of a clearing house bank, and something very interesting came out of that. And by the way, the issue was the nature of the control mechanism.

Now, since April 1977 the chairman of the large clearing house banks and the municipal labor leaders had an ongoing dialogue, and I find it very interesting because they have been taking positions that in a thousand years nobody ever thought they would take -- that is, they have taken a lot of positions -- and I happen to believe that a budget audit mechanism can be worked out -- we have discussed this with the banks. Why the banks? Because the banks in essence help determine what is the nature of the market out there. And the market, as I have since learned, is usually referred to as the little lady in tennis shoes living west of the Hudson. And the banks have access to all of these little ladies.

And so we have had these discussions. We've had them with the state; we've had them with the city; and I kind of believe that if we can put aside the hotheads that sometimes labor has and sometimes rabid forces purporting to represent
business, if we can kind of keep a blanket on both of these extremes, we can work these issues out in the foreseeable future.

Mr. McKinney. Mr. Elliott, you presented an interesting picture of business incentives, by cutting back on some of New York City's taxes which are regressive and ridiculous, in fact.

I have a problem, and I wonder what your suggestion would be.

I cannot agree with you more. In fact, interestingly enough, Connecticut has the second highest most regressive business taxes in the United States of America. The problem I find is, how to you get from here to there?

How do you reduce taxes that are onerous enough so that you can encourage jobs in the private sector and yet put up with the revenue gap while you are doing so?

Mr. Elliott. Well, obviously, that's a problem we had to wrestle with as we put together this tax package last year, and we did it of course in conference with the budget makers of the city. And the actual quantitative amount of tax, outright tax cuts, was not that enormous over the first-year period. It grew -- as, for instance, the stock transfer tax, in particular, was phased out over a four-year period. That becomes a pretty significant item.
So that the actual loss of dollars was not that enormous in the first year. Some of these devices -- the tax incentives, of course, cause no loss in revenue whatsoever, and, in theory, at least, they triggered programs of construction and otherwise that would not have existed with -- absent such incentives, so that the tax incentives were devised in effect to create future revenues as these new projects get under way.

If we had a little more leeway in our budget, Mr. McKinney, I can assure you there would be a happy situation and we would be able to go with more tax exempts.

Mr. McKinney. Do you suppose if Congress were to pass the type of program that is being asked for, the guaranteed loan program, that there could be found further impetus and room in the budget to continue to downgrade these taxes which are driving businesses out of the city?

Mr. Elliott. Well, again, I go back to the psychological element here. I think that whatever is done to help increase business confidence will in turn trigger investment decisions that will benefit the city of New York that will no doubt benefit the revenue situation. This is why I think that the action of the Congress and the Administration at this point is so crucial.

Mr. McKinney. I think, Mr. Chairman, I should just get on the record here that while I have taken off my "I Love
"New York" button and hidden it so that I would not be too partisan, and while I am very partisan about the subject of New York City, that your city's suffering has been my congressional district's gain. I have for seven years managed to acquire 27 of Fortune's 500 corporate headquarters right from the streets of New York, and as a matter of record, I wish that they had all stayed exactly where they were in New York.

Thank you.

Mr. Moorhead. Mr. Vento?

Mr. Vento. Thank you, Mr. Chairman.

I knew that the competition was tough up there, Stewart. There are a number of things that I think, Mr. Elliott, in reading your paper, that are encouraging. I find, as Mr. McKinney did, that the tax program that you put together is all in one direction. I notice those types of tax programs are easier to pass, from experience, here and other places than those that raise revenue. But in any case, I imagine that they do not in essence lose any revenue for the city but merely took off an onerous burden. And as you said, you would like to move more in that direction.

I think one of the concerns that I have, and I think that we like to see private sector economic development go forward and I think that you may have been in the room when I raised these questions with the last two witnesses, and that is to
say that as you begin to make modifications now in terms of
economic development, I have no way of looking at all of the
nuances that you might use in New York to attract in terms
of reduced property taxes and other types of air rights
schemes, tax-free schemes, for instance, for development of
various types of economic facilities and various types of
business facilities.

Are we really at the expense of providing some
construction jobs now as an economic stimulus today buying
some financial problems for the future in New York City?

Are you satisfied -- obviously, you are satisfied that
that is not occurring, but I wonder if in fact -- what type
of financial tools you are using, for instance, to attract.
businesses. Aren't they the seeds of future problems in
terms of providing for the services that they need in an
urban context?

Mr. Elliott. Well, if I get your question right,
Congressman, I don't think that I am as worried by the creation
of jobs as I would be by the continued diminution of jobs.

The theory, of course, is that those jobs will create
revenue which will in the long run help the city in its
financial straights. So I haven't gotten myself to the point
of worrying about creating jobs.

Mr. Vento, Well, I guess -- the job creation I think is
fine. I guess what I'm concerned about is what the cost is
in terms of municipal service -- fire, police, whatever it is -- to those industries in the future as against the short gain of creating some jobs today.

In other words, what is the nature of the types of tax incentives that you are using?

I won't be able to go through all of them here today. I know some. But development district financing, you know, what is the nature of those and what is the implication?

I guess that you have looked at that as the citizens committee.

And is there any type of balance as a percentage, for instance, of property that you are going to leave undervalued to encourage investment in New York City?

What safeguards or assurances can you provide this committee today?

Mr. Elliott. I think New York really has been tardy in the development of its industrial parks, and I would hope that in the next few months the city will have devised a scheme to make that industrial park land available at very, very low cost and competitive with other places.

The trouble has been, over many years New York City simply has not been competitive with its neighboring states, with the Sun Belt, and with other parts of the country and other parts of the world.

This competitive disadvantage has lessened in the last
few years as costs elsewhere have gone up. I have in mind
in particular labor costs. One of the things that very much
concerns us, as I mentioned in my prepared remarks is the
extremely high cost of energy in New York City, and we just
simply have not devised any kind of, really, an approach to
that yet.

The person in the plastics molding business, for
instance, in New York City can go across the river, as many
of them have, to New Jersey, and save 50 percent or more on
their energy costs.

But I'm afraid I'm straying off your question.

Mr. Vento. No. I think it is good to fill in with some
examples. I think that is just a concern that I have, and
you might care to look at it and maybe provide some examples
for the record at a future time. And I would hope that you
would because I know the nature of some of this property
tax and some of these other taxes. But I guess the basic
question gets down to, as you provide incentives for new
businesses to come into an area by virtue of, for instance,
reducing property taxes, then the greater proportion of
property taxes has to be carried by the old businesses, and
in doing that do you create some disincentives and changes?

Mr. Elliott. I'm afraid I was a little slow in getting
your point, Mr. Vento.

I think that it should be added here that New York's
incentives programs have been devised with the very definite tilt in the direction of existing businesses, and it has been our assumption that any job expansion will come roughly 70 percent from within the city and businesses already existing and no more than 30 percent from without.

Mr. Vento, I think that some of the things we have in federal tax policy -- and I understand the industrial park problem and the fact that we don't have the same things where we're talking about things like that and other tax policies that we make.

Mr. Bigel, earlier I asked some questions about the retirement funds and the concerns. One of them that I expressed a question, and they said that you would be testifying today, and that maybe you would like to respond to those questions -- one was: There are three funds that are lined up in the Mayor's program. There are three different retirement funds. And I noted -- you can refer to whichever one you are most familiar with or to any of those as they are articulated. I'm not familiar with all of the retirements funds. Maybe there are more than that that exist.

Mr. Bigel. Five.

Mr. Vento. What is the percentage of funding on those programs? I mean, not the percentage of exposure that you have with New York, where your money is invested; what is the
percentage of funding, unfunded liability?

Mr. Bigel. You're talking about the funding of all liabilities current and the funding of past and future.

Mr. Vento. Yes. Expressly in terms of information you have today.

Mr. Bigel. Well, I have additional information. I just do happen to have one table on this, Congressman, and I can supply additional information.

Mr. Vento. I think it would be helpful. I'm not interested in catching you and picking any errors here, but I am just getting a general impression as to where you're at.

Mr. Bigel. I have a comparative table that was the product of an actuarial task force organized by Dick Scheuner, the president of Metropolitan Life, and we spent around six months analyzing all of the systems. And it is comparative.

On the basis of that table we are fully funded to about 43 percent, New York State, that is five systems. I cannot break out each system at the present sitting. The New York State systems, around 61 percent funded; the United States Civil Service Pension Fund is around 21 percent funded; General Motors is around 51 percent -- in other words, I have a comparative table only. Con Ed is around 24; Union Carbide is 61.

Now, I can supply you with some additional information
based on each system.

Mr. Vento. Well, you may want to for the record, but for my purposes I can assume that that is accurate and that just demonstrates the fact that with all of these liabilities, as long as you are looking at a common way of providing a basis for comparison, but it just demonstrates where you were at with your fund, and I know back home we do this and we have some that are much closer in funding, and we find the more generous the system in terms of the types of benefits, the less likely it is that it is going to be funded.

We won't ask you to make a comparison with Social Security. We know you'd end up way down the line.

Mr. Scott, did you want to make a comment at this point?

Mr. Scott. Not really. I think that a comparison with the city and the state systems across the country would indicate that New York City, while not to the degree of funding we might like, is superior to most in those areas. You will find that in some of the states the funding is pretty atrocious.

Mr. Vento. There have been some promises made and financial commitments to them by the political subdivisions or states in the past, is really where the problem lies, or the necessary level of funding has not been forthcoming.

Mr. Scott. I think that the answer to your question rests with the Scheuner report in total. The Scheuner
report which was made up of a group of actuaries and pension
made people not from primarily the pension area but from the
private area arrived at a set of figures which if the city
implemented and followed it would put the retirement
systems in the position where they could be considered to be
fully adequately funded.

This is over a period of time.

Those suggestions have been implemented and are
included in the budget figures that you will receive.

Mr. Vento. Fine.

One other point, and it gets back to the types of
investments that the trust has to make and the recommendations
that you will make to the trustees, and that is, is there any
type of financial loss in terms of the income earned, these
obligations by the trust fund as opposed to other trust
funds or other types -- parts of the portfolio?

Mr. Bigel. I would venture the opinion that we have lost
no money on this investment.

When we negotiated the first investment, we also
established a rate of interest which has then been
progressively reduced with each stretch-out that MAC has done.
I think our first investment was around 9 percent, and we
needed a cushion there because we thought we would lose
money because we would have to liquidate holdings, and in
fact in December '75 one of our systems did lose $50 million.
Since that time we have synchronized the investments with the cash flows of the system so that there has been no such loss, there has been no liquidation of the portfolio to date.

Now, our actuarial assumption of yield is around 5 1/2 percent, and I would say that our five systems are doing just about 6 percent or maybe a fraction more than 6 percent at the present time.

I don't know what our average rate of interest is on our city paper. I think Mr. Kalen, if he is still here, could probably give you a more accurate estimate, but I would say, just off the top of my head, that it cannot be in terms of the weighted average, be doing better than probably 7 percent, all of the holdings that is in city-related paper.

Mr. Vento. I guess I think it is important to recognize that the degree of risk is not necessarily reflected in those interest rates, and those are your fears in terms of trying to satisfy the members that you are trying to serve. So while they are not saleable, you're buying them at an interest rate that makes it possible for the city to move with regards to its advanced free-funding schedule and so forth.

Mr. Bigel. The 31 percent we now refer to as our artiosclerotic factor.
Mr. Vento. That's interesting, I suppose, on the other hand, that one might say that since you do -- many of these are municipal employees, that there is sort of a conflict inherent in trying to provide -- you obviously have an interest -- I don't see any other employees' groups coming to the assistance of -- or pension fund groups coming to the assistance of New York City, clamoring to buy those bonds at that interest rate.

So, obviously, there is a purpose in this emotional, I guess, self-interest in terms of trying to make sure that those funds in those systems continue, because, obviously, if they don't, there is a 43 percent funding, a percentage each year of each annuity comes directly from the city's budget, does it not, for those municipal employees?

Mr. Bigel. You say the contributions. Well, of course, we have three elements, two resources of the systems -- employer contributions and employee contributions, and of course: the investments return each year. These are basically three sources. On the other hand -- now let me tackle that question -- we did a whole paper on that and submitted it to the House Ways and Means Committee when we testified on 11700.

If the city were to go bankrupt, we would have to make the assumption that contributions would be done on a sometime basis. We would also have to assume that market values of
others of our holdings would drop. We would also have to assume that better than $1.5 billion which represents employee contributions, they have the legal right to withdraw half of it at any time.

We have done a serious of calculations, and it is our opinion that based on the present current asset situation we probably would have enough money on hand for the next four to five years to pay all of the obligations of the system.

Mr. Vento. Well, my question -- I think that I understand that aspect, but I think in terms of the way you fund today -- and maybe Mr. Scott would like to respond to that -- if you're 43 percent funded, I understand that, but do you take your entire annuity from the fund or do you take part of it from a local or state tax, as well?

Most of the funds that you have a certain annuity, a certain commitment at that time, and they draw on city or state funds. And my point is that I assume that for at least one of the system, the New York City system, that it must be some local tax dollars that go into make up the difference between what the annuity is supposed to yield and what in fact it does.

Mr. Scott. Actually, Congressman, the way the retirement systems in New York City and in fact in New York State and in most places are funded, if they are actuarially funded, is
that the retirement system itself becomes an entity, a
corporation within the state. The money, whatever money is
required to be contributed by the employer, is passed
through to the retirement system and becomes the fund of
that retirement system.

If the employer is contributing as he should,
currently up to date, then the system itself should have
enough money to finance without any recourse to the employer
all of the demands that are made upon that system for death
benefits and retirement. The obligation of the employer is
to continue the contributions at a level rate to pay for
those annuities which are being incurred as the active
members render the service.

So when we say we are 43 percent funded, we are saying
that the money is in there to cover 43 percent of the entire
obligation. The continuation of the funding by the employer
is essential to the soundness of the system because, as Jack
indicated, in a very few years 43 percent would evaporate and
there would be nothing there at all.

I think what we are talking about today is a retirement
system's obligation and a desire by the city retirement
systems to do something to cooperate in the city of New
York's fiscal crisis.

We thought we were going to talk about short term, but
we have come to talk about long term, because it is more
meaningful than the short term. If we can resolve the long term, we can then resolve the short term.

Basically, I have heard today for the first time limitations upon the guarantees. What we are seeking, of course, is some sort of an guarantee which would permit the trustees of the retirement system to make available to the city and the state the funds that are necessary to insure the fiscal continuation of the city. The trustee has an obligation to the fund, He must exercise it that way. If a present estimate reveals that an uncertain future exists and the trustee goes ahead and makes the investment, he is liable, personally liable.

Mr. Vento. Mr. Chairman, what I want to point out is your motives, and there are motives, and I think that we ought to understand that they are not always based -- and I think you say it was based on emotion; it's based on a variety of things -- that the fact is that no one else is running in here to put the money in New York City. There's a damn good reason for it. And the point is that we can sit back and say we're going to provide two years' financing, and why aren't you going to be there, because they have other financial commitments.

In order to keep your fund solvent, New York City has to be solvent, and that is the point I'm trying to get at.

Now, maybe you don't want to talk about your motives,
but I think it is important that we put them on the record so that everyone understands that you are not dealing with just simply another financial institution that is making a decision about this, that you are very deeply involved in terms of the financial stability of your funds, meeting those obligations that have been met, which will, incidentally, not be met if, for, instance, New York City has a problem. And that's what I'm trying to get at, but you are making it a little difficult.

So I will say it for you.

Mr. Scott. I don't think I intended to make it difficult, Congressman. I think we would agree that we have motivation. What we are looking for is something that will make that motivation a reality, something that we can say, yes, we have looked and we have served our members well, and we have come forward with the money.
Mr. Vento. The point is that members sit here, and it's a very great temptation to look at how to run New York City from up here, and that is a temptation that I have and that other members have, and I think it is up to you to be satisfied. Myself -- about the capital programs that they propose about economic development programs they are proposing that will, in essence, not provide the type of stability in the future that New York City needs in order to get out of this crisis. Go down to the legislature and pass tax cuts for New York City -- I'm not too impressed about that. Maybe it is necessary, to make some economic sense in terms of those small businesses, but it would be a lot tougher to come back and say, "We're not going to have any tax-exempt property giveaways here because we have financial problems we're not going to solve for the short-term by making long-term commitments that are going to cause problems.

That is my concern, and I think it is one that you ought to be concerned about, too, because you are the ones that are putting up the money up front right now.

Mr. Moorhead. Mr. Kelly.

Mr. Kelly. Thank you, Mr. Chairman.

I noticed, Mr. Bigel, that you mentioned something about simple folks who were dazzled by all of the figures. You weren't including yourself in that, were you?

Mr. Bigel. I'm sorry, I did not hear that, Congressman.
Mr. Kelly. I said in your testimony you referred to something about being dazzled by all of the figures, and the simple folks could not quite grasp all of this. You weren't including yourself in that, were you?

Mr. Bigel. If, in fact, I said anything of the sort, obviously I was the one that was being dazzled, because I imagine that we are the least common denominator.

Mr. Kelly. I'm just trying to find out what the problem is.

Let me ask this. As I understand the situation now, you have got 43 percent of your pension fund for the five systems is funded so it is actuarially sound to the extent of 43 percent.

Mr. Bigel. Now, Mr. Kelly, that includes all past service liabilities, and that is the reason why I usually find it more meaningful, for myself, to look at comparative numbers. And so, when I quoted a table from the Scheunen report --

Mr. Kelly. But have you got some money in the fund at all? Let me start over again, because it seems like that's going to take longer than I've got. Have you got some money in the fund?

Mr. Bigel. Oh, yes, sir.

Mr. Kelly. So, you can continue to pay the pensions of the people that are entitled to receive them for a while, and there was an assumption mentioned, for five years or so?

Mr. Bigel. That's right. I'm glad you made that point.
It kind of underscores it for me, as well.

This fund -- or funds, I should say -- of the five systems are more soundly funded than most others, including the own federal pension plan. And we would have enough assets on hand. -- now, I said "four or five years" -- I have only one caveat for myself: We would have to estimate, or we would have to factor out the illiquidity of our city holdings. We would then have to cope with the balance of the portfolio, but when we did that exercise, with the House Ways and Means Committee in March of '76, our conclusion was that in the event of city bankruptcy there would be enough assets on hand upon liquidation to meet all obligations to the 125,000 retirees and some of those actively employed. Yes, there would be assets for the next four or five years.

Mr. Kelly. All right. And that presupposes that the city quit putting anything into the pot.

Mr. Bigel. Well, yes, I suppose there are many ways of destroying these trust funds. That would be one of them.

Mr. Kelly. Now, as I understand the bankruptcy procedure, it isn't a situation where the bankrupt comes up to a precipice and falls off and especially when that bankruptcy -- that bankrupt happens to be the largest city in the country, it just does not fall off of this precipice and we never hear from it again. I would imagine that, after bankruptcy, New York would continue to roll on, and they would continue to be putting
something into the pot because they are the richest city in
America and they tax their people more than any other government
in America taxes its people, so I guess they would continue
to pay something. It might be that you would have to cut
expenses, but you would continue to tax and you would continue
to pay into the fund, so it would seem to me as though the
people in Florida that you were talking about would expect to
continue to get their pensions.

What is the life expectancy of your average retiree?

Mr. Bigel. Well, let's see.

Mr. Kelly. They retire pretty early in New York, so I
guess it is a long time.

Mr. Bigel. We take all of that into consideration.
Although those who retire early for some reason or another are
attracted to better climes, but I would assume an average of
about 12 years.

Mr. Kelly. So, they are only going to live 12 years from
the day they started. And what I was trying to establish is
there may be more political heat for the politicians in New
York than there are those in Florida if you don't get your act
together in New York, because the people that are working there
that haven't retired yet, they're the ones that need to be
worried about that pension fund, not the ones down in Florida,
because the ones down in Florida are going to get their money
-- all of them.
Mr. Bigel. Well, we're going to make sure of that, Congressman.

Mr. Kelly. I believe that. And I've told those people down there they are going to get their money.

What we're worried about in New York is the taxpayers, and we're worried about the rest of the nation, if we start funding that kind of nonsense you've got going in New York. That's what we're worried about, the taxpayers in New York and the rest of the country, if we don't get our act together.

Now, you mentioned something about "We will do everything" -- everybody that testified from New York says, "We will do everything." Well, you know, you don't have to do everything, but if you would just take a 20 percent cut in the pay of the municipal workers, the city workers in New York City, just a 20 percent cut in pay, you would not be the lowest-paid people in the United States of America, and you would not have any financial problem at all, because your deficit is about a billion bucks. And 20 percent of your labor costs would be about a billion bucks.

Mr. Bigel. Could I respond to that, Congressman?

Mr. Kelly. Yes. But this all dazzles you. But isn't that fairly logical?

Mr. Bigel. Now, let me address myself to some of the substantive issues raised, even though I know that it is far more politic not to do so.
First, I think we ought to know what the recent history is, before I get down to the 20 percent cut, which I estimate might be about a billion dollars.

I'm sure you know that back in July 1975, when a six percent increase was due and was actually paid on July 1, 1975, those who then represented labor met with Mr. Rohatyn and a fellow by the name of Bill Ellinghouse, who is now vice chairman of AT&T; and they did something that -- I don't know if it has happened often in the annals of labor-management relationships -- they agreed to defer -- eliminate -- first eliminate that six percent increase for one year. And that saved immediately $110 million.

Now, that was in July 1975.

Now, in November 1975, we were told that the fare had to be increased, as Congressman Caputo has pointed out --

Mr. Kelly. Mr. Bigel, I think that what you're testifying to is pertinent, and I have no objection to your doing so, but I have a very limited time, and I have some questions that I want to get answered, and the only thing I asked you was -- is, wouldn't a 20 percent cut produce about a million so you would wipe out your deficit in one stroke?

Mr. Bigel. I was trying to indicate, Congressman, how many cuts had already taken place.

Mr. Kelly. And since you have said that you will do everything, I just thought maybe that would be one little
something that could be done.

But I have another question --

Mr. Bigel. Well, may I tell you what I would like to do with your 20 percent wage cut recommendation?

Mr. Kelly. Well, I can guess what you're going to tell me.

Mr. Bigel. Well, that's not what I'm going to say to you, Congressman, because I think that would be a slight on the whole Congress, and that was never my intention, to respond that way.

I was going to say to you, in total seriousness, that I was going to take the full majesty of your question back to the unions who are going to meet this Friday, and I'm going to report to them, of course, on this very distinguished proceeding, and I'm going to advise them that that is the recommendation of Congressman Kelly, and I'm going to ask them to give it every single deliberation that it is due. And I'm sure that they will do that.

Mr. Kelly. Well, Mr. Bigel, I hope that you will do that, and I wish you would support that with the fact that, since labor costs have been a major contributor to the financial crisis in New York City and that New York now has the highest per capita debt in the United States of America, which has been caused by spending more than the city and the taxpayers can afford, that it is appropriate that they, as the people of
New York, solve their problem, I would not hesitate to ask the
people in the district where I come from to take that kind of
a cut if they were bankrupting us with the charges they are
making.

So, let me tell you something. I take your suggestion in
seriousness, and I urge you to do just exactly that, and, please,
sir, when you do it, don't stutter. Just let them have it.

Mr. Bigel. Did you say "stutter," Congressman?

Mr. Kelly. I did. I said "don't stutter."

Mr. Bigel. May I make a recommendation to you, sir?

Mr. Kelly. Right.

Mr. Bigel. Now, I know I speak slowly, but I will get to
my point.

About a month ago, we had Senator Proxmire come to New
York, and it was a very serious visit, and I, for one, was
impressed by the fact that -- and he did this anonymously
without any publicity -- he spent a half a day on the back of
a sanitation truck and told us, I think justifiably, with a
good deal of pride, that he had helped put on 5-1/2 tons that
morning -- and that is a lot of tonnage, but obviously he is
in good shape.

And then we visited a fire house, and that happened around
noon time, and they had all of the labor leaders and the Senator
and the mayor and the mayor-elect, and unfortunately that
meeting kept on being interrupted, because that company went
out twice.

And I would like to suggest to you, Congressman -- and I say this with the utmost of respect and the greatest seriousness -- even though I know you are supposed to have a somewhat conservative viewpoint, I think you ought to really spend some time in New York with this workforce and not in any controversial spirit or debate. I just think -- and the only reason why I say that is because of a letter I saw this morning in the New York Times of the president of the Oklahoma Christian College in Oklahoma City, a gentleman by the name of J. Terry Johnson, and I was struck by this on the way down here, because somewheres in the body of the article, he said, "Coming from the southwest, I thought these people" -- meaning the city employees -- "only knew how to strike." And then he went on to say -- and he was talking about the snow emergency we had -- he went on to say, and I quote: "Sanitation workers were on duty unbelievably long hours to clear the streets. Firemen and policemen rescued hundreds of people who were in danger. Taxidrivers managed to move people" -- et cetera, et cetera.

And then, later on in the article -- and I don't know this gentleman -- but he did say here -- and this is what struck me: "What I observed in New York heartens me, that we still have the capacity to dig out from beneath the debris of our environment, whether it be tons of snow or the effects
of our previously misguided political and economic and moral decisions."

And, in that spirit and in the spirit of seeking to pull together this city with the rest of the country, I think it would be enormous for us, if not for you, to come in and spend a couple of days with the varying occupations. Let's see what a classroom is like in New York City. Let's see what a firefighter's exposure is in New York City. And I don't have to enumerate all of the others. You select them.

And nobody says you are going to be converted by virtue of that, but I do think that it should be an educational experience, for us to be able to talk directly with you and for you to really see what this city is all about.

Mr. Kelly. Mr. Bigel, I would like very much do to that, and will accept that suggestion. I hope I can call on your good offices to help me see what I need to see.

Mr. Bigel. You see what you want to see.

Mr. Kelly. But do I just walk up to the firehouse door and knock on the door and say, "Hey, let me in," or are you going to help me arrange this?

Mr. Bigel. Well, we don't want to discuss this now. I thought that you and we would visit and we would work out all of the logistics.

Mr. Kelly. Mr. Chairman, I would like just one additional question.
Mr. Elliott, you mentioned many things that New York City has done in order to try and encourage the business sector, and you said whatever is done to increase the confidence of the business community in New York City is going to be beneficial to the financial condition of that city; isn't that so?

Mr. Elliott. Correct.

Mr. Kelly. Now, I have been to New York, and I went there to try and see what the situation was about, and one of the things that shocked me the most was the mile after mile of destroyed buildings, and I was not so awed by the destruction as I was awed by the fact that what this represented was bad government having stolen land that belonged to Americans and because the idea of private ownership and land and land ownership is so almost sacred to Americans, that struck me as kind of being a thing -- now, rent control had a major portion of that, and I see where you've made some kind of token gestures toward the business community, but when you are seeking private investment, do you take the prospective investors out around the South Bronx and let them see what your government has done to private ownership? And what are you doing about rent control?

Mr. Elliott. Well, Mr. Kelly, as it happens, one of the first statements I made as deputy mayor was in favor of phasing out rent control.

Mr. Kelly. Do you mean over the next 40 years, or what did you have in mind?
Mr. Elliott. Well, this is a subject that is far too complicated to try to cover in a two-minute answer to your question. But I believe there are inequities in rent control, and I believe it would be a disaster if you removed it altogether and all at once, but I think there are ways to phase it out in fairness to the owners as well as to the tenants.

Mr. Kelly. When you said "disaster," does that mean political disaster?

Mr. Elliott. I'm not a politician. I would not have a judgment on that.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Moorhead. Mr. Barnard.

Mr. Barnard. I have no questions, Mr. Chairman.

Mr. Moorhead. Mr. Caputo.

Mr. Caputo. Thank you, Mr. Chairman.

Mr. Bigel, I would like to ask you a question about the April 1 $500,000 of new city pension money and the $182,000, I think it is, of rollovers. You were concerned about statements that have been made here and elsewhere with respect to the financial viability of the city, and I think you expressed trepidation about whether or not those would be prudent investments to make on April 1. I gather, though, that the pension funds are going to go through with that agreement and make those investments on those days.

Mr. Bigel. That is $500 million, Congressman. I would
rather it was $500,000.

Yes, I would say that those investments will be made.

By the way, every investment has been made on the due
date, and we have had a lot of discussion about them, and they
have always been made.

I simply said before, though -- and that was the only
point I thought I was making -- that the trustees who are more
and more seeing what the environment is with respect to bank-
ruptcy in the pension funds for the retirees, et cetera, I said
we might take a second look at that if bankruptcy is, in fact,
very real, and I kind of suspect this will not be required on
April 1 because the cash flow may be May 1 or June 1.

I can say that there is a slight possibility, but that
otherwise every single commitment has been made on the day due.

Mr. Caputo. Well, that addendum did not dilute the first
part of your statement, which is that the present plan is to
make those payments when they fall due. The record is clear
on that; isn't it, sir?

Mr. Bigel. Yes.

Mr. Caputo. I gather that the pension funds -- and you
can speak for them as one trustee-- would support an extension
of Public Law 94-236, the continued waiver of 503(b) prohibitive
transactions?

Mr. Bigel. Well, if there is a guarantee in place, you
will still have to have a renewal. I call it H.R. 11700.
Mr. Caputo. I would just like the legislative record to reflect that you support that.

Mr. Bigel. Absolutely. You would need action on support of the New York State Legislature and, I assume, Congress.
Mr. Caputo. The pension funds have surely assumed
greater risk than in the past by investing in City securities
for the last three years, and lowered their liquidity.

But isn't it true that the profitability of the fund
has been improved as a result of that trend, those trans-
actions?

Mr. Bigel. Not the profitability. My statement to the
House Ways and Means Committee indicated that with the con-
tinuation of the employer contribution that we would be adding
to our assets, and in the event of bankruptcy at a later date,
might have bought some additional time. And I think that is
the way an actuarial evaluation, which will be made shortly,
will establish.

But the fact is that this involvement in City securities
is not profitable, and above all, to us, outside the fact
that it may be a violation of our fiduciary responsibilities,
is really an illiquid asset. Certainly for the foreseeable
future.

Mr. Caputo. On the issue of your fiduciary responsibili-
ties, as I remember Chapter 890 in the laws of 1974, when I
was a state legislator at the time, that that became law
and passe d the legislature, there is a strict exemption for
liability on these transactions for each of the trustees in
the City system. Is that an accurate statement?

Mr. Bigel. Your statement that the state legislature
enacted such a law is accurate.

Mr. Caputo. You're concerned about the applicability of that law if tested in the courts?

Mr. Bigel. I'm always concerned about what a court may eventually do with a law.

Mr. Caputo. Could I inquire, I understand there's about $250 million a year of City paper held by pension funds that will be maturing over the next two or three years; is that right?

Mr. Bigel. For the next two or three years? No, it is more than that.

Mr. Scott. You're talking now about City paper held by the pension funds?

Mr. Caputo. I'm getting a signal here to go fast, so let me read you what my numbers are.

Maturing city debt, held by the pension funds -- okay, maturing in 1979, fiscal '79, $349 million; $272 million in '80; $272 million in '81. It is a substantial amount of maturities.

Mr. Bigel. Over four years it is $941 million.

My first year, for fiscal '79, is $287 million; otherwise our numbers agree.

Mr. Caputo. In addition to that, employer contributions will be made each year, assuming the city is solvent, of how much?
Mr. Scott. Over the four-year period?

Mr. Bigel. About $4 million.

Mr. Scott. But from that you have to take what is necessary to maintain the systems.

Mr. Bigel. We have about close to a thousand debts. We are running probably 11,000 retirements. We have 125,000 retirees. Our obligations -- this is off the top of my head -- must be running around $900 million, something like that.

Mr. Caputo. Let me try to crystallize what I'm driving at. There is about a billion dollars a year which you gentlemen will have to invest in some asset. Some of that comes from maturities of existing assets, some of it comes from employee contributions. It is probably well over that, but let's add separately. According to this table, close to a billion dollars a year will be, from a cash-flow point of view, investable. You're going to have to invest that some place; that is a billion dollars a year.

I understand you have fiduciary responsibilities. You have other obligations. But isn't it true, there is this enormous recurring annual resource, over the period of time we're looking at of a billion dollars?

Mr. Scott. Not quite, in terms of the figures you're talking about.

Mr. Bigel. You could take a couple of hundred million
dollars; let's say that's about right. Now, you ought to ask us what the investment process is, right?

Mr. Caputo. No, because I don't have time. You indicated that the four-year guarantee would not be long enough. How long a guarantee would you have to have to invest in City paper?

Mr. Bigel. I would like to pass on that for one reason: because I saw some progress being made here today. Mr. Goldin started with a limited guarantee, somebody else said four years, the Chair hypothetically talked about ten years.

I think that is really a matter for discussion. Obviously, we are going to say to you, the longest possible guarantee is the greatest assurance that can be given to those who exercise the fiduciary responsibility.

Mr. Caputo. Mr. Chairman, my time is expired. I would just like to explain that if Mr. Bigel represented ordinary, simple folk in New York, you can see those of us who try to run for office in New York have a tough problem.

Mr. Moorhead. Mr. Pattison.

Mr. Pattison. I have no questions.

I would like to compliment Mr. Bigel on his offer to Congressman Kelly, and I hope he really will honestly follow that up to Congressman Kelly and invite him and arrange a schedule for Congressman Kelly to come to New York without, as Mr. Bigel said, any real hope that he becomes a convert,
but in all honesty to see exactly how people work in New York, and some of the problems that they deal with. And I think it would be very useful to New York, and it would be useful to Congressman Kelly.

And I hope you will follow that up, and I hope he will accept.

Mr. Bigel. I have to assure you, Congressman, that was not said in a moment of levity. That was said in the utmost seriousness, knowing very well that often people going into a situation come out the same way.

But nonetheless, I think it is very worthwhile. We are going to do it. I hope that the Congressman will be available. And obviously, from this point onward, all negotiations on the logistics will be done with Congressman Kelly.

Mr. Elliott. I would like to volunteer as assistant tour guide, Mr. Bigel, but I can't promise Mr. Kelly that he will find all that he expects in New York.

I remember the last time I was down here in the Fall of '75, Congressman Kelly said, "Well, my constituents and I are aware of the kind of orgies you have in York." And ever since then I've been looking for one and have not found one, Congressman.

Mr. Moorhead. Thank you very much, gentlemen. We appreciate your testimony.

The subcommittee would now like to hear from the very
patient Mr. Ellmore C. Patterson, Chairman of the Executive Committee, Morgan Guaranty Trust Company of New York.

We apologize for this delay, Mr. Patterson.

STATEMENT OF ELLMORE C. PATTERSON, CHAIRMAN OF THE EXECUTIVE COMMITTEE, MORGAN GUARANTY TRUST COMPANY OF NEW YORK.

Mr. Patterson. Mr. Chairman, members of the Committee:

My name is Ellmore C. Patterson, and I am Chairman of the Executive Committee of Morgan Guaranty Trust Company of New York.

I am glad for the opportunity to testify at these hearings on New York City, because I believe the decisions to be reached by the Administration and the Congress concerning financial assistance to New York City after June 30, 1978, will have extremely important implications not only for the City but for the entire country. I will attempt to explain the reasons for this in the brief statement which, with your permission, I would like to read.

Your staff has asked me to appear on behalf of the banks of the New York Clearing House Association. I do not bring with me letters credential designating me as the formal representative of anyone, but myself, and the institution of which I am an officer. However, I am generally aware of the views of the senior managements of the other major New York City banks on the subject matter of these hearings, and
what I will say in this statement reflects -- at least in
broad outline -- what I understand to be the sense of the banks
in the New York Clearing House Association on the points I
will discuss.

Your invitation to appear here posed three specific
questions. The first is: Can New York City's seasonal finan-
cing needs be met by public and private resources in the City
and New York State?

In answering this question, I am not going to try to add
up numbers against an assume total requirement. Whatever
the overall need is computed to be -- and on any basis the figure
is very large -- the essential fact is that the possible local
sources of funds would be willing to invest only as part of
a total financing plan that will enable the City to complete
the financial rehabilitation which is now underway.

The investments the City would have to attract are, for
the most part, subject to fiduciary responsibility. The
commercial banks and savings banks are dealing with money that
belongs to their depositors. The insurance companies have an
obligation to their policyholders. The trustees of City
and State pension funds are obliged to exercise prudent judgment
in investing the funds which have been set aside for future
retirement benefits of covered workers.

I do not now see how investments from these sources are
going to be readily forthcoming to finance New York City unless
the people responsible for them have a reasonable degree of confidence that the City will be able to service its debt, both interest and principal, in timely fashion, and that a viable market for City and City-related debt eventually will develop.

Because of the magnitude of the City's financing needs, and the still-fresh memory of the crisis and moratorium, that kind of confidence requires the existence of financing arrangements which constitute a total plan. That, in my judgment, can best be achieved by a continued and adequate federal involvement.

It is the continued presence of the Federal government, as a co-participant on an appropriate scale, that will give credibility to a financing plan for the City, so that the City's obligations will be perceived as appropriate investments by banks, insurance companies, City and State pension funds, and ultimately, the broad public market. Regaining access to that public market, of course, must always be the ultimate goal.

My simple answer to your first question is that without a complete financial plan, including federal assistance, it is highly unlikely at this time that the City could meet its essential financing needs from public and private sources in New York City and New York State. If there is no federal assistance after June 30, I do not feel very hopeful about raising any additional money from those local sources which
act in the capacity of depository or fiduciary for other people's money.

A further point needs to be made in this connection. To speak of meeting the City's financing needs entirely from sources in the City and State overlooks the extent to which those sources are still bearing burdens they have assumed in helping the City survive thus far.

Your second question is: If the City's seasonal needs are not met in fiscal 1979, will the City be required to declare bankruptcy? If so, when?

I use the word "bankruptcy" with reluctance, even in an hypothetical context, because it is so charged with emotion, and so suspect of being exploited as a scare tactic. However, it is part of the question, and I will try to deal with it.

In the more than three years that I have been involved in the efforts of the financial community to help New York City with its financial problems, I have never considered that bankruptcy was an alternative. I have always regarded it, and continue to regard it, as an unavailable resort. The suggestion is sometimes made that bankruptcy would offer an attractive solution to the City's difficulties -- an easy way out, a chance to lighten the burden at the expense of the creditors. That is a delusion. Bankruptcy may be a convenient solution for a business that is free to close its
doors, or an individual who doesn't mind the embarrassment, but not for the largest urban center of a great nation. New York City can't go out of business. It will still be there. It will have to function. It will have to borrow. And if it were to go bankrupt, I believe there would be a significantly adverse and prolonged effect on the availability of credit to the City.

The question of continued federal assistance for New York should not be decided on the basis of speculation as to whether or not the City will go bankrupt without such assistance. There are grave enough risks, short of the risk of bankruptcy, that would be incurred by a premature cut-off of federal credit assistance. The ability of the City to function could be severely damaged. Everything that has been accomplished toward fiscal recovery could be lost, probably irrevocably.

By acting as it did in 1975, the government of this country demonstrated its ability to deal with a domestic crisis of a very unusual sort, and to deal with it sensibly and effectively. All of us hoped that the action then taken would be enough to do the job. But the job turned out to be bigger than any of us foresaw. That, I submit, is no reason now to abandon a policy that is working.

I cannot give precise answers to the two parts of your second question. I don't know whether New York would be required
to declare bankruptcy if it were unable to obtain the needed
seasonal financing in fiscal 1979. Nor, if it were, do I know
what the timetable would be. But I do believe that the cost
to the nation as a whole of finding out the answers is likely
to be far more than the cost of taking action that would make
it unnecessary to ask the questions.

The third question on which I have been asked to comment
is: What would be the effects of bankruptcy on the City, on
the State, and on financial markets both domestic and
international?

On this, one can only conjecture. I cannot tell you how
bad the consequences would be. I can say with certainty that
they would not be trivial.

For the City, I would expect bankruptcy to mean living
for a long time under Chapter IX of the federal Bankruptcy
Act. The Chapter in its revised form is largely untested
law. How a city would, or could, be governed under it
seems far from clear. What is clear is that bankruptcy would
cripple the City's efforts to retain and rebuild its private-
sector economic base.

For the state, bankruptcy of its principal city would mean
a setback to the current program aimed at statewide economic
rejuvenation. What the impact on financial markets would be
is impossible to predict. I do not see how the effect on
international markets could be other than negative, but I
would not attempt to guess how severe or how prolonged.

Domestically, I would expect that the market for many municipal securities would suffer.

These conjectures, Mr. Chairman, even as I recite them, emphasize to me, the imbalance between the magnitude of the risks we are sitting here and calmly talking about running, and the modest cost of taking the action that will avoid them.

The United States Treasury has incurred no loss on its loans to New York City under the seasonal program enacted in 1975. There is no reason to expect that it would incur any loss in a program of further assistance. There is, in my judgment, the strong likelihood of significant loss, in which the whole country would share, if assistance is not continued.

Mr. Chairman and members of the Committee, in October, 1975, I had the privilege of appearing before this Committee. I expressed the candid opinion that a federal role was essential in any financing plan that would be adequate to prevent the financial collapse of New York City. This past December, my colleague, Mr. Beason, appeared before this Committee at a hearing in New York on the subject of the City's finances on the same day I was testifying before a Senate committee here in Washington on the same subject. We would not have been before you on those occasions, and I would not be here now, if we were not convinced of the following three propositions:
One, that New York City can, if given time, complete the
job it has begun of re-establishing its financial integrity
and recovering the ability to meet its financing requirements
in the public market.

Two, that federal credit assistance on a substantial
basis for at least a few years longer is the way the City can
be sure of getting the time it needs.

And three, that providing this assistance is in the best
interests of the nation as a whole.

Thank you for this opportunity to tell you my views.

This concludes my statement.

Mr. Moorhead. Mr. Patterson, that statement answered
all of the questions that I could possibly ask. It is a
beautiful, balanced statement. I have no questions.

Mr. McKinney.

Mr. Kelly. Mr. Chairman, could we recess until we have
the vote?

We certainly can't get all of the questions answered in
the time we've got.

Mr. Moorhead. We will continue for awhile.

Mr. McKinney. Mr. Patterson, you've answered most of the
questions I had.

I suppose the only real question here is, do you think
New York can do it? And in your testimony you pretty
strongly support the belief that you think they can do it.
Mr. Patterson. I believe with the proper support and cooperation, and complete financial plan that does the whole job properly, and not half a plan, I have great confidence that New York can do it.

Mr. McKinney. As a man who spent a great deal of time particularly with the business community, and the heads of the business community, do you feel that the corporate flight from New York can be stopped?

Mr. Patterson. Yes, Mr. McKinney. I'm certainly no expert in it, but in the context in which you ask the question, and from the men I do see, it certainly has slowed down. And I don't know of any major new initiatives to leave. In fact, there has been one reversal of a decision which was suggested. And they have decided to stay in New York.

I think small business have actually come back and increased a little bit.

Mr. McKinney. How do you feel -- just one last question -- do you think that the banks now are more willing to go into the private housing market, in the mortgage area, in the actual City of New York than they have in the past?

Mr. Patterson. Well, sir, I believe they are, in my particular bank. Are you speaking, Mr. McKinney, for mortgages for residential --

Mr. McKinney. Yes, residential mortgages.

Mr. Patterson. In our particular bank, we don't have any
of that business. But my understanding is, very definitely, that the commercial banks are making the loans that are required.

Mr. McKinney. And last but not least, a short question: do you feel that there are tremendous prohibitions, aren't there, for fiduciaries for any type of bank, savings and loan league or pension fund, there are tremendous prohibitions against investing in the securities of any organization, particularly a city that is going bankrupt; isn't that right?

Mr. Patterson. Yes, sir. As I said in my statement, any fiduciary must be satisfied that there is a reasonable expectation -- and this is apart from being able to make the investment in accordance with whatever law and regulation it fits -- that there is a reasonable expectation of retired debt service, and that the loans can be paid when due.

Mr. Moorhead. Mr. Patterson, would you be willing and able to wait for 20 to 25 minutes, that we will be involved before we can finish this series of floor votes? I know we've kept you here a long time, but some of the other members are very anxious to ask questions of you.

Mr. Patterson. I'm at your pleasure, Mr. Chairman.

Mr. Moorhead. I realize we are imposing on you, but the subcommittee will now stand in recess for approximately 25 minutes, and we will come back as soon after the vote as possible.

(A brief recess was taken.)
Mr. Moorhead. The subcommittee on economic stabilization will please come to order again.

Mr. Caputo.

Mr. Caputo. I wanted to inquire of Mr. Patterson whether you were suggesting that some short-term assistance, like an extension of the seasonal loan, might be enough. I gathered that from two different sections of your testimony, page 5, the last paragraph, and item 2 in your final recommendations where you talked about federal credit assistance on a substantial basis -- do you feel that if there were an extension of the seasonal loans, perhaps even on a reduced and phased-out basis, that there would be the opportunity to use available resources to finance the balance of the City's needs?

Mr. Patterson. Well, Mr. Caputo, I think the best way I can answer that is to speak from the standpoint of a financing package generally. When a borrower needs money, there is a purpose to be achieve, and it is in the lender's best interest, and the borrower's best interest, to frame a loan that will meet the requirements of the borrower and will still be satisfactory to the lender in the terms of repayment.

Now in this particular case I am of the opinion that the long-term picture is the most important aspect to get set in pretty good shape with the various sources of funds. And I think it is important to get that first, after which I think the short-term won't be as difficult to arrange.
Mr. Caputo. So that the federal assistance that is needed is some sort of long-term assistance, after which the seasonal borrowing will probably take care of itself?

Mr. Patterson. I'm not sure it would take care of itself. It depends on what the package is. But the seasonal problem would be minimized.

Mr. Caputo. Would you share your thoughts with us on the notion that you could guarantee the first four years, or the first five or six or some period of time, of a 20-year instrument? I don't understand how that would work, and whether that would really improve the marketability of that 20-year instrument.

Mr. Patterson. Well, as you understand, Mr. Caputo, that the guarantee would not carry over to any other holder of the guarantee. So the marketability would not be a factor, in terms of its being held by one holder, and the guarantee is not transferrable.

It is up to the holder, to the purchaser, to decide whether in his judgment four years gives him adequate security to satisfy the needs he has as an investor.

They have talked of various terms. I have not been involved with anyone in discussing what that guarantee should be. I've probably learned more about it today than before I came.

Mr. Caputo. In that context, then, it seems to me that it
is very much a negotiation between the Federal government and
the state pension funds about whether it ought to be four
years or five years or six years. It is not a question of,
would it receive acceptance in the general market, or what has
been done before. It is a question of what the trustees of the
state pension funds --

Mr. Patterson. In the sense that it is not really a
single-purpose loan, but it is for a separate-holder type of
loan. And in that sense, the two parties would be the
guarantor, and the purchaser --

Mr. Caputo. Do you have any thoughts on why we are
giving the preferential treatment and the guarantee to the
state pension funds, municipal and state, instead of the
commercial credit markets? It strikes me that the harder
sale is on the commercial credit markets by way of MAC or
other, but the easier sale is the pension fund.

Is it prudent to give the preferential treatment to the
pension funds?

Mr. Patterson. Well, the question of what the trustees
are willing to do, certainly in the state pension fund, the
trustees there made it clear that they do not feel that they
could consider, without a guarantee. And that is a source
of money that, in proper amount, in an adequate amount, would
be useful to the long-range planning.

And it is to give the added incentive of security to those
holders that we will give them the comfort as trustees and
fiduciaries that they feel they need. And at the same time,
if it is part of a total plan, it will also give the
general market encouragement and make the other MAC securities
much more marketable and acceptable.

Mr. Caputo. I gather from that, then, that if there
is a $5 million, 4-year long-term financing problem, $2-1/2
million might be do-able in the commercial credit markets,
through MAC, with the assigned revenue streams, if the
balance were treated somehow, the total package. And the
way to get the rest done, and the balance treated, is to give
some sort of preferential treatment to the pension funds, so
that they can acquire the residual $2.5 billion in the
commercial markets through MAC.

Is that the nature of the commitment?

Mr. Patterson. Well, without replying specifically to the
figures you used, the objective here is to have a total plan
which could deal with the long term, so that you take off of
the market enough of the needs -- and this is over a four
year period that I have in mind -- so that the market can
accept, and will accept, some more MAC bonds, or possibly other
obligations.

Mr. Caputo. Are we on an acceptable -- are the numbers
we talked about today, which I think roughly are the pension
fund's $2.5 billion, and MAC, to the commercial markets, for
another $2.5 billion, does that sound like a viable proposition with the guarantees that have been discussed here today, or do we have to regroup and ask for a lot more than the City asked for?

I ask that question, because last time the City and State did not ask for enough, which is why we are here this afternoon.

Mr. Patterson. Well, I think that the $5 billion package is about the order that ought to be focused on, if that is what you mean.

Mr. Caputo. Thank you, Mr. Chairman.

Mr. Moorhead. Mr. Kelly.

Mr. Kelly. Mr. Patterson, I want to commend you for your courage in appearing here. My understanding is that the banks are pretty much at fault for this whole problem that New York is having anyway, that if you hadn't loaned them the money and gotten them in debt and tried to sell off these bonds so that you could get rich, that New York City would not have had a problem.

But then the latest gild, I understand, is that now you won't loan them any money, so you are probably even more at fault now than you were in the first instance. So do you want to get it coming or going?

Mr. Patterson. I think we have been getting it going and coming. When we did not invest enough, we were criticized.
And later, when we invested, we were criticized for having too many.

Mr. Kelly. Well, I'm glad you here. I wanted to ask you, how many of these New York bonds, and how much New York paper, does your institution hold?

Mr. Patterson. We hold just short of $200 million of City-related paper.

Mr. Kelly. If the government will come in and tell New York City that we are going to finance you, I think we are doing that because we want to manifest our love for New York, won't that help the value of the paper you are holding?

Mr. Patterson. I don't think there is any question about the fact that the existing obligations, city-related obligations, will be benefited by a total financing plan that will give New York a chance to bridge the gap to get back on its own feet.

Mr. Kelly. Then, from your standpoint, that is, from a banking standpoint, the Federal Government galloping up and saving New York is probably a pretty good idea.

Mr. Patterson. From my standpoint, I think I can say honestly, our bank increased our holdings from some $69 million to $200 million, and we did that as part of the rescue program. And the banks all went up to keep the City, not to protect our investment, but to bring the City out.

I think it is just like saying, the man goes to the
grocery store to buy food just to feed himself. He's going to
buy it for his family, and to help the whole picture.

Mr. Kelly. Then let me ask you this, because what you
said would cause me to believe that maybe I didn't not even
hear what I thought I heard you say.

You described what is being requested here of the Federal
Government as a modest action to avoid very grave risks. Did
you say something like that?

Mr. Patterson. I believe that quotes me accurately.

Mr. Kelly. It seems to me that what is being asked of the
Federal Government is enormous, because, as far as I know,
New York is in trouble because they have been irresponsible.

There hasn't been anything positive that caused the richest
city in the United States to be bankrupt. It is all negative.

It is some people that are not generous -- you could call it
dumb, and those who are maudlin could call it irresponsible.

But now, the Federal Government is going to start financing
New York, and it's not going to cost us a thing. We're just
going to lend them our credit, and we're going to lend them
our credit, in the first increment, for three years, and
2-1/2 or $3 billion, and then we're going to lend them a credit
now for 5 for some undetermined period, and from there on, the
Lord only knows.

So it would seem to me as though, if we are going to
finance New York, who has been bad, then what are we going to
do for all of the cities and the towns and the states and
the counties that have been good? I think we should loan
them our credit as well.

What kind of explanation would you have for that? We
are establishing that there is a breakdown in the separation
between the states and the Federal Government. We are giving
the Federal Government entree to control the states that is not
provided for in the constitution, and we're saying that we're
going to finance every level of government in the United
States of America.

Now that is what it looks like to me, and from my
vantage point in Zephyr Hills, it looks enormous. But that
does not look that way to you?

Mr. Patterson. Mr. Kelly, I think there are three parts
to the question you just asked me, and I would like to deal
with them as I think you brought them up.

First you said that I stated that it was just a modest
move on the part of the Federal Government.

I submit, sir, that as in the past, it has not cost the
Federal Government, and if it is a total, complete plan, we
are not asking the Federal Government to take any more risk
than anybody else. Everybody has to have the conviction that
it is a workable, complete plan. Everybody is in, and they
are going to stay in, as long as the City performs.

Secondly, on a performance basis, the money will be put
up by the participants on an annual basis, subject to strict
performance standards monitoring auditing, and they will do
it on a year-by-year basis.

Then, I would venture, in a declaration of faith, that
New York City, at the end of that four-year period, if beyond
that point is what you're worried about, by then they will have
had a complete going over, in terms of a total new accounting
system; they will have independent auditors certifying all of
their figures for the first time; all of this under a strict
control mechanism; and last, but not least, the public
conscious of the City and the State will be aware that they
never want this to happen again. And from that point on we
will survive on our own.

Mr. Kelly. Well let me ask you this: how do you have
all of this confidence? I was here in 1975 when all of these
people descended on us and promised this was a one-shot
deal, that they would balance the budget. And then we found
out later they did not mean -- well, they meant balance the
budget, except they would just be a billion dollars short.

Now, I know that these are big numbers for someone from
Zephyr Hills, and in New York they don't mean anything. But
a billion dollars out of balance seems like kind of a lot, and
I don't know where you get all of this confidence. Because the
big ticket items in New York, like rent control that is estimated
to cost the City of New York somewhere between $1-and $200
million a year, without any regard to all of the other
devastation it costs, that you've got the highest welfare
levels in the United States of America -- not the number of
people, but the level of pay, which helps to control the
voting bloc; plus the fact that you're paying the highest
municipal wages in the United States of America; that your
people don't work as long a work week, and that you're not
really doing anything up there except trying to snooker everybody
with a shell game, because as of right now, as we sit here,
three years later, the testimony that has been presented before
this Committee is that one of the reasons they could not float
that last pond offering last year was because the accounting
system of the City of New York was not reliable.

Now, you've got all of this sophistication, and yet
you don't have an accounting system that the business
community can rely on, A, now, after millions have been
spent trying to get one. And so I don't see where you get
all of your confidence. I mean, you just act as though -- that
everything is going to be all right because "they said it would
be."

What has happened that I don't know about?

Mr. Patterson. Mr. Kelly, I would have to look at the
record to see what I said in this committee meeting 2-1/2
years ago in terms of promises.
Mr. Kelly. I was talking about Carey and Beame and the other political leaders.
Mr. Patterson. I will confess to being an optimist. I will also confess to the fact that I had every hope that, in that short 2-1/2-year period, that enough progress could be made so that New York City would be out of trouble and get back in the public market.

My time estimate was not accurate, and I think that there is demonstrable evidence that has been brought out this morning by the comptroller and Felix Rohatyn that significant progress has been made and of a material nature.

Mr. Kelly. Well, could I ask you this: How much has the deficit been reduced? How much has the danger of bankruptcy been reduced? How much has the size of the payroll been reduced? What about rent control?

You see, the big items, nothing has happened to them.

Mr. Patterson. I am not an expert on the detailed figures of New York City, Mr. Kelly. The rate of increase has slowed to a creep of the total expenses. It is an enormous $12-14 billion operation, and it takes a little time to turn it around and move it.

I am satisfied that they are doing their best and, God willing, will succeed.

Mr. Kelly. Do you think that if we waited until after these labor negotiations were completed that we would then have some kind of a manifestation of good faith, that if the city and the workers of that city are concerned about their city and
they love their city and they come up with some meaningful reduction in the exorbitant pay rates and fringe benefit rates, that then the rest of us could start and think that New York really is sincere, that they are not trying to snooker us?

Mr. Patterson. I don't know the best time for your committee to consider it, sir. From our standpoint, we look at the bottom line and look at what can be done, and, in that sense, to achieve a bottom line. And I don't know how your particular committee wants to look at it.

Mr. Kelly. Well, do you mean, by the "bottom line" --

Mr. Patterson. A true balance.

Mr. Kelly. And whether or not the Federal Government is just simply going to interminably finance the City of New York? Is that the bottom line?

Mr. Patterson. No, sir. The Federal Government, in this particular case, is not being asked to contribute to the operating budget in terms of balancing the budget. They are being asked for assistance, of a guaranteed form or some other form, to put the long-term problem in place once and for all and get that settled, not for balancing the budget, sir.

Mr. Kelly. All right. Well, let me just ask one more question, then.

The gist of the testimony here today seemed to me to be that New York should do nothing to try and resolve its problem, that the way to solve the problem was to just simply bring in
more money, that if we could get more money, then New York would
not have a financial problem.

Now, is that, in essence, your testimony?

Mr. Patterson. Mr. Kelly, New York has a serious financial
problem. There's no question about it.

Mr. Kelly. Is it operating procedures, or a lack of
finance? In other words, are they spending too much money,
or did they just need a loan, or what is the basis of their
difficulty?

Mr. Patterson. In the long-term area, there are very
definite and desirable capital needs that must be met, to keep
the facilities up, and the very minimal aspects of keeping the
city going. There are long-term funds that need to be met.

In addition, there are the cash-flow, short-term problems,
but what should be settled first and settled in a convincing
way is the long-term problem. And it is in that area that the
principal request for assistance is being made.

May I, Mr. Kelly, go back to the third part of one of your
questions a minute ago?

Mr. Kelly. Yes.

Mr. Patterson. You commented that -- you asked should we
just do this for New York? How about the rest of the cities
and municipalities around the country?

Mr. Kelly. And counties and states.

Mr. Patterson. I think you would be interested to know
that, as a result of the New York experience, it has been very 
good therapy for practically all of the cities that I know 
around this country. They have witnessed what has happened 
to New York, with a control board and the Federal Government, 
and they don't want anything like that to happen, and they are 
improving their situations as a result of New York.

I don't think you are going to have any clamor for guaran-
tees or help from the Federal Government from the other cities 
and states and counties around the country. They want to do it 
themselves, and they will all put themselves in much better 
position to take care of themselves because they have witnessed 
what has happened to New York. There has been considerable 

improvement.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Moorhead. Well, thank you very much, Mr. Patterson, 
for an excellent statement. I think you have summarized the 
situation in a most articulate fashion, and we appreciate your 

patience in staying with us.

Mr. Patterson. Thank you for listening to me.

Mr. Moorhead. The subcommittee would now like to hear from 
Mr. John W. Raber, president of the Savings Bank Association of 
New York State and also chairman of the Green Point Savings 
Bank of Brooklyn.

STATEMENT OF JOHN W. RABER, PRESIDENT OF THE SAVINGS BANKS
ASSOCIATION OF NEW YORK STATE AND CHAIRMAN OF GREEN POINT
SAVINGS BANK, BROOKLYN; ACCOMPANIED BY MR. RADACK AND
MR. MR. RASSNICK.

Mr. Raber. Mr. Chairman, members of the committee, my
name is John W. Raber. I serve as president of the Savings
Banks Association of New York State and as chairman of the
board of the Green Point Savings Bank in Brooklyn.

Mr. Moorhead. Mr. Raber, would you introduce your associ-
ates?

Mr. Raber. I am going to, sir, because I was next going
to say that I'm accompanied by, on my right -- no, on my left,
I should say, Mr. Montey I Radack, who is vice chairman and
director of the division of community development and housing
finance for our association. And on my right, Mr.
Leopold Rassnick, who is vice-president and general counsel
of our association.

Gentlemen, I welcome this opportunity to appear before
you today, as you consider matters which will determine the
social and economic viability of the City of New York.

Among the matters at issue, as the Federal Government's
three-year loan to New York is up for review, is whether the
city's financial institutions can pick up the credit burden
at this stage. We believe that no meaningful discussion can
be had on this matter until the city can offer those institu-
tions investment grade securities for such financing.

The Savings Banks Association of New York comprises all
of the 115 mutual savings bank in the State of New York. 42 of these institutions are headquartered in New York City, and these banks have total assets of $55 billion. The great preponderance of these assets is in the form of long-term real estate mortgage loans. In fact, of the total assets of all of the state's 115 savings banks, $51.3 billion, or 64 percent, are in the form of mortgage holdings. Of this total, more than $18.1 billion held by state-chartered commercial banks and $2.7 billion held by state-chartered New York savings and loan associations.

Our savings banks industry is basically a long-term lending component of the financial community, with a major commitment to provide mortgage financing in general and, more specifically, a source of funds for private residential building.

This does not imply that our savings banks do not recognize their institutional responsibility. In the first place, our banks must support the preservation of New York because our depositors, borrowers, and banking offices are there.

As important, however, is a recognition that savings banks were social institutions long before they became the relatively large financial institutions that they are today. Their original purpose was to combat poverty by providing people -- particularly wage earners -- with a safe place to keep whatever they could save from their earnings. That remains their basic purpose today.
But savings banks, as economic institutions, are only financial intermediaries, charged by law with the responsibility of safeguarding their depositors' funds.

At the same time, they provide for an interest return to depositors by carefully investing in various ways, principally in sound real estate mortgage loans.

The funds that have been entrusted by our depositors are held by savings banks merely as fiduciaries. We are responsible to those depositors for the availability of those funds, plus interest created as a result of income derived from prudent investments within limitations imposed by New York State law.

Yet, as one of the important components of the financial community, the savings banks recognized years ago that sound banking practice, in furtherance of our responsibility to our depositors, requires special consideration of the financial needs of the communities in which our depositors live. It is for this reason that the New York savings banks launched a statewide urban affairs program more than a decade ago.

That program, born in the wake of the social upheavals and urban disturbances of the 1960s, grew out of the knowledge that the state's savings banks are community-based institutions, with a genuine interest in, and a social relationship to, the communities they serve; that they have a special expertise in mortgage lending and in community development; and that they
have a natural and constructive role to play in any serious and sound attempt to revitalize and rehabilitate the urban areas of New York State.

Our urban affairs program has accomplished a great deal in its first 10 years of very active life. During these 10 years, through the urban affairs program, and exclusive of other investments made by individual savings banks in all parts of the state, the New York State savings banks have invested:

- $500 million in low- and moderate-income housing programs;
- $322 million in hospitals and health-related facilities;
- $42 million in child day-care centers;
- $100 million in educational facilities; and
- $130 million in inner-city commercial development.

And, Mr. Chairman, I would like to place special emphasis on and call particular attention to the fact that the savings banks industry of this state also has:

- Purchased more than $200 million of obligations of the Municipal Assistance Corporation;
- Invested $428 million in New York State Tax Anticipation Notes; and
- Purchased $240 million of bonds of the New York State Project Finance Agency, which enabled the State Urban Development Corporation to complete the build-out of residential properties totaling more than 15,000 units, with construction value in excess of $500 million.
I call special attention to these last three items, because in each of these instances, it was the savings banks industry that stepped in when the situation looked darkest, and provided the funds that made it possible to solve some of the most urgent and serious financial problems of New York City and New York State.

These and other parts of the urban affairs program add up to a total investment of more than $2.1 billion in community development projects -- exclusive of individual mortgages made by individual savings banks.

Moreover, just recently, the New York City savings banks announced agreement to place an initial amount of up to $50 million in revenue bonds of the New York City Industrial Development Agency. Through the issuance of such bonds, the IDA provides financial incentives and inducements to businesses which want to locate, relocate, or expand facilities within the City of New York. In just the past few weeks, savings banks have committed to six such loans, totaling almost $5 million, which have had the effect of saving 489 jobs and creating 307 additional positions.

Although our industry has specialized historically in long-term mortgage credit, it should be noted that at mid-year 1977 our banks held a total of $917 million in various state and municipal obligations. This investment is substantially in obligations which are guaranteed by the State of New York,
its agencies or subdivisions.

For example, the $240 million advanced to the State Project Finance Agency was secured by income flows from the HUD 236 program.

Mr. Chairman, as financial intermediaries with a unique trustee relationship with our depositors, we take our fiduciary responsibility very seriously. We cannot properly put our depositors' funds into any government paper which is not of investment grade, even though issued by a state or local government.

The credit markets have been closed to New York City since the spring of 1975. They did not reopen in November 1977, when a proposed debt offering was cancelled, and the underwriters concluded that the securities should not be offered to the public at that time. As financial intermediaries, we cannot place the funds of our small savers in securities the investing public does not stand ready to purchase.

The investment standing of any proposed city borrowings must be settled before there can be meaningful discussion of private financial community participation in meting the city's financial needs. This is especially true in our savings bank industry, where we rely heavily on the views of the rating agencies.

There appear to be two matters which must be settled before we can realistically talk about financing. One is an
enhanced control mechanism to monitor the city's financial condition during the life of any financing. The private credit markets -- the banks, the thrift institutions, the rating agencies, and the public -- will not be receptive to any city offering until the control matter is settled to everyone's satisfaction.

New York City must operate within the bounds of fiscal responsibility, and it is going to take continuing federal, state, local, and lender monitoring to ensure that the city lives within its means.

Secondly, there must be agreement on how much money is needed, and how much is available -- leading to the adoption of a realistically balanced budget. There are others with special credentials to interpret the complicated sets of numbers presented in the Senate Banking Committee report earlier this month, and by the city administration this morning. I do know, however, that much of the information I have seen in this area is contradictory.

One day I read that the city is short of money, and the next day I hear of a $500 million cash flow surplus. I read that the city has cut its labor force by 61,000 people and instituted a wage freeze; then I see numbers which show that the city's personnel costs have not been significantly decreased, if at all.

Mr. Chairman, there must be an agreement on just where
the city stands in its complex budget situation and the adoption of a budget balanced on generally acceptable principles. Then the control mechanism can be made to work efficiently, and then and only then can we begin to discuss rationally the issue of meeting the city's financing needs -- whether long-term or season.

If it can be shown that the city is without any recourse other than federal financing assistance to stave off the potentially disastrous effects of bankruptcy, then I would support such assistance. If more help is needed from the financial community, I am confident that under proper safeguards such help would be forthcoming from our industry.

Mr. Chairman, I will not attempt to discuss the implications of a bankruptcy by this nation's premier city, for that is not within my area of expertise. From everything I have heard and read on this matter, it would appear to be an utterly disastrous result, but I believe this committee has heard enough from real experts on this issue.

We have an expression in our industry which says: "As goes the neighborhood, so goes the savings bank." Well, Mr. Chairman, as goes the City of New York, so goes its institutions and its people.

On behalf of the savings banks of New York State, I thank you for this opportunity to present our views.
Mr. Moorhead. Thank you very much, Mr. Raber.

Do savings banks ever engage in short-term municipal financing such as the seasonal financing of New York?

I'm not speaking of New York specifically, but in that kind of lending business.

Mr. Raber. Perhaps I can answer that best, Mr. Chairman, by saying that if we go back to 1971, insofar as municipal securities are concerned, our savings banks -- this is all that we have in the state -- had about 200 millions of dollars invested in municipal securities. As a result of what has happened in recent months and years, we are now up to, as I believe I mentioned, some $971 million in municipal securities.

But by and large, as I believe I indicated, our savings banks are interested in mortgage lending, primarily. We have some 64 percent of our assets so invested and to indicate that is how much we do that type of lending. I represent a bank that has some 81 percent of its assets invested in mortgage loans, and I would like to state at this time that all of that lending except for 2/10 of one percent is represented by loans covering properties located in the New York City metropolitan area.

And I'm talking at the moment of some $820 million.

And we are talking about New York City in the boroughs of Kings and Queens in New York.
Our bank has some 60 percent of its portfolio of $820 million in mortgage loans invested in those areas.

Mr. Moorhead. I noted on page 7 of your testimony, you were talking about, with control mechanisms you could discuss meeting the city's financing needs, whether long term or seasonal.

Mr. Raber. That's correct,

Mr. Moorhead. What I'm driving at is the proposals from the city seems to phase the Federal Government's actions out of the seasonal and into the longer term, loan guarantees or the equivalent.

Would the savings banks be in a position to take up some of the slack of the seasonal problems that might result from the Federal Government getting out of the seasonal business?

Mr. Raber. Mr. Chairman, I would say to you that if we have -- that is, an instrument that is rated as being of investment grade, I cannot commit our savings banks in the city but I would volunteer to speak for them that we would respond.

Mr. Moorhead. Because you do make a very strong statement of the importance to your institutions of a viable city, and that is one of the things I'm wondering about.

Mr. Raber. I think I would sum it up by saying, as the neighborhoods go, there go the savings banks, and I
do hope that I indicated by our community involvement loans
that we are interested in all areas throughout the state, and
those of us who are domiciled in New York City are interested
in the city.

Mr. Moorhead. And you are interested, whether it is
short term or long term, as long as it is investment quality?

Mr. Raber. Yes, Mr. Chairman.

Mr. Moorhead. Thank you, Mr. Raber.

Mr. Kelly?

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Raber, you said there must be an agreement on just
where the city stands. How do you normally find out about
how a perspective borrower stands? Don't you look at their
books?

Mr. Raber. We look at real property on our mortgage
loans. When we are investing in bonds, and as I indicated,
this is not a major portion of our investment portfolio,
although we do have savings banks that will invest heavily
in bonds, they are going to look at all of the reports
issued on the company which represents the underlying debt.

Mr. Kelly. Well, something that issues these reports
or evaluations or ratings, somebody has got to look at the
books, don't they?

Mr. Raber. That is correct. This is what would happen,

Mr. Kelly. Isn't that one of the reasons that in
November of just last year, wasn't that one of the reasons that the ratings were so low, is because of the conflicting financial reports that were pouring out of the New York bookholders?

Mr. Raber. Mr. Congressman Kelly, I certainly would not disagree with you on that, but if I might comment at this time on a matter which has been the subject of many questions throughout this hearing, and that is that as I look at it as an individual New Yorker, as a representative of a savings bank in our industry, we have problems in New York that were created over a period of, let's say, some 30 years. I don't think they can be resolved in a very short period. I would lend my voice to that that you heard from all others this morning that New York City needs a bit more time to work out of the situation. I am just as confident as Mr. Pattison that given the time, New York City, with some temporary assistance from the Federal Government -- we're not asking for a grant -- all we're looking for is some temporary assistance. We will work out of it and we will have New York City as the premier city in fact as well as name in a short time.

Mr. Kelly. Well, if the rest of us don't run out of money, I'll believe you. I think you will get it done.

Mr. Raber. Mr. Congressman, I thought I said we are not asking for anybody else's money as a grant.
Mr. Kelly. Well, I don't, either. If you would just give me a line of credit for about $3 billion, I don't need any kind of a grant. You just give me the line of credit. Do you want to do that right now? I will be so rich I will quit talking to you.

Mr. Raber. Mr. Congressman

Mr. Kelly. I thought I understood earlier that the Federal Government made some $20 million on the funds it loaned to the city of New York. I think that is good business.

Mr. Kelly. Well, I think it is for New York, because now they are going to get instead of $2.3 billion for the short term they are going to get $5 billion for the long term.

But let me ask you this. A man by the name of Horowitz, he is one of the partners in Solomon Brothers -- have you ever heard of him?

Mr. Raber. I must confess that I do not know the gentleman.

Mr. Kelly. Well, he appeared before this committee and had all of the mien of somebody who was very important in financial circles, and one of the things that he said was that for long-term borrowing, New York needs a comprehensive, long-term financial plan to restore investors' confidence in the general obligation debt, including accuracy of financial data and full financial reporting.
Now, he gave this testimony just at the end of December the 16th of 1977. And so how many years does it take for someone to whip up a set of books that we can all rely on?

Mr. Raber. You are asking one who is not participating --

Mr. Kelly. We heard the testimony just here today that Mr. Goldin, the Comptroller, has been hot after them about getting up this good set of books for years, and this man says that in December of last year that they did not have it yet.

Mr. Raber. I believe he did mention that the firm of Peat, Marwick, and Mitchell had been taken on to set the city's books in order, and if I understood Mr. Goldin correctly, he stated that we have achieved this result, and it is just a question now of projecting into the future, making intelligent estimates, and he readily admitted that even the best accounting system in the world would not provide that.

Mr. Kelly. Well, let me ask you this. If the Federal Government will guarantee these loans, it is going to help the value of this couple of hundred million that you hold, won't it?

Mr. Raber. That our savings bank industry holds?

Mr. Kelly. Yes.

Mr. Raber. They are not all New York City obligations,
Mr. Kelly.

Mr. Kelly. They are not?

Mr. Raber. No, sir.

Mr. Kelly. Those that are New York, though, will be enhanced by the value of the Federal Government affixing their guarantee.

Mr. Raber, I cannot dispute that. I would agree.

Mr. Kelly. You said you seem to have some enthusiasm to the idea, that you would support this kind of federal guarantee.

Mr. Raber. I don't know that I referred to that specifically. I would support anything that is going to help the city of New York.

Mr. Kelly. Well, I am reading on page 7, and what I understood you to say, and what the paper that you submitted to the committee says, it says: "If I can be shown the city is without any recourse other than federal financing to stave off potentially disastrous effects of bankruptcy, then I would support such a system."

Mr. Raber. Yes, but I did not think that I said anything about federal guarantees. I'm talking about federal financing assistance.

Mr. Kelly. Well, isn't that in the form of a guarantee? Isn't that what you are suggesting?

Mr. Raber. Well, I don't know whether it is a guarantee,
Mr. Congressman, if the money is being made available on
loan with a definite commitment to repay.

Mr. Kelly. But what is the Federal Government supposed
to do: loan you the money or guarantee the repayment of it?
What is the part that you think the Federal Government should
play?

Mr. Raber. Well, I think the Federal Government should
play the part that New York City requires in order to
accomplish financial stability.

Mr. Kelly. Then it says: "I am confident, under
proper safeguards, that such help will be forthcoming from
our industry."

In other words, if you can get a bunch of fish in a
rain barrel and you've got a load of dynamite, that you'll
let them have it.

Mr. Raber. No, sir.

Mr. Kelly. Isn't that what that means? In other words,
with the Federal Government guaranteeing payment, then you
are going to loan the city some more money.

Mr. Raber. I did not say that, Mr. Kelly. What I said
was that if we have a security available to us for investment
which is of investment grade, then our industry would support
the endeavor to the fullest.

Mr. Kelly. What has New York done, to your knowledge,
in the last three years other than cosmetic and public
relations gestures to really get its house in order?

Do you think rent control is a good thing?

Mr. Raber. No, sir, I do not.

Mr. Kelly. What about -- do you think that the unions exert too much control over the government in New York and that the wages paid those municipal workers are too high and the pensions are too good and that it is possible for employees to get a couple of months' vacation a year and all of that? Do you think that is all all all right, or do you think maybe it is a little excessive?

Mr. Raber. Well, you are asking one who doesn't qualify as an expert in that regard.

Mr. Kelly. Well, you are a taxpayer, aren't you?

Mr. Raber. I certain am a taxpayer. I'm more of a taxpayer to the Federal Government than I am to the city of New York or the state of New York.
Mr. Kelly. What about the level of welfare payments?

Mr. Raber. I would like to answer the question you asked me first, Mr. Congressman.

Mr. Kelly. All right.

Mr. Raber. I'm going to have to try to think of the question you asked me, how I felt about what was going on in New York.

You asked a question about the salaries that were being paid, the vacations that were being granted. I would ask you to understand that the cost of living in New York City, in my opinion, is higher than it is elsewhere throughout this nation.

Mr. Kelly. Can I give you a statistic to support that?

Mr. Raber. I would be happy to receive that.

Mr. Kelly. You know the cost of living is extremely high in New York, much higher than it is in Houston, Texas, but you know 60 percent of the cost of living -- 60 percent of the different in the cost of living between Houston and New York is the state income tax.

So it is higher taxes caused by bad government. What did you think that the cost of living in New York comes from, if it doesn't come from having the highest taxes in the United States of America? Or do you think that that does not contribute to the cost of living?

Mr. Raber. Well, I think we pay a bit more for fruits and vegetables than they in Texas, and a bit more for beef, also.
Mr. Kelly. Well, do you know why? Because rents are higher, and utilities are higher, and everything in New York City is higher, and contributed to, to a major degree, by bad government controlled by big labor unions.

Mr. Raber. 'Well, Mr. Congressman Kelly; you have mentioned welfare a few times. Would you accept my personal opinion -- not an industry opinion?

I have been around for a few years, and I can remember when we had an influx of United States citizens into the City of New York who came here from outside the continental United States and from down South. They are American citizens, but we now have the problem of providing welfare payments to them.

And as I understand it, the welfare bill in New York City is a billion to a billion, two hundred million dollars.

Mr. Kelly. It's the highest in the country.

Mr. Raber. Right. And I said that's a national matter, because these are citizens of these United States. And it is my opinion, if the Federal Government takes over the welfare costs, we will have not problem in the City of New York, and we'll be back to financial stability in no time at all.

Mr. Kelly. As I understand your temporary commission there in New York found that leave benefits on the average exceed 50 days each year, almost one-fifth of the 261 day work year.

Now I just think that is really fine of you people to grant
that kind of leave and leisure to your workers if you will
just pay the bill; why I think everybody in the country would
appreciate it. But if you're going to send the rest of us the
bill, it seems a little excessive, wouldn't you agree?

Mr. Raber. I think Mr. Goldin supplied the answer there.
He is more knowledgeable about that situation than I.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Moorhead. Mr. Caputo.

Mr. Caputo. Thank you Mr. Chairman.

Mr. Raber, you probably remember the winter of '75, when
UDC defaulted. I notice you bought some PFA paper. What
was the condition of the New York State municipal credit
markets right after the UDC default?

Mr. Raber. I think I'm going to have to refer to a
text. I would offer the opinion immediately that it was not
too good.

Mr. Caputo. Your recollection is kind of vague, I
take it.

Mr. Raber. It certainly is.

Mr. Caputo. The reason I'm asking the question is, there's
been a lot of speculation as to what would happen in the event
of default and bankruptcy. It seems like we had a live one in
New York, and it was rather in your area.

Mr. Radack. At the time of our loan to UDC, or to PFA --
UDC was technically in default -- UDC had expended over a
$1,100,000,000 in building projects totalling over 15,000
housing units, all of which they would get Federal 236 rent
subsidies on upon completion of the project.

The problem was that better than about 95 percent of the
projects weren't completed yet, and even though UDC had
borrowed over $1 billion to build these projects, they would
not be eligible for these federal subsidies until they were
completed. It was for that reason that we went in and put up
the money to UDC so that they would be able to have the money
to finish their projects.

Mr. Caputo. What I'm trying to get at is what happened
in the credit markets after a major issuer like UDC defaulted.
Do you remember?

Mr. Radack. Well, one need only look at the next year
when the State of New York tried to sell $4 billion.

Mr. Caputo. Not the next year, a few months later.

Mr. Radack. A few months later is right, in April of
'76, when they tried to sell $4 billion in short-term tax-
anticipation notes, of which our industry purchased about a
tenth of that total; the rate was twice as high as the rate
normally was, and it was only financed through extraordinary
private placement means.

Mr. Caputo. It was 7-1/2 instead of 3, wasn't it?

Mr. Radack. I think it was 7 instead of 3-1/2.

Mr. Caputo. Do you remember what happened to school boards
on Long Island about that particular point in time?

Mr. Raber. I well remember, they had to pay a very high rate on any obligations they issued.

Mr. Caputo. Mr. Chairman, I would like the record to show that after the default of the Urban Development Corporation in New York State the City of Yonkers was unable to get to the credit market. Four school districts on Long Island were unable to get to the commercial credit markets. None of those issuers had any trouble with commercially available credit for their seasonal and long-term financing needs prior to that default. The State of New York nearly could not make it. That is the State of New York which, by definition, has always had a balanced budget, and has never had the kind of excessive borrowing that characterized New York City.

There was calamity. Fortunately, the default only lasted 21 days, or something about that time. If we had a permanent default of an issuer far bigger than UDC, I think there would be calamity of that type. And that is not a hypothetical. That is an actual experience.

But could I go on to another area?

Mr. Raber. Mr. Caputo, would you like some additional facts in that regard? As I indicated before, we are not purchasers of short-term municipal instruments. But there was a letter that came into our bank at that time from a school district asking for bids. I asked our investment
officer to submit a bid, calling for a 7 percent rate, and
we were the successful bidder. That is corroborating the
statement you made a moment ago.

Mr. Caputo. What was the prior interest rate paid by
the issuer?

Mr. Raber. I think about 3-1/2 or 4 percent.

Mr. Caputo. I would like to ask, of the 200 MAC
indebtedness that the state industry bought, and the 240
PFA issue, how much of that was short-term, do you know?

Mr. Radack. The PFAs were either 15-year or 20-year
obligations.

Mr. Caputo. How about the MAC?

Mr. Radack. I don't know.

Mr. Raber. I can tell you what we did in our bank; we
bought them in strips throughout, in all of the issuances.

Mr. Caputo. Is there a substantial amount of MAC
short-term paper that has since matured, and you have been
paid and invested it in something else?

Mr. Raber. Not in our bank as yet; I can't speak for
the industry.

Mr. Caputo. Then let's just confine ourselves to the
$420 million of New York State bonds that the industry bought.
I assume that's all bee repaid, so that's $500 million that
at one time was invested in municipal -- in this case, State --
paper, that is now invested in something else, that the
savings bank industry has in investable funds in the New
York City situation; is that a fair statement?

Mr. Raber. I'm not in a position to answer that, Mr.
Caputo.

Mr. Caputo. What I'm trying to get at is some sort of
estimate about the size of the contribution of the savings
bank industry, that it could make to buying MAC or City paper,
guaranteed, or unguaranteed.

Mr. Raber. Well, I think the figures will indicate that
our savings banks represent 20 percent of the total resources
of the financial institutions in New York.

Mr. Caputo. Total resources; is that capital?

Mr. Raber. No, this is assets. I think we're talking
about $55 billions related to $247 billions.

Mr. Caputo. Is the same fraction of your assets
available in investable issues.

Mr. Raber. Not at this time.

Mr. Caputo. A much smaller fraction?

Mr. Raber. Well, I cannot give you a number, Mr.
Congressman. But I can give you the picture at this moment.
I know that we are experiencing disintermediation -- I think
all of you are familiar with that nasty word -- at this time.
I know that our industry has about $4.5 billion in mortgage
commitments at the present moment, and we maybe facing a
liquidity squeeze.
But the statement I made before still holds, that if we have a viable plan for the City of New York, I would expect that our New York City based savings banks would respond to the fullest.

Mr. Caputo. I'm just trying to get some kind of range on the nature of the response. Is it a $200- to $300 million response, similar to the PFA?

Mr. Raber. I cannot make a commitment. Would you like to think of perhaps $100- to $150 million?

Mr. Caputo. I would like to also ask if you feel there will ever be, let's say in the next decade, a retail market for New York City debt? Or in light of the failure, and I believe the syndicate on the MAC issue last time broke twice; it was a pretty strong issue on paper. Will there ever be a retail market for City-related paper in the next decade? Or aren't we really talking about finding ways to place the City's obligations in large institutions like commercial banks and savings banks?

Mr. Raber. Well, that is the situation at the moment, but if you're asking the question, will there ever be a retail market? I am one who looks forward to the day when we will have a retail market for New York City obligations.

Mr. Caputo. I'm looking forward to it also, but what I'm driving at is, does the MAC experience of last Christmas suggest that even when the facts warrant investment, such as
the City has balanced its budget in a true sense, and the
State advance has been eliminated, and capital items are
removed from the budget, will there be any rational resistance
to City paper for several years?

Mr. Raber. Well, you're talking about public psychology,
and I don't know what the reaction of the individual investor
would be. But I would hope that the confidence would be
restored, and as you put it, that once again we would have a
retail market.

Mr. Caputo. Let me summarize. It seems to me -- you were
here most of the day; I think I remember seeing you sitting
there --

Mr. Raber. Patiently, sir.

Mr. Caputo. Two points emerged to me: the first is, if
nothing is done to help the City in the next 6 to 8 months,
on a commercially competitive basis -- this is with the
City paying for its guarantees, and paying for any loans it
might get -- if nothing is done, there would be catastrophe,
both for the people who live in the City of New York, for
every municipality in the State of New York, every water
district, every sewer district, anybody who has used debt;
that that would probably spread throughout the country, have
ramifications on the value of the dollar, and in our
international prestige, as I think Mr. Rohatyn eloquently
expressed.
And there is a second point, that what Mr. Koch has requested is enough. We are here today because what his predecessor requested in 1975, or more accurately, what Congress disposed in 1975, was not enough.

Is this request enough? Would this cure the problem as you understand it?
Mr. Raber. I can answer that by telling you I hope that it would solve the problem for the period required for the city to set its finances in order.

Mr. Caputo. Thank you very much.

Mr. Moorhead, Mr. McKinney?

Mr. McKinney. Well, Mr. Chairman, I'll have to apologize for having been called away, and I apologize to the gentleman, and I would just simply say that I will read your testimony with interest tonight.

I also, Mr. Chairman, would like to ask unanimous consent to insert in the record from the New England Economic Review and the Federal Reserve Bank of Boston, "Big City Bonds after New York."

Mr. Moorhead. Without objection, that will be made part of the record.

(The complete document follows,)
Mr. McKinney. I just, Mr. Raber, would like to
compliment you on your comments as to welfare. I just came
back from a trip to assisted housing in New Orleans, and I
think New Orleans is a lovely city and I'm not about to knock
New Orleans, but I've heard an awful lot today about what we
are doing for New York. It's very interesting, you see, to
me to see that the municipal budget of New Orleans is one-half
paid by the Federal Government and the state government.

It is also very interesting to see that if there is a
man in the house in Louisiana, regardless of whether there are
six starving children or 10 starving children, there can't
be a dime of welfare paid or family assistance paid to that
family, and that a lot of those children will have to come to
New York, it looks like, to get fed, or Washington D.C., which
I also happen to have a hand in.

And I think it is also interesting to note that New York
City has no fault to blame for the fact that the Federal
Government hasn't done anything about the over one million
illegal aliens that cost the city a fortune.

And it is interesting, and when I finish my great opus in
a couple of years from now, to look and see just exactly what
the cost-out ratio to the city of New York has been to
support all of those of us whose parents were immigrants when
they arrived in this country, and I admire your comments in
general on the whole subject.
And I am sorry, as I said, that I missed your testimony. I will read it, and should I have any questions, I will put them in writing and send them to you.

Mr. Moorhead. Thank you very much, gentlemen, for your testimony, and also I might add, for your patience. We appreciate that very much. We are sorry we kept you waiting for so long, but it has been a long day for all of us.

Mr. Raber. No apology is necessary. I learned quite a bit in listening throughout the day.

Mr. Moorhead. I would now like to ask unanimous consent to include in the record a statement on behalf of the New York Teachers Pension Association, and without objection that will be included in the record.

(COMMITTEE INSERT.)
Mr. Moorhead. I think probably following the testimony --
I think that should go probably following the testimony of Mr. Bigel.

I would also like unanimous consent to include in the record a statement of our colleague, the Honorable Walter E. Fauntroy, and without objection that is so ordered.

(COMMITTEE INSERT.)
Mr. Moorhead. When the committee adjourns today it will adjourn to meet tomorrow in this room at 9:30.

The subcommittee is now adjourned.

(Whereupon, at 4:25 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Wednesday, February 22, 1978.)
HEARINGS
BEFORE THE
SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE
COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-FIFTH CONGRESS
SECOND SESSION

PART 2
MARCH 7, 8, AND 15, 1978

Printed for the use of the
Committee on Banking, Finance and Urban Affairs
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HENRY S. REUSS, Wisconsin, Chairman

THOMAS L. ASHLEY, Ohio
WILLIAM S. MOOREHEAD, Pennsylvania
FERNANDO J. ST. GERMAIN, Rhode Island
HENRY B. GONZALEZ, Texas
JOSEPH G. MINISH, New Jersey
FRANK ANNUNZIO, Illinois
JAMES M. HANLEY, New York
PARREN J. MITCHELL, Maryland
WALTER E. PAUNTOY,
District of Columbia
STEPHEN L. NEAL, North Carolina
JERRY M. PATTERSON, California
JAMES J. BLANCHARD, Michigan
CARRIOL HUBBARD, Jr., Kentucky
JOHN J. LAFALCE, New York
GLADYS NOON SPELLMAN, Maryland
LES ACCOIN, Oregon
PAUL E. TSONGAS, Massachusetts
BUTLER DERRICK, South Carolina
MARK W. HANNAFORD, California
DAVID W. EVANS, Indiana
CLIFFORD ALLEN, Tennessee
NORMAN E. D'AMOURS, New Hampshire
STANLEY N. LUNDINE, New York
EDWARD W. PATTISON, New York
JOHN C. CAVANAUGH, Nebraska
MARY ROSE OAKAR, Ohio
JIM MATTOX, Texas
BRUCE F. VENTO, Minnesota
DOUG BARNARD, Georgia
WES WATKINS, Oklahoma
ROBERT GARCIA, New York

PAUL NELSON, Clerk and Staff Director
MICHAEL P. FLAHERTY, Counsel
GRANTY CLEWES II, Counsel
MARCIA L. JACKSON, Minority Staff Director
GRAHAM T. NORTHOP, Deputy Minority Staff Director

SUBCOMMITTEE ON ECONOMIC STABILIZATION

WILLIAM S. MOOREHEAD, Pennsylvania, Chairman

JAMES J. BLANCHARD, Michigan
STANLEY N. LUNDINE, New York
BRUCE F. VENTO, Minnesota
DOUG BARNARD, Georgia
WES WATKINS, Oklahoma
THOMAS L. ASHLEY, Ohio
WALTER E. PAUNTOY,
District of Columbia
CARRIOL HUBBARD, Jr., Kentucky
JOHN J. LAFALCE, New York
EDWARD W. PATTISON, New York

EDWIN W. WEBER, Subcommittee Staff Director
DAVID S. KIRMAN, Minority Counsel

(II)
CONTENTS

Hearings held on—
Mar. 7, 1978................................................................. 1
Mar. 8, 1978................................................................. 131
Mar. 15, 1978............................................................ 237

STATEMENTS

Anderson, Hon. Warren M., minority leader, New York State Senate.................................................. 197
Belsam, Carol, president, New York City Council ................................................................. 81
Benedict, Jane, chairwoman, Metropolitan Council on Housing ..................................................... 239
Carey, Hon. Hugh L., Governor, State of New York ................................................................. 132
Duryea, Hon. Perry B., minority leader, New York State Assembly.................................................. 213
Goldin, Harrison J., New York City comptroller ............................................................................. 84
Koch, Hon. Edward L., mayor, city of New York ........................................................................... 2
Leventhal, Nathan, commissioner, Department of Housing Preservation and Development, city of New York ................................................................. 238
Moses, William A., chairman of the board, Community Housing Improvement Program, Inc. ............. 238
Ohrenstein, Hon. Manfred, minority leader, New York State Assembly ........................................... 210
Rohatyn, Felix G., chairman, Municipal Assistance Corporation .................................................... 149
Steingut, Hon. Stanley, speaker, New York State Assembly ............................................................ 207
Tompkins, Rexford E., chairman, board of trustees, Citizens Budget Commission; accompanied by Herbert J. Ransburg, director of research ......................................................... 238

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD

Anderson, Hon. Warren M., prepared statement ........................................................................... 199
Benedict, Jane:
"Are Landlords Really Losing Money?" report submitted .............................................................. 371
"Housing in the Public Domain: The Only Solution" report by Peter K. Hawley ................................ 268
Prepared statement on behalf of the Metropolitan Council on Housing ......................................... 264
Carey, Hon. Hugh L., prepared statement ...................................................................................... 132
Citizens Budget Commission, prepared statement on behalf by Rexford E. Tompkins, chairman, board of trustees ......................................................................................... 241
Community Housing Improvement Program, Inc., prepared statement on behalf by William A. Moses, chairman of the board ...................................................................................... 375
Kelly, Hon. Richard:
"Looking Ahead in New York City," publication by the Economic Development Council of New York City, Inc. ..................................................................................................... 234
Material submitted from a Treasury Department report of May 1976 ............................................. 239
Statement .......................................................................................................................................... 247
Koch, Hon. Edward L.:
Detailed statement reviews of the City's financial needs and plans to balance the budget and regain access to the credit markets ................................................................. 15
Prepared statement ......................................................................................................................... 7
Responses to questions submitted ..................................................................................................... 114
Leventhal, Nathan, prepared statement ............................................................................................ 392
McKinney, Hon. Stewart B., opening statement, March 7 ............................................................... 2
Metropolitan Council on Housing, prepared statement on behalf by Jane Benedict, chairwoman ........ 204
Moorhead, Chairman William S., letters submitted from—
Hon. John G. Holmam, dated—
March 2, 1978................................................. 188
March 8, 1978.................................................. 194
Hon. George A. DeMaistre.................................. 184
Robert V. Rosam............................................. 182

Moses, William A.:  
"Auction Sale: Surplus City-Owned Real Estate," brochure of the New York City Division of Real Property.......................................... 479
Prepared statement on behalf of the Community Housing Improvement Program, Inc., with attached material........................................ 375
"The Effects of Rent Control and Rent Stabilization in New York City," report by the Temporary Commission on City Finances........................................ 413
Steinigut, Hon. Stanley, letter dated March 29, 1978, in response to Congressman Doug Barnard's inquiry re New York State's willingness to lend funds to New York City.................................................. 226
Tompkins, Rexford E., prepared statement on behalf of the Citizens Budget Commission.................................................. 241

**APPENDIX I**

"The City of New York Four-Year Financial Plan, Fiscal Years 1979-82"............................................. 531

**APPENDIX II**

Albert, Frederick, Baldwin, N.Y., letter dated March 23, 1978........... 728
Bahr, Morton, international vice president, Communications Workers of America, AFL-CIO, statement............................................ 704
Citizens Advisory Committee to the MTA Management Study, working paper prepared by the subcommittee on finance........................................ 636
Economic Development Council of New York City, letter from Paul Busse, president of the council, dated March 16, 1978, to Congressman Robert Garcia............................................. 700
Fisch, Mayer, M.D., New York, N.Y., letter dated February 2, 1978........ 727
Kings Bay YM-YWHA of Brooklyn, Brooklyn, N.Y., letter dated March 20, 1978, from Michael Coleman, chairman, social action committee, with attached petition.................................................. 709
Mendelson, Charles, CPA, Brooklyn, N.Y., letter with attachments dated March 31, 1978.................................................. 711
Shannon, Jeanne R., Huntington, N.Y., member, New York State Employees' Retirement System, letter dated March 21, 1978.............. 723
United Hatters, Cap and Millinery Workers, International Union, New York City, N.Y., Gerald R. Coleman, secretary-treasurer:
Letter dated February 22, 1978........................................ 667
Statement before the White House Conference on Balanced National Growth and Economic Development at Washington, D.C., February 1, 1978...... 669
Van der Meulen, Alice M., Port Byron, N.Y., letter................. 725

**APPENDIX III**

Material from a Treasury Department report of May 1976, referred to by Mr. Kelly on p. 288............................................. 731
NEW YORK CITY'S FISCAL AND FINANCIAL SITUATION

TUESDAY, MARCH 7, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC STABILIZATION OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 9:35 a.m. in room 2128 of the Rayburn House Office Building, Hon. William S. Moorhead (chairman of the subcommittee) presiding.


Also present: Representatives Henry B. Gonzalez of Texas, Clifford Allen of Tennessee, and Robert Garcia and S. William Green, both of New York.

Chairman Moorhead. The Subcommittee on Economic Stabilization will please come to order.

The subcommittee has heard from the Secretary of the Treasury the main features of a plan for Federal financial assistance for New York City after the expiration of the present seasonal loan financing at midyear.

We know that the chief thrust of that plan—Federal guarantees to enable the City to undertake badly needed long-term borrowing—parallels the views and plans of the mayor and his financial advisers.

I believe that any serious student of the City's present condition, its progress to date, its outlook, and its needs would have to reach the same basic conclusion—that the next stage must involve long-term financing. It is the only way the City can get on its feet and off our backs.

However, there is much that we still need to know, and Mayor Koch, today's witness, should help us in our search for a solution.

First, there is the question of seasonal loans. No one disputes that there must be seasonal borrowing. The question is whether the improvement in the City's underlying position, together with the proposed guaranteed long-term debt, will make possible seasonal financing from local and market sources without any further Federal involvement.

Next, there is the crucial question of the City's budget. Once again, there is no dispute. All plans—and certainly our action here in Congress—hinge on achievement by the City of a fully balanced budget on generally accepted accounting principles by the end of the 4-year plan period.

(1)
That does not look like an easy task. What assurances can the mayor give that it can be accomplished? In this connection, we all have in the back of our minds, unavoidably, the current labor negotiations with the City’s employees.

And so we are ready to hear from the mayor, the comptroller, and the president of the city council.

Our approach, Mr. Mayor, is constructive, but I think you know that, inevitably, it is also skeptical.

At this point in the record, Mr. McKinney would like to insert an opening statement, and, without objection, that is so ordered.

[Congressman McKinney’s opening statement follows:]

OPENING STATEMENT OF HON. STEWART B. MCKINNEY

It is a pleasure to see the Mayor here again. Thanks to your frequent visits this year on behalf of the City, you must have one of the best attendance records in the House. Welcome also to your associates whose faces are becoming more familiar than those of my family.

Last week the subcommittee heard the sound of one shoe falling. Secretary Blumenthal outlined for us in very general terms what the administration might do to help New York under certain conditions. Unfortunately, we don’t know what most of those conditions are—and he said we may not be told all the details before we have to vote on the package.

In 1975 a bill was reported out by this committee which was intended to establish a program of guarantees. That bill featured short-term guarantees not to exceed $2 billion maturing by October, 1978, and a phased-down long-term guarantee line which started at a maximum of $5 billion and declined to $6 billion. In my opinion, this was the logical path to follow at that time to defuse the imminent crisis of bankruptcy and also to attack the long-term nature of the City’s problems.

I am still of the same opinion. Recent testimony demonstrated that bankruptcy is still a threat—not as imminent as in December of 1975 but still too catastrophic to permit. Likewise the long-term nature of the problem still represents a major stumbling block. Neither short- nor long-term assistance by itself can provide the final boost that will allow New York City to reenter the borrowing markets.

As my good friend (and colleague), Bill Stanton, said at last week’s hearing, the 1975 seasonal financing plan, imperfect as it was, kept New York City from going bankrupt. That continues to be the case today as short-term financing continues to play a vital role.

But by his proposal, Secretary Blumenthal has acknowledged the need for some long-term Federal involvement. I question the desirability of guaranteeing the future without first taking care of the present. Our cure for the illness will be of little value if the patient has already died. Personally, I say let us keep the respirator plugged in a little longer for our own insurance.

Perhaps my old friend, Mayor Koch, will tell us that there are other sources to provide the seasonal funding and the long-term guarantee is sufficient. I am not optimistic about hearing that, however, and think that we should work for the best overall solution. In our haste to provide long-term financing for New York City, let us make sure the City can pay the bills next summer, too.

Chairman Moorhead. Does any other member seek recognition at this time?

[No response.]

Chairman Moorhead. Then, will you proceed, Mr. Mayor.

STATEMENT OF HON. EDWARD I. KOCH, MAYOR, CITY OF NEW YORK

Mayor Koch. Mr. Chairman, first, I want to thank you and other members of the subcommittee for scheduling us and permitting us to address you and to establish the City’s case.
The three of us are a team: Comptroller Harrison J. Goldin; president of the city council, Carol Bellamy. We are united in our desire and our efforts and our proposals and plans to make certain that everything that has to be done to have the renaissance and resurrection of the city of New York under the carefully scheduled fiscal plan that we have brought to your attention takes place.

That has not happened in the past. There has, in the past, for whatever reasons—good, bad, or indifferent—not been that kind of close cooperation that exists among the three citywide officeholders in the city of New York. Perhaps, in adversity, you draw together; and out of adversity, perhaps, I believe will occur the success that we believe can be achieved.

I have brought with me, Mr. Chairman, for purposes of placing in the record and not detailing in the oral statement, a number of documents. And, with your permission, I would like to put into the record the financial plan that we are presenting to you.

I would like to place into the record a detailed statement on my testimony, which I will not read. It is quite detailed, but I believe that the best part of any hearing, having sat with you on that side of the table, is the questions and answers, and so I am going to be very brief in my comments. But I would like to place my full statement and attachments in the record.

Chairman Moorrie! Without objection, that is so ordered.

Mayor Koch. And, in addition, if I may, there was a report by Senator Proxmire, and we answered that report item by item, and I would like to place that in the record as well.

Chairman Moorrie! Without objection, so ordered.

Mayor Koch. Mr. Chairman, in the 5 minutes that I will take, so as to permit the three of us to have an opportunity to formally address you before we go to the questions and answers, I would like to tell you what we have done, what we are doing, and what we plan to do.

What we have done since 1975, Mr. Chairman. The city of New York has done a lot of things that lots of people are unaware of to change a situation which existed, which could rightfully be criticized, and was, indeed, criticized. And the actions were taken as a result of the actions of this Congress.

But let me tell you what the city of New York has done since 1975. They have reduced the work force by 21 percent; that is, the actual City workers. They have imposed tuition at the City University, formerly free. Now, tuition costs are on the average of over $800. We have reduced the welfare rolls to the lowest level in 8 years. We have increased the subway and bus fares by 43 percent. We have retained independent accountants to audit the City’s financial statements. Very few cities in this country do that. And we have, by almost acclamation, the report that our accounting system, municipal accounting system, is the best in the country.

I say that these things were done because you required that they be done, and they should have been done. But you required it, and they were done.

We now come before you, and what is it that we are asking for? We are asking for a continuation in some form of seasonal loans and also long-term assistance, and that is basically the guarantee.
With respect to the seasonal loan, since it is this very committee that developed that program and made it possible for New York to survive in 1975 and thereafter, I would only touch lightly upon it.

The seasonal loan, to deal with our seasonal borrowings, has obviously not incurred any debt on the part of the United States or our Treasury. In fact, as we all know, the Treasury is the richer for it by more than $30 million in interest payments.

The seasonal loan is a requirement that we need, but we don't need it to the same extent that we did when it was first authorized. The original authorization was $2.3 billion. We do not need that amount. What we need is to have in reserve for our needs $1.2 billion. We may not even draw as high as that, because we did not draw as high as the $2.3 billion. So, we urge that the seasonal loan be extended.

Let me touch upon the long-term financing which is the new aspect. What we need to do is to balance our budget under true accounting principles, because, until that occurs, we are not going to be able to enter the private capital markets. People thought that if we were to do what the State legislature said we should do, which is to take our true gap which is $1,022 million and amortize it out—pay it out over a 10-year period—and there are 7 years left to go—that if we simply said that, that the private markets would reopen and that we would then be able to go back in there.

It did not work that way. The fact is that the private capital markets require a truly balanced budget, and so we have come up with a financial plan, which I have placed in the record, which, in fact, provides for such a balanced budget at the end of 4 years by phasing out, in the first 3 years of that plan, the entire amount of the expense items that are now carried in the capital budget, $643 million carried in the capital budget, which we will phase out instead of over a 7-year period remaining to us under State legislation within a 3-year period.

In order to make the City come alive again—and it is a great City—it is, as I have described it, and I think it is true, it is a stroke of genius, New York City. But I won't dwell on that. You have all been there. It is in need of assistance. But it is a city that belongs not only to those of us that live there, it is your city as well. It is the premier city of the country, of the world, and it needs your assistance.

Well, in order to make that city live again, we have to have our capital budget restored. The profligate administrations that did take place prior to 1975 destroyed the capital budget so that bridges were not repaired, the sewers were not either replaced or constructed. We have a cycle that relates to the replacement of our streets which is unheard of. We have 6,000 miles of streets, and we replace them at the rate of 55 miles a year. I think that the arithmetic comes out that we would then be replacing them at the rate of 125 years.

I asked the commissioner of Meridian, Miss., who is on the transportation panel and who came to New York City not long ago, what their replacement rate is, and he said every 7 years, every street in Meridian, Miss., is replaced. We replace them, as I said, I think, at the rate of 125 years.

That capital budget has been destroyed. We want to revive it. Now, we can revive it. In order to revive it, we have to be able to sell $5.1
billion in bonds, and in order to do that, in order to get back into that capital market, we believe that guarantees for the pension funds that would be willing to invest, the State and the City pension funds would be willing to invest $2.225 billion, that they require guarantees, that the balance of the moneys that are desperately needed to put us once again into a situation where we can get that load that is crushing our backs and extend it as it should have been years ago into long term and also to replace our capital needs in a reasonable, responsible way, that the private sector will come in with the balance of that.

Now, Secretary Blumenthal—and I am going to conclude in perhaps a minute—Secretary Blumenthal has come in with a proposal, and it is a major step forward. It is not a proposal that we think is totally adequate, because it does not include the seasonal loans. We think the seasonal loans are important. There is only the 15-year guarantee that the Secretary proposes for the pension funds, and we expect those bonds to be 20 years; and therefore, it would make it extremely difficult if the guarantee did not run the life of the bond.

What is the danger to the United States, to this Congress, to the people of the City, if we were to go under? And we will not go under. I am committed to doing everything that is necessary to make sure that we do not go under, but what is the danger?

I say to you that there is no danger to the United States, because part of the proposal is that you hold in ransom—and I am not using that word pejoratively—I am simply stating fact, that you hold as security the revenue-sharing funds, the third-party payments which the United States provides every State and every city in this country.

So, what we are saying simply is that the danger does not exist, and all of the matters that the Secretary has said are required that we have, in particular the monitor, a comparable mechanism similar to the Emergency Financial Control Board—I am for that. That is a necessary item, were these guarantees to be provided. And the State legislature is required to extend that, and I support that extension.

Finally, there is a whole new spirit in the city of New York. I know you have been there, many of you, recently, I know all of you have been there on different occasions. But I think, recently, if you go down the streets, if you talk to people, I think you will find that there is a resurgence, a feeling of vitality, that things have changed, that the old days are gone, that there is a new team at city hall willing to do what is necessary.

I believe that also includes—especially includes—the municipal workers in the city of New York. Oftentimes they are criticized, and many times correctly so. But we forget about the fact that overwhelmingly the municipal workers are very decent, able, dedicated people. If there is sloth, as there is, it is because there was no management at the top to stop the sloth. The management is now there. The municipal unions have also assisted in making it possible for us to survive by lending us money.

So, while I take a very, what I consider to be, reasonable approach to union negotiations, some of the people in the union negotiations think I take a tough line. I am telling you I take the approach that I represent 7.5 million New Yorkers, of which the municipal workers make up a part, and we are interested in saving the City, all of us. But
I don't want us to believe that it is necessary to dump on the municipal workers, because they have tried to help.

And I can assure you that if you help us, you will not be sorry, because, again, it is your city, not just our city. We are lucky; we live there.

Thank you.

[Text resumes on p. 81.]

[Mayor Koch's prepared statement follows. Also submitted for inclusion in the record are the following: a detailed statement of Mayor Koch's views of the City's financial needs and the City's plans to balance the budget and regain access to the credit markets; "Collective Bargaining Demands of the City of New York," dated February 27, 1978; and "The City of New York Response to Proxmire Committee Report," dated March 1, 1978.]
Mr. Chairman, Honorable Members of the House Economic Stabilization Subcommittee:

Thank you for this opportunity to meet with you today. It is a privilege and a pleasure for me to appear as Mayor of the City of New York, before you, my former colleagues. My testimony this morning will consist of a lengthy, detailed statement -- which we have delivered to the Subcommittee in writing -- and a shorter statement which I will make at this time.

Since my election as Mayor, I have stated that the burden of proof is upon New York City to demonstrate the merits of its case for renewed Federal assistance. I accept that burden even though as a former member of this House I believed, as many of us did, that the passage of the Seasonal Financing Act of 1975 would eliminate the need for the City to ever return for help.

That hope, that feeling, that belief, unfortunately underestimated the lack of investor confidence in the City despite the fact that we:

-- reduced our workforce by 21 percent;
-- imposed tuition at City University;
-- reduced welfare rolls to the lowest level in 8 years;
-- increased subway and bus fares by 43 percent;
-- retained independent accountants to audit the City's financial statements;
-- implemented a new financial and management control system;
-- expect to achieve a balanced budget for the fiscal year ending June 30; and
-- repaid on time all borrowings under the Seasonal Financing Act -- a profit to the Federal Government of approximately $30 million.

The Seasonal Financing Act also required the City to make a good faith effort to re-enter the private credit market. In November, 1977, we made that effort. Our lack of success is our primary reason for returning to the Congress today.

Despite our rigorous economies, despite my determination to end the shameful practices of the past, despite the new beginnings made by this City, the simple inescapable fact is that the lack of investor confidence in our City has precluded us from the normal source of financing -- the public credit markets.

Until the City truly balances its budget according to generally accepted accounting principles, this lack of confidence will remain; this is the reality. We accept that; our Four Year Financial Plan is a prescription for fiscal health. We are committed to take those steps necessary to achieve our goal and to eventually re-enter the credit markets on our own.

Basic to the plan is the concept of a City-State-Federal partnership. It calls on all levels of government to continue, and to increase, their efforts to solve the City's long-term problems.
The State of New York has been asked to help because under our Federal system, states have primary responsibility for cities within their jurisdiction.

The Federal Government has been asked to help because many of the problems confronting the City are national problems.

The Four Year Financial Plan asks Washington and Albany to contribute a total of nearly $300 million in additional aid during the next fiscal year, with this amount to recur in slightly increasing amounts over the life of the Plan.

I am happy to report that the Governor and the State legislative leaders have agreed on the State's share of this effort. The precise details of this aid are being worked out and I am assured that the monies will be forthcoming.

We also have held discussions with the Administration regarding the Federal share of the increased aid package --- in particular, we will be pressing for a continuation of the countercyclical revenue sharing program as the principal source of increased Federal assistance in 1979.

I want to make it clear that the Four Year Plan does not ask others to do what the City should do for itself. As I have said, the Plan is based on the idea of partnership. And during this four-year period, it is envisioned that actions taken by the City will account for 50 percent of the total budget gap to be closed.
The City is in the midst of preparing its fiscal 1979 budget. When our Executive Budget is submitted on April 15, it will include:

- A cost control program in materials and supplies that will force a decline in real purchases of 12 percent over the four-year period;
- Management improvements based on audits developed by the City Comptroller;
- Changes in health service delivery and continuation of the City's successful cost containment program in the areas of public assistance and social services; and
- The elimination of unnecessary programs.
It is, of course, one thing to talk about taking such actions and quite another to effect them. I, however, want you to know that my administration is intent upon implementing its part of the city-state-federal partnership. In fact, this coming Friday, I will announce the specific actions totalling $174 million to implement the cost reductions for fiscal 1971.

But closing the budget gap is only part of the Four Year Financial Plan. The city must begin to rehabilitate itself to help preserve the tax base. Unless we repair our streets and fix our water mains, improve our drainage system and rebuild our subways, New York City cannot provide the quality of life essential to a viable urban society.

The amount of such outlays over the next four years totals $2.6 billion. This is the level of capital expenditures which the City estimates is necessary to rebuild the physical plant and to construct essential projects. Unless these expenditures are made quickly, it may be too late to save what we already have. In that case, the future cost to rebuild what was not repaired will be prohibitive. For instance in 1977 the City paid out in judgments $17 million in damages resulting from water main breaks.

In addition to the above-stated amount for true capital projects, the City will need an equal amount over the next four years to relieve past financing pressure. This will include:
--$900 million to finance operating expenses in the capital budget;
--$800 million to bond the State Advance;
--$550 million to restructure MAC's debt by refunding MAC bonds; and
--$250 million to fund MAC capital reserve requirements.
To meet these needs, the following lending sources are identified by the Four Year Plan:
City and State Pension funds -- $2.250 billion;
New York financial institutions -- $1 billion;
Public offerings -- $1.850 billion.
The Plan contemplates that the pension fund purchases of bonds sold to finance true capital expenditures will be guaranteed, with state backing, by the Federal government.
However, it is not merely the pension fund purchases that will be affected if the Federal guarantees are not extended. The entire interdependent plan will be jeopardized. Unless the Federal guarantee is in place, investors will not have confidence in the City's ability to meet its financial obligations.
The same is true with the City's short-term needs. These needs could be as high as $1.8 billion in 1979 as a result of the timing differences between collections and expenditures.
As you know, last week the Secretary of the Treasury, W. Michael Blumenthal, submitted the Administration's proposal for the City of New York. Under this proposal, the Federal Government would replace the Seasonal Financing Act with a program to guarantee up to $2 billion in long-term City or MAC securities. The guarantees would last for up to 15 years and the City would pay a guarantee fee of one-half percent on any guaranteed security.

While the Carter Administration's proposals represent a significant step toward the resolution of the City's financial problems, they do not in every respect fulfill the City's needs. For example, although we propose long-term needs of $5.1 billion, the Administration recommends $4.5 billion. While we propose a guarantee of $2.25 billion of City bonds, the Administration recommends only $2.0 billion.

While we propose to bond out the full amount of the State advance, the Administration recommends only half of the advance be bonded.

Although the Administration proposal limits the life of the guarantee, we now ask that the guarantee be tied to the life of the bond.

Despite the Administration's position, we ask the Committee to extend the Seasonal Loan program to assure the flow of short-term funds. While we will do all in our power to reduce our seasonal needs, the continuation of the federal Seasonal Loan program will ensure that the City has adequate monies on hand to pay our bills.
However, we agree with Secretary Slumenthal's proposal for the continuation of a fiscal monitor. In fact, prior to assuming office I called for just such a step. Members of my Administration are currently developing a proposal which will detail the powers of the new monitor.

To the extent that the standby guarantees proposed by the Administration allows us the flexibility to package both guaranteed and non-guaranteed bonds simultaneously we support that recommendation.

We in the City of New York have taken many painful, often unpopular, measures to regain our fiscal solvency. We now look to the future, to the day when our City will re-enter the market on its own; when solvency, fiscal health and wellbeing, and adequate financing sources will be commonplace occurrences and not daily worries. This City will emerge, eventually, from this crisis leaner, wiser and stronger. We know now that we must live within our means; that a budget is an honest financial document and not a political wishing well.

I pledged to the people of my City that I would guard every dollar entrusted to my stewardship. I pledged that public money would be spent wisely for legitimate public purposes. I intend to keep those pledges. The shabby practices of the past have no harbor in my Administration. I intend to give the people of New York a realistic, no-nonsense Administration, and I pledge to you that the assistance extended to us by this great Congress will be a sound investment in a going concern, my City, the City of New York.

Thank you.
Mr. Chairman and honorable members of the House Economic Stabilization Subcommittee:

Thank you for this opportunity to meet with this subcommittee of the House Banking, Finance and Urban Affairs Committee. It is always a pleasure to return to Washington and to see my former colleagues.

Today I appear before you as the Mayor of the City of New York, the elected representative of the seven-end-one-half million residents of the nation's largest city. I wish to present, in candor and frankness, my views of the City's financial needs, as well as its plans to balance its budget and regain access to credit markets. This plan, as you know, was presented to the Secretary of the Treasury, at his request, on January 25, 1978.

I. FOUR YEAR FINANCIAL PLAN

The linchpin of the Plan is a Federal guarantee of securities to be sold to City and State pension funds to finance the City's true capital needs. We also have proposed extension of the Seasonal Financing Act, on a reduced basis. As we set forth in the Four Year Plan, the total Federal credit exposure would never be as great as the $2.3 billion short-term line of credit currently available to the City under the Seasonal Financing Act of 1975.
When the Act was passed, City and State officials, and the Congress believed that the City's Financial Plan would enable it to balance its budget in accordance with the Municipal Assistance Corporation ("MAC") Act by 1978. The financing arrangements undertaken at that time were intended to provide a financing bridge over the three year period so that the City could regain access to the public credit market during its 1978 fiscal year. Although the City expects such a balanced budget this year, the market problems were more severe than anyone realized and the City has not been able to sell its securities publicly.

As you know, investor confidence is a fragile commodity. It cannot easily be won but it can be lost quickly. And once it is lost, it is very difficult to regain. Above all, it is the lifeblood of the securities market.

Investor confidence in the City of New York was shattered in the 1975 fiscal crisis. That it has not been regained also was demonstrated in the failure of the note offering in November.

Yet, in spite of that failure, certain observers have concluded that the City does not need a guarantee, saying that local sources of funds are adequate to meet the City's financial needs. And in a sense, this is true. Identifying sources of funds, unfortunately, is not the same thing as getting the funds. While local institutions obviously have the ability to meet the City's financing needs, the ability to lend and the willingness to lend are not synonymous. The failure of the November offering points up the difference. That failure rather than a Committee report depicts financial reality. It reflects the lack of investor confidence in the City of New York.
This lack of confidence is further reflected by the public statements of persons responsible for investing the sources of funds identified in the Four Year Financial Plan. The State Comptroller, citing his fiduciary responsibilities, has refused to invest substantial amounts in City securities. The consultant on pensions to several municipal unions stated at this Committee's hearings last week that he would not invest in additional City securities without a Federal guarantee. Mr. Elmore Patterson, Chairman of the Executive Committee of Morgan Guaranty Trust Company of New York, said "if there is no federal assistance after June 30, I do not feel very hopeful about raising any additional money from these local sources which act in the capacity of depository or fiduciary for the people's money." Mr. John A. Raben, President of the Savings Bank Association of New York State, also spoke of fiduciary responsibilities in his testimony before this Committee.

In addition to the above statements, the City has been informed by MAC that the City could not expect to enter the public credit markets in the near future. Thus, the advice we receive from bankers and financial advisors is nearly unanimous -- the City does not have access to the marketplace.

We designed the Four Year Financial Plan to make the City creditworthy. The Plan presents a comprehensive approach by which the City can achieve a truly balanced budget by fiscal year 1982. But restoring the City's access to the public credit markets will require firm long-term and short-term financing commitments to sustain the City during the four-year period ahead.
Basic to the plan is the concept of a City-State-Federal partnership. It calls on all levels of government to continue, and to increase, their efforts to solve the City's long-term problems.

The State of New York has been asked to help because under our Federal system, states have primary responsibility for cities within their jurisdiction.

The Federal Government has been asked to help because many of the problems confronting the City are national problems. Like most of the nation's older cities, New York is faced with a deteriorating economic base, a changing population and stagnating property values. In addition, many of the problems faced by our older cities were shaped by national trends. For example, the City's share of welfare and Medicaid payments -- $1.2 billion -- is greater than its budget gap in accordance with generally accepted accounting principles.

The Four Year Financial Plan asks Washington and Albany to contribute a total of nearly $300 million in additional aid during the next fiscal year, with this amount to recur in slightly increasing amounts over the life of the Plan.

I am happy to report that the Governor and the State legislative leaders have agreed on the State's share of this $200 million effort. The precise details of this aid are being worked out and I am assured that the monies will be forthcoming.

We also have held discussions with the Administration regarding the Federal share of the increased aid package -- in particular, we will be pressing for a continuation of the New York City countercyclical revenue sharing program as the principal source of increased Federal assistance in 1979.
Over the long term, we believe that a fundamental change in the Federal and State share of welfare and Medicaid assistance will be necessary for the City to eliminate its budget gap.

I also want to make it clear that the Four Year Plan does not ask others to do what the City should do for itself. As I have said, the Plan is based on the idea of partnership. And during this four-year period, it is envisioned that actions taken by the City will account for 50 percent of the total gap to be closed.

The City is in the midst of preparing its fiscal 1979 budget. When our Executive Budget is submitted on April 15, it will include:

- A further reduction in the municipal work force through attrition -- yielding savings of $65 million in fiscal year 1979, $147 million in fiscal year 1980, $222 million in fiscal year 1981, and $286 million in fiscal year 1982;

- A cost control program in materials and supplies that will force a decline in real purchases of 12 percent over the four-year period;

- Management improvements based on audits developed by the City Comptroller;

- Changes in health service delivery and continuation of the City's successful cost containment program in the areas of public assistance and social services; and

- The elimination of unnecessary programs.
It is of course one thing to talk about taking such actions and quite another to affect them. I however want you to know that my Administration is intent upon implementing its part of the City-State-Federal partnership.

In fact, this coming Friday, I will announce specific actions totalling $174 million to implement the cost reductions for fiscal 1979 outlined above, which were originally included in the Four Year Financial Plan.

But closing the budget gap is only part of the Four Year Plan. The City must begin to rehabilitate itself to help preserve the tax base as a means of maintaining a long-term balance between revenues and expenses. Unless we repair our streets and fix our water mains, improve our drainage system and rebuild our subways, New York City cannot provide the quality of life essential to maintaining such a balance.

To renovate the City's physical plant, I once again have relied on the concept of intergovernmental cooperation. We are asking the Federal Government to guarantee, with State participation, bonds to be sold for true capital improvements.

The amount of such outlays over the next four years totals $2.6 billion. This is the level of capital expenditures which the City's engineers estimate is necessary to rebuild the physical plant and to construct essential projects. Unless these expenditures are made quickly, it may be too late to save what we already have. In that case, the future cost to rebuild what was not or cannot be repaired will be prohibitive.

To halt the deterioration of the physical plant, the Four Year Plan calls for the following rehabilitation program:
- Instituting a 35-year replacement cycle for streets, a 40-year cycle for bridge roadways, a 100-year cycle for City sewers and a 75-year cycle for water mains instead of at current levels of expenditure whereby the City's physical plant is rebuilt every other century;
- Doubling the investment for transit modernization;
- Replacing aging Police, Fire and Sanitation facilities;
- Renovating piers and markets; and
- Supplementing the two fifty-year-old existing water tunnels with a third tunnel.

The Four Year Plan also calls for capital spending to build water pollution control plants in Brooklyn and Manhattan. These outlays, it should be noted, are required to match State and Federal funds.

In addition to $2.6 billion for true capital projects, the City will need an equal amount over the next four years to relieve past financing pressure. This will include:
- $900 million to finance operating expenses in the capital budget; these items are a hold-over of past fiscal abuses and my Administration is committed to phasing them out of the capital budget twice as fast as permitted by law;
- $800 million to bond the State Advance; the Advance represents accumulated past deficits and bonding it will not only enable the City to end this abuse but it will permit the City and the State to reduce short-term borrowing needs;
- $560 million to restructure MAC's debt by refunding MAC bonds; it will also provide budget relief of approximately $200 million over the four year period; and
- $250 million to meet MAC's capital reserve requirements which provide additional security for investors; if the capital reserve requirements cannot be bonded, budget expenditures will be increased by approximately $250 million over the next four years.

Thus, the City's long-term financing needs over the next four years total $5.1 billion -- $2.6 billion for capital improvements and $2.5 billion to relieve past financing pressures.

To meet these needs, the following sources of capital are suggested by the Four Year Plan:

<table>
<thead>
<tr>
<th>Source</th>
<th>($ in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City and State Pension Funds</td>
<td>$2.250</td>
</tr>
<tr>
<td>New York Financial Institutions</td>
<td>1.000</td>
</tr>
<tr>
<td>Public Offerings</td>
<td>1.850</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5.100</strong></td>
</tr>
</tbody>
</table>

As previously noted, the Plan contemplates that the pension fund purchases of bonds sold to finance true capital expenditures will be guaranteed, with State backing, by the Federal Government.

However, it is not merely the pension fund purchases that will be affected if the Federal guarantee is not extended. The entire plan will be jeopardized. It will be jeopardized because all the parts are dependent on each other. Unless the budget gap is closed and a balance maintained, investors will not have confidence in the City's ability to meet its financial obligations.
Unless the physical plant is renovated, a long-term budget balance cannot be maintained. Unless as part of a financing package a Federal guarantee is extended, fiduciaries will be unwilling to risk the money that belongs to others. The guarantee is included in the Four Year Plan to increase investors' willingness to make some loans. When it is in place, the City can move to meet the balance of its long-term financing needs.

The same is true with the City's short-term financing needs. The City's short-term needs could be as high as $1.8 billion in 1979. They arise from the timing differences between collections and expenditures -- the City's expenditures are relatively equal each month while a disproportionate share of its revenues come in the fourth quarter. To obtain the funds that the City needs to meet its operating expenses, the City must turn to outside sources. There again, a high level of confidence will be the necessary factor in determining whether lenders are willing to extend credit. If we have Federal financing assistance, I feel certain that such credit will be forthcoming, at least in the amounts indicated in the Four Year Plan. Without assistance, our ability to secure credit is highly doubtful.

Of course, no one can predict the future with certainty. It is my belief however that a continuation of the seasonal loan program combined with a long-term guarantee will give the City time to achieve a record of balanced budgets while reducing past financing pressures so that it can enter the market on its own strength within the next four years.
II. CARTER ADMINISTRATION'S PROPOSAL

As you know last week the Secretary of the Treasury, W. Michael Blumenthal, submitted the Administration's proposal for the City of New York. Under this proposal, the Federal Government would replace the Seasonal Financing Act with a program to guarantee up to $1 billion in long-term City or MAC securities. The guarantee would last for up to 15 years and the City would pay a guarantee fee of 1/2 percent on any guaranteed security.

The guarantees would be issued only if the City met the following conditions:

- Submission of a four year plan that by fiscal 1982 will produce a balanced budget in accordance with generally accepted accounting principles;
- Creation of a fiscal monitor, to review the City's finances, with the monitor's powers to be at least as extensive as those of the Emergency Financial Control Board;
- Enactment of legislation to expand MAC's borrowing capacity so MAC can meet its part of the Four Year Plan; and
- Development of a plan whereby the Federal guarantees will be secured primarily by Federal transfer payments to the City and secondarily by New York State in a form such as by a State-funded debit reserve account and/or the pledge of an appropriate amount of certain Federal transfer payments to the State.
The Federal guarantees will be issued only to the extent that the City cannot meet its long-term financing needs in the public credit markets. In addition, the issuance of the guarantees will depend on commitments by the investors to lend funds on an unguaranteed basis.
III. ANALYSIS OF CARTER ADMINISTRATION'S PROPOSALS

Although the Administration's recommendations do not in every respect fulfill the City's requests, they are a significant step toward a resolution to the City's financial problems. By guaranteeing the bonds that the City sells for true capital purposes, the Federal government will enable the City to undertake the renovation of the physical plant that is vital to its long-term health.

The City could reduce its capital spending by about $200 million by requesting a State agency to finance the proposed Convention Center. However, I urge the Committee not to reduce the amount of true capital projects any further since, as I have mentioned previously, the need for restoring and maintaining the City's plant is critical to the restoration of our fiscal stability.

In regard to the amount of the State advance to be funded, I believe the State Advance should be bonded out in full because it will reduce the City's seasonal borrowing needs. In addition, the Advance represents past financial abuses and, therefore, stands as a symbol to investors of the discredited practices of the past, practices I am determined to eliminate.

I also would hope that the Committee would consider extending the guarantee for the life of the bonds to be issued. This longer time-span would reduce the debt service in each year. A shorter guarantee, and hence a shorter term bond, would increase annual debt service, thus widening the budget gap. The
shorter term also could force the City to refinance this debt just at the time when it is completing its financial recovery.

In regard to short-term financing, I ask the Committee to continue the Seasonal Financing Act. As you know, the chief route to insolvency for the City in the short run is the inability to pay its bills due to a lack of credit. While I do not intend to let the City slip into default, I believe that financial prudence demands that the City be assured of short-term funds by the Federal Government. We will do everything in our power -- accelerate the collection of real estate taxes, request an acceleration of State aid, attempt to sell notes publicly, try to arrange a line of credit -- to meet our seasonal needs. A continuation of the Seasonal Financing Act, however, would insure that the City could pay all its bills in the event that we are not successful in arranging for our short-term requirements in other ways.

With regard to long-term guarantees, it is essential that the City be able to effect the sale of guaranteed and unguaranteed bonds simultaneously. To the extent the Administration's proposal allows this, we support it.

In regard to many other segments of the Administration's proposal, I am in accord with Secretary Blumenthal. Prior to assuming office, I called for a continuation of the fiscal monitor. Members of my Administration currently are developing a plan that will detail the powers of the new monitor.
In addition, legislation is being prepared to expand MAC's borrowing authority.

As for the State's participation, it could take the form proposed by the Carter Administration. This is a matter to be worked out between the Governor and the Legislature.

Finally, I want to state that I agree with the Secretary about the importance of the current municipal labor negotiations. The City recently has begun the process of negotiating new labor agreements with a coalition of union leaders representing most of the City's employees. I have stated to our union leaders that the new labor agreements must be paid for within the resources available to us, as set forth in the Four Year Plan. We have exchanged demands with the coalition, and we are hopeful that the collective bargaining process will lead to a settlement that is within our means.
IV. CONCLUSION

Since the fiscal crisis began in 1975, the City has taken many steps to insure that all its expenses fall within its means. These steps include:

- A reduction in the work force by 21 percent, or 61,000 positions, since 1975;
- The imposition of tuition at City University;
- The reduction of the welfare rolls to the lowest level in eight years;
- A 40 percent increase in the subway and bus fare;
- The elimination or deferral of certain benefits by City employees amounting to $41 million;
- The elimination of 25 fire fighting units;
- The withdrawal of the City's funding for 77 day care centers;
- The retention of independent accountants to audit the City's financial statements;
- The implementation of a new financial management and control system; and
- perhaps most important, the prospect of a balanced budget for the current fiscal year, ending June 30.

These contributions to our continuing fiscal recovery often were painful; they were made through the cooperation and sacrifice of virtually every sector of our City's life. In many cases, these accomplishments were gained at the expense of customary municipal services, employment benefits -- and employment itself -- and urban amenities previously taken for granted.
Yet the City of New York, determined to set its house in order has taken these steps and will continue to take those steps necessary to carry forward our fiscal recovery.

In closing, I would like to make four observations and a promise.

Firstly, the City's Financial Plan is a starting line rather than the bottom line. It is a point of departure for negotiations that will enable the City to develop a workable financing program.

Secondly, I cannot say with certainty that the City faces imminent bankruptcy if Federal financing assistance is not available. Obviously, however the possibility exists. To me the consequences -- for the City, the State, the Federal government, the public credit markets and the foreign exchange markets -- are so great that I cannot conceive that responsible government leaders would even consider taking that risk.

Thirdly, I want to say that I agree with the Secretary of the Treasury that over the long run the cost to the Federal Government of not helping the City will be greater than the cost of helping. If the City does not rehabilitate itself, it will decay and slowly die, becoming a ward of the State and the Federal governments. In these circumstances, denying the City's request for financing assistance today will prove costly tomorrow. It is being penny-wise, pound-foolish on an incredible scale. On the other hand, a Federal guarantee can be as financially rewarding for the Federal government as the seasonal loan program has been because we have offered to pay a guarantee fee -- an insurance premium if you like -- on the principal amount guaranteed.
The Senate Banking Committee has, as the Secretary of the Treasury, already noted New York's creditworthiness in reporting that "The City has an impeccable record of repaying its seasonal loans (and) has made tremendous strides toward putting its financial house in order in the past three years and is still likely to do more in the next few months." This, I submit, is a strong argument why the cost of the guarantee program to the Federal government will be small and the rewards -- rehabilitation of the nation's largest City -- great, so that such a program seems clearly within the national interest.

Fourthly, I want you to know that we are not looking for a handout. We are not asking for welfare. Rather we ask you to allow us to help ourselves. We are looking for a self-help program that will enable the City to achieve long-term viability.

Finally. So long as I am Mayor of the City of New York, the City will make every effort to see that the dollars it spends are spent well. Our citizens are tired of fiscal waste and high taxes. They are also tired of the abuses that have too long afflicted certain social programs. For these reasons, I pledge to you that my Administration will work night and day to see that the trust which you place in us is not betrayed.

Thank you.
COLLECTIVE BARGAINING DEMANDS OF THE CITY OF NEW YORK

February 27, 1978

PREFACE

New York City's current fiscal crisis requires that the austerity programs which have been implemented in the past few years be continued. In addition to the specific demands listed herein, the City is bargaining within the framework of the following principles:

1. There shall be no general wage increase for the period of the agreements.
2. All current COLA's which terminate at the expiration of existing contracts shall not be continued.
3. There shall be no increases or improvements in fringe benefits for the period of the agreements.
<table>
<thead>
<tr>
<th>NUMBER</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 -</td>
<td><strong>TERM:</strong>&lt;br&gt;A. For contract commencing on July 1, 1976 or subsequent to that date, a two (2) year term.&lt;br&gt;B. For contracts commencing on January 1, 1978, a two and one-half (2 1/2) year term.</td>
</tr>
<tr>
<td>2 -</td>
<td>Any restrictions contained in present contracts on the City's right to lay-off employees shall not be continued.</td>
</tr>
<tr>
<td>3 -</td>
<td>All night shift differentials shall be abolished.</td>
</tr>
<tr>
<td>4 -</td>
<td>Any increased or improved fringe benefits mandated by City or State legislation shall be offset by an equivalent reduction in wage rates or other reduction in fringes.</td>
</tr>
<tr>
<td>5 -</td>
<td>A. All &quot;advancement&quot; increases shall be reduced by 15%.&lt;br&gt;B. All increments and longevity payments shall be suspended for period of contract, and there shall be no accrual of time for such payments during this period. &lt;br&gt;C. Any salary increases shall not be included as part of final compensation for pension purposes until they have been received for at least one (1) year.</td>
</tr>
<tr>
<td>Demand Number</td>
<td>Description</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------</td>
</tr>
<tr>
<td>6</td>
<td>Health insurance, welfare funds, holiday differentials, night shift differentials, annual leave and sick leave for all part-time per annum, hourly, per diem, per session and seasonal employees, shall be abolished.</td>
</tr>
</tbody>
</table>
| 7             | Premium Pay:  
A. Premium pay for all Sunday work shall be abolished.  
B. Premium pay for all Saturday work shall be abolished.  
C. Premium pay for "chart" days shall be eliminated.  
D. Premium pay for holiday work shall be eliminated.  
E. "Recall" guarantees shall be standardized for all employees at 4 hours work at 1½x.  
F. "Portal-to-portal" pay shall be eliminated.  
G. All allowances, either cash or compensatory time, for travelling time assignment out-of-zone, shall be eliminated.  
H. "Holiday pay" for uniformed employees who are not required to work holidays shall be eliminated. Holiday pay shall be paid only if an employee actually works on the holiday.  
I. The union shall waive the right to any cash payment or equivalent time off for holidays as may be prescribed by statute. |
<table>
<thead>
<tr>
<th>DEMAND NUMBER</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>All &quot;terminal leave&quot; allowances shall be abolished.</td>
</tr>
<tr>
<td>9</td>
<td>All &quot;annuity&quot; funds and/or payments shall be eliminated.</td>
</tr>
<tr>
<td>10</td>
<td>Special Funds:</td>
</tr>
<tr>
<td></td>
<td>A. &quot;Legal Services Funds&quot; shall be abolished.</td>
</tr>
<tr>
<td></td>
<td>B. &quot;Training&quot; or &quot;Education&quot; funds shall be eliminated.</td>
</tr>
<tr>
<td>11</td>
<td>&quot;Uniform allowances&quot; to employees who are not required to wear uniforms full-time shall be eliminated.</td>
</tr>
<tr>
<td>12</td>
<td>Retirees:</td>
</tr>
<tr>
<td></td>
<td>A. Welfare funds for all retired employees shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>B. The health insurance program shall cover new retirees only if they have had a minimum of ten (10) years of continuous full-time permanent service immediately prior to retirement.</td>
</tr>
<tr>
<td></td>
<td>C. Reimbursement of part &quot;B&quot; Medicare costs for all incumbents and employees retiring subsequent to July 1, 1978 shall be eliminated.</td>
</tr>
<tr>
<td>DEMAND NUMBER</td>
<td>DESCRIPTION</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------</td>
</tr>
<tr>
<td>13</td>
<td>Hours of Work:</td>
</tr>
<tr>
<td></td>
<td>A. All employees shall work 40 hours a week as a normal work week consistent with applicable law.</td>
</tr>
<tr>
<td></td>
<td>B. All paid meal periods shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>C. All paid &quot;released time&quot; for labor-management activities shall cease.</td>
</tr>
<tr>
<td></td>
<td>D. All costs incurred by the City for employees on union leave without pay shall be reimbursed by the Union.</td>
</tr>
<tr>
<td></td>
<td>E. All paid releases of union delegates and/or officers to attend union meetings on City time shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>F. All unlimited sick leave shall be abolished. Sick leave allowances for all employees shall be 12 days a year.</td>
</tr>
<tr>
<td></td>
<td>G. All employees shall not be paid for the first 1/2 day of each sick leave absence.</td>
</tr>
<tr>
<td></td>
<td>H. All &quot;blood days&quot; shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>I. There shall be a permanent reduction of annual leave for new hires to 12 days for the first two (2) years.</td>
</tr>
<tr>
<td></td>
<td>J. All &quot;personal leave&quot; days shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>K. Lincoln's birthday shall be eliminated as a regular paid holiday.</td>
</tr>
<tr>
<td></td>
<td>L. The &quot;election day&quot; paid holiday shall be eliminated. Employees shall be allowed only such time off to vote as required by state law.</td>
</tr>
<tr>
<td>Demand Number</td>
<td>Description</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------</td>
</tr>
<tr>
<td>13 - (cont.)</td>
<td>N. All employees shall have the same number of holidays.</td>
</tr>
<tr>
<td></td>
<td>N. Eliminate provision in uniformed forces contracts requiring day off when time off is given to other employees by the city.</td>
</tr>
<tr>
<td></td>
<td>O. All paid hash-up time shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>P. All paid rest periods and/or coffee breaks shall be eliminated.</td>
</tr>
<tr>
<td></td>
<td>Q. All death-in-family allowances shall be reduced by one day.</td>
</tr>
<tr>
<td></td>
<td>R. All &quot;lateness allowances&quot; shall be eliminated. Employees shall lose annual leave or cash for all lateness.</td>
</tr>
<tr>
<td></td>
<td>S. The balance of &quot;summer hours&quot; and &quot;heat days&quot; in lieu thereof shall be eliminated.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overtime:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>All involuntary overtime work over 40 hours shall be compensated by payment of cash at straight time or compensatory time at straight time at option of employee.</td>
</tr>
<tr>
<td>B.</td>
<td>The salary base upon which overtime payments are computed shall be the employees basic salary and shall not include differentials of any kind, periodic pay, longevity payments and/or COLA payments. No &quot;pyramiding&quot; of payments shall be permitted.</td>
</tr>
<tr>
<td>C.</td>
<td>Overtime shall be earned only in units of one (1) complete hour of continuous work.</td>
</tr>
<tr>
<td>DEMAND NUMBER</td>
<td>DESCRIPTION</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------</td>
</tr>
<tr>
<td>14 - (cont)</td>
<td><strong>D.</strong> Credit for overtime shall not be granted to employees who have a work period or cycle of 14 consecutive days unless such employee actually works in excess of 80 hours in a work period or cycle.</td>
</tr>
<tr>
<td></td>
<td><strong>E.</strong> Elimination of provisions barring &quot;rescheduling&quot; to avoid payment of overtime.</td>
</tr>
<tr>
<td></td>
<td><strong>F.</strong> The maximum an employee can earn in order to receive cash overtime payments shall be $12,500 per annum. Any employee working overtime whose gross earnings exceed the maximum (including cash overtime previously received) shall receive compensatory time credit at the straight time rate.</td>
</tr>
<tr>
<td></td>
<td><strong>G.</strong> Overtime which would result in an employee receiving more than 50% of his base pay in any fiscal year shall be compensated by compensatory time off at straight time.</td>
</tr>
<tr>
<td></td>
<td><strong>H.</strong> All overtime compensated by compensatory time off shall be at the rate of straight time. All premium compensatory time shall be abolished.</td>
</tr>
<tr>
<td></td>
<td><strong>I.</strong> Overtime payments shall no longer be included as part of final compensation for pension computation.</td>
</tr>
<tr>
<td>15 -</td>
<td><strong>Any salary increase received upon promotion shall not be included as part of final compensation for pension purposes until employee has served at least one (1) year in the higher position.</strong></td>
</tr>
<tr>
<td>DECEMBER 1973</td>
<td>DESCRIPTION</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>16 -</td>
<td>All I.I.P. Payments by City shall be eliminated.</td>
</tr>
</tbody>
</table>

17 - Health Insurance:

A. A joint trust similar to I.I.P. to administer City Health Insurance Programs and Welfare-Security Fund programs shall be established. All individual welfare-security funds shall be abolished and integrated into the joint trust.

B. Employees shall pay 50% of the cost of providing health and hospital coverage.

18 - All "hanging" requirements shall be eliminated from all contracts and left to discretion of the employer.

The City reserves the right to submit further demands until such time as a final agreement is consummated.
THE CITY OF NEW YORK
RESPONSE TO FISCALIS COMMITTEE REPORT

MARCH 1, 1978

EDWARD I. ROCH
MAYOR
REPORT
ON
THE NEW YORK CITY LOAN PROGRAM
FROM THE
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
UNITED STATES SENATE

FEBRUARY 10 (legislative day, FEBRUARY 6), 1978.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
22-094
WASHINGTON : 1978
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, Chairman
JOHN SPARKMAN, Alabama
HARRISON A. WILLIAMS, Jr., New Jersey
THOMAS J. MCINTYRE, New Hampshire
ALAN CRANSTON, California
ADLAI E. STEVENSON, Illinois
ROBERT MORGAN, North Carolina
DONALD W. RIEGLE, Jr., Michigan
PAUL S. SARBAZEE, Maryland

EDWARD W. BROOKE, Massachusetts
JOHN TOWEY, Texas
JAKE GARN, Utah
H. JOHN HEINZ III, Pennsylvania
RICHARD G. LUGAR, Indiana
HARRISON SCHMITT, New Mexico

KENNETH A. MCLEAN, Staff Director
JEREMIAH S. BUCKLEY, Minority Staff Director
ELNOR W. BACHRACH, Professional Staff Member
JOHN T. COLLINS, Special Counsel to the Minority
LETTER OF TRANSMITTAL

U.S. Senate,
Committee on Banking, Housing
and Urban Affairs,

Hon. Walter F. Mondale,
President of the U.S. Senate,
Washington, D.C.

Dear Mr. President: Transmitted herewith is a Report on the
New York City Loan Program, pursuant to oversight hearings on
the New York City Seasonal Financing Act (Public Law 94–143)
held on December 14, 15, and 16, 1977.

Sincerely yours,

William Proxmire, Chairman.
COMMITTEE REPORT ON THE NEW YORK CITY
LOAN PROGRAM

On December 14, 15 and 16, 1977, the Committee on Banking, Housing and Urban Affairs held oversight hearings on the New York City Seasonal Financing Act.

The Act was signed into law just over two years ago, on December 9, 1975. It authorizes Federal loans to New York City of up to $2.3 billion a year to cover seasonal shortfalls in revenues. The loans may be made only if the Secretary of the Treasury determines that there is a reasonable prospect of repayment, and they must be repaid in full at the end of each of the City's fiscal years, with interest at a rate of one percent above the Treasury's cost of borrowing. The legislation expires on June 30, 1978.

The seasonal loan program was part of a financial package put together in late 1975 to avoid a New York City bankruptcy and restore the City's financial condition. Other parts of the package included a pledge by the City employee pension funds to extend $2.5 billion in loans through June 30, 1978 to meet the City's long-term financing needs; an $800 million advance in State aid payments to the City to be provided in each fiscal year; and a State law instituting a three-year moratorium on repayment of $2.4 billion in short-term City notes outstanding and a reduction in the interest rate. (The moratorium law was overturned by the New York State Court of Appeals in late 1976, and various means were used to repay or refinance the City notes outstanding at that time.)

Supporting this financial package was a State law passed in September 1975 requiring New York City to develop a three-year Financial Plan for achieving a balanced budget in its 1978 fiscal year (running from July 1, 1977 through June 30, 1978). The law also established the Emergency Financial Control Board, a State agency controlled by the Governor which has broad powers over the City's fiscal and financial affairs, including the authority to approve or reject contracts and to approve and require changes in the City's Financial Plan.

Previously, in June 1975, after the public credit market had closed to City borrowings, a State law was passed establishing the Municipal Assistance Corporation, a State agency with the authority to borrow on behalf of New York City for the purpose of continuing essential services and creating investor confidence in the soundness of the City's obligations. MAC obligations were given the backing of certain City-related State tax collections, including the sales tax, stock transfer tax, and per capita aid payments due the City. The MAC law set the requirement that the City have a balanced budget in three years (by fiscal year 1978), with the exception that it permitted the operating expenses funded out of the capital budget (then estimated at $550-600 million) to be phased out more gradually over a ten-year period.
When the Seasonal Financing Act was under Congressional consideration, New York State and City officials realized that all that was needed, in addition to State, City and local efforts already initiated, was a one-time commitment from the Federal government to provide short-term loans to cover seasonal shortfalls in revenues and maintain the City's cash flow through the fiscal year. To pay further that, at the end of the three-year seasonal loan period, or perhaps sooner, New York City would have a balanced budget and be able to meet its borrowing needs directly from the credit markets. With that understanding, Congress passed the Seasonal Financing Act by a narrow margin and thus took the unprecedented step of providing direct Federal financing to a city for basic operating needs.

1. Response: In 1975, City and State officials believed that the Seasonal Financing Act would be sufficient to enable the City to balance its budget in accordance with the MAC Act and thereby regain access to the credit markets. Although the City expected such a balanced budget for the fiscal year ending June 30, 1976, the market problems were more severe than anyone realized and the City has not been able to sell its securities publicly, as seen in the failure of its Note Offering in November. In addition, the seasonal facility did not enable the City to make the capital improvements necessary to attain long-term vitality. Without that vitality, investors lack assurance that the balance between revenues and expenses can be maintained. While no one can predict the future with certainty, City officials believe that a continuation of the seasonal program combined with a long-term guarantee will give the City time to achieve a record of balanced budgets while reducing past financial pressures so that it can enter the market on its own strength at the expiration of the proposed program four years from now.

In view of the controversial nature of the seasonal loan program, the Committee has undertaken an obligation to conduct regular oversight of New York City's progress under the program and to make sure that all requirements and commitments are met. The recent hearings were the fourth in a series of oversight hearings which the Committee has held at roughly six-month intervals since the seasonal loan program was enacted. Witnesses at the December hearings included the Secretary of the Treasury, the Governor of the State of New York, the Mayor of the City of New York, the Chairman of the Securities and Exchange Commission, representatives of financial institutions which have been underwriters of New York City obligations, and representatives of the municipal bond rating services.

In the course of the hearings, the Committee explored, among other things, New York City's progress toward achieving a balanced budget in fiscal year 1976 and in succeeding fiscal years, and the City's prospects for re-entering the credit markets to meet its short-term and long-term financing needs in the current fiscal year and after June 30, 1976, when the Federal loan program expires. A number of witnesses expressed the view that an extension of the seasonal loan program beyond June 30, 1976 will be needed, or else New York City will go into bankruptcy. Some also advocated additional Federal loans or guarantees to meet some of the City's long-term financing needs.
Based on information obtained in the hearings and elsewhere, the Committee believes that New York City should be able to meet its financing needs and avoid bankruptcy after June 30, 1976 without further Federal financial aid. Resources available to New York City and New York State appear to be sufficient to enable the City to maintain solvency.

2. **Response:** While local sources obviously have the ability to meet the City's financing needs, there is a difference between the ability to lend and the willingness to do so. This was vividly seen in the failure of the City's Note Offering in November and the recent decline in the securities of the Municipal Assistance Corporation ("MAC"). To increase lenders' willingness to provide funds to New York, the guarantee is essential. Without it, required capital improvements cannot be made, financing actions to eliminate the residue of the fiscal crisis and provide budgetary relief cannot be taken, and the City will struggle from year to year with no permanent solution in sight.

While the Committee has received recommendations from New York City and State officials for both extending the seasonal loans and providing new long-term Federal guarantees, no specific legislation is pending at the present time. Since it is by no means clear that the Committee or the Congress would approve any such legislation, it is the strong sense of the Committee that these officials should continue their efforts on securing the financing needed from sources within New York City and New York State.

3. **Response:** Legislation is being proposed for Federal financing assistance to the City. This legislation will be presented to the Congress within the near future.

It is important to note that there are significant differences between the circumstances prevailing now in 1976 and those prevailing in late 1975, when the Federal loan program was enacted. In 1975, New York City's finances were on the verge of chaos, and no resolution of the problem seemed possible absent Federal involvement. In 1976, the size of the financing problem has been considerably reduced, and the City has established a record of significant progress on a number of asset, budget balance, accounting reform, and repayment of seasonal loans and short-term notes outstanding. In 1975, the market was saturated with New York City debt issues. Since 1975, no new New York City securities have been sold in the market, and the City's debt burden has been restructured through the Municipal Assistance Corporation into longer-term obligations with level debt service payments over a number of years.
4. Response: While it is true that both market conditions and the City's finances have improved, the fact remains that the City was denied market access when it tried to sell notes in November. And if the City cannot sell $3 billion of notes, it certainly will not be able to sell the $1 billion of bonds it needs annually to rebuild the physical plant and to relieve past financial pressures. Nor can the City expect the Municipal Assistance Corporation to meet all its long-term financing needs in view of the difficulties experienced by the recent MCA refunding issues and the subsequent market declines of all MCA issues. In this regard, it might be noted that the points made by the Committee about the City's "significant progress" should be arguments for continuing financing assistance to New York.

The City is a much better credit risk today than it was at the time the Seasoned Financing Act was passed and therefore the chances that the Federal Government will not be paid back have been greatly reduced.

For all these reasons, New York City should be in a far better position now to put together on its own a financing package that will ensure access to the municipal securities market and stabilize the economy in the coming years. Furthermore, there is now in office a new Mayor who has announced firmly, in a letter reproduced for the Committee's benefit, that "there will be no bankruptcy for the City of New York."

A note of caution should be sounded as well. In 1975, many cities across the country were suffering severe financial problems, as a result of the recession. The municipal securities market was in disarray, and there were fears that a New York City bankruptcy would shut other large, older cities out of the bond market as well. Today, in 1978, the economy is in an upward, many cities and States are showing surpluses, and the municipal securities market is in excellent shape. New York City stands alone in its lack of access to the market, and the impact of a New York City bankruptcy in 1978 would probably be more pronounced.

5. Response: The fact that New York "stands alone in its lack of access to the market", in spite of the improvement in those markets, is prima facie evidence of the need for continued financing assistance.

Thus, the Committee believes New York City must rely on its own resources to the maximum extent possible and show that bankruptcy is more than undesirable—it is unnecessary.

6. Response: The City also believes that bankruptcy is "undesirable and unnecessary." It will not happen if Federal financing assistance is continued.
FINDINGS AND RECOMMENDATIONS

Based on information obtained in the hearings and subsequently the Committee finds there are several steps which New York City should take in order to be in a position to meet its financial needs after June 30, 1978 with or without reliance on the Federal government. These include achieving real budget and taking other actions necessary to assure investors of the security of the City's obligations.

7. Response: First, under the Four Year Financial Plan submitted to the Secretary of the Treasury on January 20, the City showed how it expected to balance its budget in fiscal 1982 on the basis of generally accepted accounting principles.

Second, under the Plan, the City indicated that it would be willing to assure investors as to the security of City obligations:

- continue outside review of its finances;
- establish a Debt Service Fund;
- submit and adopt balanced budgets;
- establish budgetary controls;
- accept limitations on short-term debt;
- maintain a General Reserve;
- liquidate the State Advance;
- publish monthly, quarterly and annual reports;
- prepare a four-year financial plan; and
- submit to outside audit of its financial statements.

Failure to meet these conditions by April 1, 1978 will result in grave consequences to New York City whatever the Administration or the Congress decides to do. Success in meeting them should enable New York City to meet its basic financing needs, both short-term and long-term, from sources available in the City and in New York State, including the financial community and the City and State pension funds. The Committee has already expressed the belief that it would be most desirable for the City to remove itself from dependency on the Federal government.

8. Response: Local officials agree that "it would be most desirable for the City to remove itself from depending on the Federal government." The Four Year Financial Plan was designed to insure that after fiscal 1982 the removal will be complete. It asks the Federal Government to help us help ourselves.
9. **Response:** Such a plan, showing how the City expected to balance its budget and re-enter the public capital markets, was submitted to the Treasury on January 30.

This requires that the following conditions be met no later than April 1, 1973:

(a) A schedule for phasing out all of the operating expenses contained in the capital budget (presently about $41 million) over a period of more than three years.

(b) A signed City-wide agreement on the economic terms and budget costs of the City labor contracts over the four-year period covered by the Financial Plan as adopted. Given the fact that the January 20 Plan already projects a $1 billion budget deficit to be eliminated, the City cannot afford to agree to labor contracts which would further increase the deficit, and thus any pay raises would have to be offset by additional budget cure and/or savings from higher productivity.


11. **Response:** The City has begun collective bargaining negotiations with a consortium of municipal unions, representing over 202,000 municipal employees. Hopefully, this will enable us to write a City-wide agreement by March 31. The City's position in these negotiations, as publicly stated by the Mayor, is that any settlement must be viewed within the context of the Four Year Financial Plan. The possibility of longer-term contracts is being reviewed.

(d) A commitment from New York State to provide substantial amounts of additional, occurring financial aid to the City over that period, in order to enable the City to bring expenditures into line with available revenues, in view of the large increase in Federal aid to the City over the past three years, it is reasonable to expect that State to provide the additional aid needed to close the budget deficit for fiscal year 1979 to the extent that it cannot be closed by the City itself.
12. **Response:** The Plan requests substantially greater assistance from the State. And the Governor has agreed to increase the State's aid to the City by $200 million in fiscal 1979.

**Recommendation:** The Committee recommends that New York City adopt a Financial Plan to achieve a credibly balanced budget, which meets these conditions as soon as possible after April 1, 1978.

13. **Response:** The City has compiled a Financial Plan, submitted to the Treasury on January 30 of this year, that shows how it would achieve "credibly balanced budgets" in the future.

2. **Finding:** The Committee finds that New York City will have to satisfy certain conditions designed to restore investor confidence in order to be able to meet its financing needs in the public credit markets after June 30, 1978. These include the following:
   (a) Establishment of an accounting and budgetary control system which will produce reliable City financial statements developed in accordance with generally accepted accounting principles.

14. **Response:** The Integrated Financial and Management System (IFMS) went into effect on July 1, 1977. The new Administration wholly supports this system and Deputy Mayor Toia is working to see that it is successfully implemented.

   (b) Outside audit of the City's financial statements by reputable accounting firm on at least an annual basis, with reports made available to the public.

15. **Response:** A consortium of accounting firms will conduct an audit of the City's finances for fiscal 1978, ending June 30. The new Administration intends for this practice to be continued.

   (c) Establishment of an independent long-term fiscal oversight commission, along the lines of the present Emergency Financial Control Board, with authority to require that the budget be balanced and that the City follow reasonable budgeting and borrowing practices.
16. **Response:** The Mayor has publicly and repeatedly called for a continuation of outside review of the City's finances. As the Plan stated, the fiscal monitor should have the following powers:

- review of the executive budget submitted by the Mayor to determine whether it is balanced and contains reasonable estimates of revenues and expenses (including costs of contracts);

- review of the budget adopted by the Board of Estimate and City Council to determine whether it is balanced and contains reasonable estimates of revenues and expenses (including costs of contracts);

- quarterly review of budget condition to determine that the budget is balanced and contains reasonable estimates of revenues and expenses (including costs of contracts);

- review of all City borrowings to determine whether they are consistent with the budget and the financial plan;

- determination that a financial plan for the year subsequent to the budget year has been submitted and modified as required; and

- determination that the required internal controls are in place.

The Committee finds further that the first two conditions are the City's responsibility and are already in the process of being accomplished, but that the third will require action by the State Legislature.

**Recommendation:** The Committee recommends that legislation to establish a long-term fiscal oversight mechanism be prepared as soon as possible, with a view to obtaining passage by the State Legislature no later than April 1, 1978.

17. **Response:** Informal negotiations are currently underway as to the exact nature of the oversight mechanism. Legislation will be submitted to the State Legislature so that passage can be secured prior to April 1, 1978.
18. Response: Advice from the financial community indicates that the city will not be able to gain continuing access to the credit markets in the near future without Federal financing assistance, regardless of steps the City might take. According to these sources, the City cannot expect to regain market access in the near future because investors do not yet have confidence in the City and confidence is the lifeblood of the credit markets.

The following are potential sources of this financing:

1) Long-term financing: Of the $8.1 billion proposed in the four-year Financial Plan proposed on January 29, only $4.9 billion is needed to meet basic capital needs (including operating expenses until phased out). Of this, the City pension funds would supply $2.63 billion without increasing their fiscal year 1973 level of commitment by agreeing: (1) to reinvest $441 million in maturing bonds, and (2) to invest 30 percent of new investible funds, or $1.3 billion over the four years.

19. Response: Since the managers of the funds have said they want to reduce the proportion of these funds' assets invested in City securities, any concessions in this area might result in higher wage settlements, thereby creating added budget pressure. And it should be remembered that genuinely balanced budgets are essential to the City's financial health. For this reason, the Plan asks the Federal government, with State backing, to guarantee additional pension fund purchases of City securities.

The remaining $2.23 billion could come from the Municipal Assistance Corporation, which has the economic capacity to raise $2.5 to $3.0 billion more and should easily be able to raise the $600 million a year needed.

20. Response: On January 10, MAC issued $150 million of bonds to refund outstanding issues. When the issue was released for public trading, it is estimated that as much as $50 million, or 20% of the issue was not sold. As a result, the prices of these securities dropped $2 to $5 per $100 bond in the open market. The difficulties of the January
10 issue doubts as to the amounts of capital that can be raised by MAC over the next four years. For that reason, a Federal guarantee is essential because once it is in place MAC should be able to borrow the capital needed to fund capitalized expenses. Without the guarantee, it is doubtful that MAC could fund the capitalized expenses, much less raise the money required for true capital projects.

If MAC is able to raise more than this amount, then the proceeds could be used to do some of the $1.4 billion of financial restructuring actions proposed in the January 30 Plan as well.

(9) Seasonal financing: The City's present needs are $1.3 billion a year, and they could be met in these ways: (i) through reducing peak seasonal needs by at least $600 million in fiscal year 1979 and more in subsequent years, by such means as accelerating real estate tax collections, delaying contributions to the pension funds, and changing the timing of State and Federal aid payments.

21. **Response:** The Four Year Plan showed how such a reduction in seasonal borrowing requirements could be accomplished. While a change in the local law to allow accelerated real estate tax collections is being requested, a change in the timing of aid payments depends upon the State and Federal governments. As to delaying pension fund contributions, labor officials have publicly resisted such a change.

and (ii) through obtaining commitments from the New York City financial institutions, the State, and the State pension funds to cover the remaining seasonal needs, to the extent that they cannot be met through sales of City notes in the public credit markets.

22. **Response:** The Four Year Plan envisions that the Clearing House Banks will provide a $600 million line of credit to help the City meet its seasonal borrowing needs. The City will of course attempt to meet these needs in the public market whenever possible, though the failure of the November offering makes an immediate sale unlikely.

Recommendations.—The Committee recommends that the City work with the State and the Federal government in the period prior to June 30, 1979 to make arrangements for obtaining the financing necessary to cover its basic needs over its next four fiscal years, 1979-82.
23. **Response:** The City agrees wholly with this recommendation.

These arrangements should include the following:

(a) Passage of State legislation to increase MAC's borrowing authority by $2 billion, extend the expiration date of that authority, and permit MAC to do capital financing for the City.

24. **Response:** This legislation is currently being prepared.

(b) An agreement with the City pension funds to provide $2.25 billion in long-term financing for the City over the next four years by reducing their investments at the fiscal year 1973 level of 45 percent of assets.

25. **Response:** These negotiations are underway though, as previously mentioned, it may have budgetary implications.

(c) Measures to reduce the City's seasonal financing needs to no more than $1.5 billion in fiscal year 1974 and less in subsequent fiscal years.

26. **Response:** These actions are being taken where they are within the City's ability to be affected. Requests for such actions have been made when they are dependent on other parties, including the State and Federal governments.

(d) Commitments by the New York City Clearing House banks to provide at least a $600 million annual line of credit to the City for seasonal purposes and to underwrite and invest in additional amounts of short-term City notes.
27. Response: Requests for such commitments are being made.

(1) Standing commitments from New York State and/or the state pension funds to provide any additional special financing that may be needed in any of the three years covered by the January 25 Executive Plan.

28. Response: The State Comptroller has refused to make such investments, citing his fiduciary responsibilities.

(1) Passage of any legislation needed at the Federal and State level to permit the City and State pension funds to make the proposed investments is now pending, without infringing on their current status or their fiduciary obligations.

29. Response: Such legislation is being prepared.

BALANCING THE BUDGET

Under a State law passed in September, 1973, New York City was required to develop a three year financial plan to achieve a balanced budget in its 1976 fiscal year running from July 1, 1975 through June 30, 1976 and to show substantial progress toward this goal in its 1975 and 1976 fiscal years. The only exception was the provision in the law permitting certain operating expenses included in the capital budget (presently about $564 million) to be phased out over a five-year period. Based on testimony presented at the oversight hearings the Committee finds that New York City has complied with the requirements imposed by State law.

According to Mayor Beame, the City "met and corrected" the targets for each of the first two fiscal years. "In 1975, we reported a deficit of $318 million, $81 million under plan. In fiscal 1976, our deficit was $320 million, $537 million better than anticipated."

Secretary Blumenthal stated that the fiscal year 1978 requirement appears to have been met as well. "This year's operating budget is balanced, as defined by the emergency State legislation of 1975. Operating revenues have materialized at expected and operating expenditures have been controlled as the City's projections."

Unfortunately, there are no assurances at the present time that New York City will operate within a balanced budget in the years to come.
30. **Response:** The lack of such assurances caused the City to request increased State and Federal aid in the Four Year Plan. New York's budgetary gap has State and Federal origins - welfare and medicaid costs together exceed $1 billion, more than enough to allow the City to achieve balanced budgets over time. For that reason, a State and national solution to the problem has been requested.

First, the budget cannot really be considered to be in balance so long as any operating expenses continued to be funded out of the capital budget.

31. **Response:** As previously stated, the City agreed in the Four Year Plan to phase out these expenses twice as rapidly as permitted by the emergency State legislation of 1975.

Second, there are projections of new operating deficits after the present fiscal year ends, including a $157 million deficit for fiscal year 1979 over and above the amount of capitalised operating expenses to be phased out and certain accrued pension liability.

32. **Response:** The Four Year Plan proposes that this gap be closed by a combination of City, State and Federal actions. The City has begun to take such actions, and it is requesting State and Federal assistance.

Third, these deficit projections are based on the assumption that the City's personnel costs will remain the same. However, all of the City's labor contracts are due to expire by June 30, and union leaders have indicated their intention to seek wage increases. Each one percent increase in pay would cost the City an additional $15-20 million a year.

33. **Response:** The City intends that any increased compensation would be premised upon maintenance of a balanced financial plan.
Testimony at the Committee's hearings revealed a universal and unequivocal view that New York City must achieve a credible balanced budget and that only the least caused by the maximum of the deficit projections for fiscal year 1979. In the judgment of the Committee, this means a budget which is balanced in accordance with generally accepted accounting principles and which is likely to remain balanced in succeeding years.

34. **Response:** The Four Year Plan is designed to achieve budget balance in accordance with generally accepted accounting principles ("GAAP") in fiscal 1982.

...City officials told the Committee that the City will present a balanced budget in each fiscal year to come and will take steps to minimize any expected deficits. Secretary Brannaman testified that he had asked New York City and State officials to develop "intergovernmental budget and financing plans covering the next three or four years" and that the objective of the budget plan "must be to achieve a condition of truly recurring budget balance." These officials responded to the request with the four-year Financial Plan presented to the Committee on January 30, 1978.

The Committee believes that in order to meet its post-June 30 financing needs, the City must formally adopt a realistic Financial Plan to achieve recurring budget balance over the next four years as soon as possible after April 1, 1978.

35. **Response:** A multi-year Financial Plan, based on the Four Year Plan, will be submitted with the Mayor's Executive Budget on April 15th, 1978.

This Plan should include, as a minimum, the following elements:

1. A schedule for phasing out all of the operating expenses contained in the capital budget (presently about $641 million) over a period of no more than three years.
2. A signed City-wide agreement on the economic terms and budget costs of the City labor contracts over the period of time covered by the plan; and
3. A commitment from New York State to provide substantial amounts of new, permanent financial aid to the City over that period, in order to enable the City to bring expenditures into line with recurring revenues.

36. **Response:** As previously stated, the City is addressing itself to each of those points in the manner suggested by the Committee.
Phases of Operating Expenses in Capital Budget

As noted previously, the State law requiring a balanced city budget in fiscal year 1978 exempts from that requirement the operating expenses funded out of the capital budget and instead provides that these expenses be phased out over a six-year period, at a rate of at least $30 million a year. Although it appears that the city has complied with the letter of the law, the estimated amount of expense items to be phased out has actually increased, due to changes in accounting methods.

37. Response: The amounts of operating expenses in the capital budget rose after an accounting review and legal analysis was made to insure that all such items had been properly identified.

The most recent available figures for fiscal year 1978 indicate that there are $648 million in expense items funded out of the city's capital budget and $428 million in "true" capital expenses.

38. Response: These figures are correct in the city's opinion.

Obviously it is not desirable for New York City to continue funding these expense items out of its capital budget. The practice inflates artificially the size of the capital budget and pulls resources away from real and essential capital needs. Moreover, so long as this relic of past accounting gymnastics remains in existence, it will serve as a constant reminder of the city's unfortunate fiscal history.

39. Response: For the reasons stated, the new administration agreed to accelerate the phase out of these items before the Committee report was released. With sufficient Federal and State assistance, the phase out could be accomplished in one rather than three years. A one-year phase out is not now possible in view of the $457 million budget gap projected with a three-year phase out and other governments' reluctance to help us close even this gap.
Testimony at the hearings revealed that the schedule for removing all operating expenses from the capital budget. Otherwise, there will be considerable simplification about the City's ability to balance its budget and serious questions about its capacity to finance a capital budget which includes such items.

The Committee believes that it will not be enough for the City to raise taxes, in view of the present status of its operating budget. Nonetheless, action is crucial to the City's prospects for meeting its financing needs after June 30, 1978. Therefore, the Committee believes that if the City is to regain financial credibility, it must phase out all operating expenses presently included in the capital budget over a period of no more than three years.

40. **Response:** As stated, the City is removing these items from the capital budget over the next three years.

Labor Contract:

The Committee finds that all of New York City's labor contracts are due to expire by June 30, 1978, and that the settlement reached in the negotiations with the City employee unions over removing these contracts will have a crucial impact on the City's ability to balance the budget. This is because wages and fringe benefits, including pensions, make up 50 percent of the budget, and as stated above, each 1 percent increase in pay would add another $10-15 million to the projected budget deficit. Thus, the outcome of the contract negotiations is likely to be an important factor in the City's ability and its determination to bring expenditures into line with revenues on a continuing basis.

41. **Response:** All of the major labor contracts do expire by June 30, 1978, except with the United Federation of Teachers and the Professional Staff Congress at City University. Because of the significance of these contracts, the City has agreed to comprehensive bargaining in the hope that a settlement can be reached by March 1 and that a balanced budget submitted shortly thereafter. The actual cost to the City of a 1% increase in pay when all its agencies and covered organizations are considered is actually closer to $50 million, making the need for a prompt, no-increase settlement all the more urgent.

There is likely to be strong pressure brought to bear on the new City Administration to provide substantial pay raises to its employees. City workers have been subject to a State law preventing a wage freeze since 1975, and some guidelines limiting the size of cost-of-living adjustments, during a period of inflation in the economy as a whole. On the other hand, the Committee received evidence that the City's personnel costs have declined by only 1 percent since 1975, despite testimony that the City has cut 17,000 employees off the payroll, or about 20 percent of the work force. This gives some warning of the difficulties faced by the City in attempting to hold labor costs down and of the need to prevent a settlement that would still further balloon the budget deficit.
42. The city actually did save 5% when the work force dropped by 10%. The comparison of a 61,000 employee decrease and only a 1% personal cost decrease is misleading because the employee count is based on figures excluding CETA and CD workers while the personnel costs are based on figures including CETA and CD workers. There has been a significant increase in CETA workers, and so in their personal costs. While this cost is included in the gross personnel budget, this cost is mostly federally funded and not supported by tax levy funds.

Roughly 10% of the 20% percent decrease in the work force was offset by increased payments to City employees approved by the Emergency Financial Control Board. The contract provisions allowing these increases were the provisions for COLA, the 6% general wage increase, and increments.

The remaining 9 of the 20 percent was offset by increased pension contributions, FICA costs, and health insurance costs. These are costs that did not result in increased benefits for City employees. As the cost of health insurance rose and the FICA rate and base rose, the City had to contribute more to provide City employees with the same benefits as before. City pension costs did not drop immediately following the 61,000 employee decrease, because under State law, pension contributions by the City are not made until two years after the liability occurs. In addition, the City started to implement the recommendations of the Mayor's Management Advisory Board to put pensions on a sounder financial footing, which increased pension costs to the City. Also, when a permanent civil servant is laid off, the person is placed on a preferred appointment list, and for five years, as a matter of State law, the City must continue making pension contributions for that person.

The Committee believes it is vital that the budget impact of the new labor contracts be known well in advance of the initial signature dates of the present contracts, so that the figures included in the City's Financial Plan will be accurate.

43. Response: City officials agree that the budget impact of new labor contracts should be known as quickly as possible.
Response: The possibility of longer-term contracts is being examined.

The transit workers contract expires on March 31, and it is generally believed that the settlement reached in this contract will provide the model for the other labor contracts. In view of this, it would be reasonable to assume that negotiations on the other contracts can be conducted concurrently with the transit workers negotiation. Governor Carey provided some additional indication that the whole process could be expedited. He told the Committee that he would work with the new Mayor to coordinate the role of the City and the role of the Emergency Financial Control Board, in order to bring the contract negotiations to some conclusion as early as possible.

Response: As previously noted, the City has agreed to comprehensive talks to be held concurrently with the transit talks.

The Committee finds that if New York City is to be able to meet its financing needs after June 30, 1975, regardless of source, there must be concluded a City-wide agreement on the economic terms and budget costs of the labor contracts no later than April 1, 1975. This would achieve the inclusion of these figures as part of the costs in the City's Financial Plan to be adopted as soon as possible after April 1. In the Committee's view, this outcome would prevent investor confidence in the City's budget-balancing plan and allow sufficient time to line up alternative sources of funding for meeting the City's financing needs after June 30, 1975, when the Federal aid period ends.

Response: While City officials agree that a prompt City-wide agreement would provide increased confidence, such a wide agreement does not in itself sufficient to restore the confidence that has been shattered over the last three years, according to financial sources. For this reason, continuing financial assistance has been requested. However, the City will not weaken its bargaining demands to meet any outside timetable.
Increased State Aid

The Committee finds that New York State can and must provide a substantial increase in its financial aid to New York City if the City is to be able to achieve a balanced budget in fiscal year 1978 and in succeeding fiscal years. Given the fact that the City's effort appears to have lagged in the past 3 years, when considered in light of the fact that the Federal government has increased its aid to the City sharply during these years, in addition to providing $3.5 billion annually in federal aid. According to figures obtained by the Committee, the dollar amount of State aid to New York City has remained virtually unchanged in fiscal years 1975 through 1978. The increase during that period has been less than 4 percent, not nearly enough to keep up with inflation. During that same time period, Federal aid to New York City has gone up markedly, by about 20 percent: In fiscal year 1978, State aid to the City ran about 3 percent lower than Federal aid; now, in fiscal year 1978, it runs 2 percent lower...

47. Response: The City substantially agrees with these figures and for that reason we have asked for much greater State aid.

Under our Federal system, States are considered to be responsible for their cities. This means a responsibility for seeing that their cities follow sound financing practices, balance their budgets, and remain solvent. The Committee recognizes that the situation in New York is unusual in that New York City's budget is actually somewhat higher than New York State's budget (about $4.4 billion for the City, $1.4 billion for the State). However, this anomaly does not relieve the State of the obligation to see whatever it can to alleviate the City's budget problems.

48. Response: The City agrees with this concept. However, to the extent that the State cannot or will not assist the City, Federal aid is required. It should be noted that the State is legally barred from 'lending its credit.' Thus, the State is not legally able to provide meaningful long-term financing assistance to the City and therefore, the guarantee was requested.

Some of which are related to traditional patterns of state funding. This is especially true in view of the fact that New York State is now showing a budget surplus, while the City is facing a formidable budget deficit.

49. Response: To the extent that the City cannot get sufficient budgetary relief from planned State aid, it should be made up by reducing the tax cut.
Despite these considerations, the Governor of the State of New York, Kent L. CEDAR, issued a strong statement in his December 4, 1978, message to the Legislature. In his message, he stated that the proposed $200 million cut in state spending was not enough to balance the state budget. The Governor emphasized that the state was facing a $600 million deficit, and unless the state legislature acted quickly, the state would have to cut another $200 million from its budget.

50. **Response:** The Governor has indicated that the state cannot provide the $200 million the city will need from outside sources to balance its budget in fiscal 1979, as previously indicated.

The Governor understands that there are strong arguments on both sides of the issue of state aid to local governments. The arguments are made not only by the Governor but also by many other New York State legislators. In his message, the Governor noted that the state budget crisis is not unique to New York City. Many other cities and towns in the state are facing similar problems. The Governor called on the state legislature to act quickly to provide the necessary financial assistance to local governments.

51. **Response:** The four-year plan requested state actions that will allow recurring budget balances to be achieved. Negotiations are underway to ensure these actions continue beyond fiscal 1979, in increasing amounts.
The Committee finds that New York City will have to satisfy certain conditions designed to instill investor confidence in order to be able to meet its financing needs in the public credit markets after June 30, 1973. Testimony at the hearings indicated that there is basic agreement on the nature of these conditions within the financial community, and basic acceptance of the need for them by other parties concerned with the City's financing. The conditions can be summarized as follows:

1. Establishment of an accounting and budgetary control system which will produce reliable City financial statements developed in accordance with generally accepted accounting principles;
2. Outside audit of the City's financial statements by a reputable accounting firm on at least an annual basis, with reports made available to the public; and
3. Establishment of an independent long-term fiscal oversight mechanism, along the lines of the present Emergency Financial Control Board, with authority to require that the budget be balanced and that the City follow reasonable budgeting and borrowing practices.

The last of these, the long-term fiscal oversight mechanism, will require action by the State Legislature. The first two conditions are the City's responsibility and appear to be already in the process of being accomplished. The Committee believes the City and State need to satisfy all of these conditions by April 1, 1973 in order to regain investor acceptance and further the success of the post June 30 financing effort.

92. Responses: See Responses #14, 15, 16, and 17 in this rebuttal.

Accounting System

The Committee finds that New York City now has in operation the "new system of financial and accounting practices, records and controls" (Integrated Financial Management System) required by section 6.7 of the Credit Agreement with the Treasury pursuant to the Seasonal Financing Act. However, doubts continue to be expressed about the adequacy and accuracy of the system and of the financial statements issued by the City. Jackson Phillips, executive vice president of Moody's Investors Service, testified that the disclosures contained in the prospectus issued by the City in connection with its proposed November 1977 note offering were a major factor in Moody's decision to assign those notes a low B+ rating, which led to subsequent cancellation of the offering. In reference to the statements made in the city's prospectus, Mr. Phillips said in his testimony:

"One overriding risk, it seemed to us, was the sterilizing fact relating to all the city financial statements that "the City can give no assurance that the statements are free of material error or omissions" (p. 41). The Cash Flow Statements for 1977 and 1978 were introduced with the comment: "all actual amounts are unauthorized and subject to potential material revision or adjustment" (p. 4). The same point was emphasized in the Preliminary Official Statement where it advised that "it is possible that material errors or omissions may exist in the City's financial statements and in other financial data set forth here" (p. 17).

Such statements were found to be unusual in the context of a municipal securities offering, and therefore may raise serious questions for potential investors."
53. **Response:** It is not surprising that a system as complex as the EPMIS has had start-up problems. The responsible officials are constantly examining the system to eliminate flaws and it is believed that they will have been substantially removed by the end of the current fiscal year.

Responding to these concerns, the City's then Deputy Mayor for Finance, John C. Burton, pointed out that the disclaimers in the prospectus referred to financial statements from previous fiscal years, 1974 and 1975, and that these were prepared before the new accounting system was put into operation at the start of the 1975 fiscal year, on July 1, 1974. Thus they indicate possible uncertainties and cautions in connection with the earlier statements. Burton continued, but not any basis shortcomings in the present accounting system.

The substance of these disclaimers and of the material information on financial condition and risk factors contained in the City's Preliminary Official Statement may be positive factors, in certain respects. They appear to be, in part, the result of the passing of the Staff Report on Transactions in Securities of the City of New York during the period from October 1, 1974 through April 30, 1975, which was issued by the Securities and Exchange Commission in August 1977. This report described in length the alleged failure of various parties to disclose pertinent information about the City's financial condition in connection with securities offerings which took place during that time. Thus, the volume of information contained in the Official Statement, although disturbing in some respects, can also be viewed as a constructive development which offers assurances to investors that the City is not concealing any material adverse information.

54. **Response:** The new Administration has publicly stated that it is committed to prompt, full disclosure of all material facts about its accounting system and all the other aspects of government.

Mr. Phillips also questioned the accuracy of the data used by the City's new accounting system, in view of the variety of estimates currently reported respecting the prospects for the fiscal year 1979-80. Deputy Mayor Burton responded that these prospects were forecasts of future budgets, not actual figures, and that the differing estimates were "not a function of the data system," but "a function of the economic assumptions as to what will happen," which does not imply any defects in the underlying data base. Information does not imply any defects in the underlying data base. Information submitted to the Treasury Department, based on work done by Arthur Andersen & Co., indicated that the EPMIS system is functioning reasonably well and is likely to provide "credible" financial statements for fiscal year 1978.

In view of the concerns expressed in the hearings, the Committee recommends that the Secretary of the Treasury conduct a continuing review of the performance of the EPMIS system to determine whether the system is in fact producing complete and accurate data, in view of the system's expected accuracy and the City's budgetary control and accounting systems for the period after June 30, 1978.
Response: The City welcomes continuing review of the IFMS system by the Treasury and conducts regular meetings with its consultants, Arthur Andersen and Co., in this regard.

The Committee recommends that legislation to establish a long-term fiscal oversight mechanism be proposed as soon as possible, with a view to obtaining passage by the State Legislature no later than April 1. Otherwise, the absence of a moratorium will continue to be a subject of controversy and a constraint to the City's ability to utilize its financial needs.

Response: As previously noted, the City expects that such legislation will be enacted before April 1, 1978.

Independent Audits

Witnesses at the Committee's hearings, particularly those from the financial community, stated that independent outside auditors will be the crucial test of New York City's new accounting system and a major condition of the City's re-entry into the credit markets. The Chairman of Bear, Stearns & Company, Alfred P. Heinl, stated this condition clearly in his prepared testimony: "The City's financial statements and supplemental data must be accurate and must be audited by certified public accountants of the highest standing according to generally accepted accounting principles...the results of the financial audits and reviews should be made public."

Section 6.7 of the Credit Agreement requires that "an audit may be made as of June 30, 1973 by the State Comptroller, or at his election, by an independent certified public accountant." In accordance with this requirement, the City in mid-1973 engaged the accounting firm of Peat, Marwick & Mitchell to conduct such an audit. This audit, which now appears to be underway, Deputy Mayor Burson told the Committee:

We met yesterday with our auditors, Peat, Marwick & Mitchell, who are giving us their first reports on their progress toward the audit of the 1973 fiscal statements, and they indicated to us that they have done some preliminary work with IFMS and they saw no reason to revise any of their judgments, which they have already given to the Treasury, that the financial statements for the year will be auditable.

Response: Peat, Marwick and Mitchell continues to advise the City that its account will be auditable.
The Committee recommends that the Secretary monitor the city's progress in the course of the audit to make certain that the requirements contained in the agreement are met.

58. Response: The city will also welcome the Treasury's review, through Arthur Andersen, of the Post Harwick audit.

Fiscal Oversight Mechanism

The Committee finds that there is now general agreement on the need to establish a long-term fiscal oversight mechanism for New York City, with authority to ensure that the budget stays balanced and that the city follows reasonable budgeting and accounting practices. Creation of such a fiscal monitor is necessary to repel access to market and promote investor confidence in the city's ability to maintain fiscal responsibility and meet its obligations over the long term.

59. Response: The city agrees on the need for a fiscal monitor.

Governor Carey assured the committee that he would seek to "create some version of a long-term fiscal monitor for the city, through state legislation that is acceptable to all parties." As yet, there has been no agreement on the details of such legislation and on the basic question of how to achieve market confidence while maintaining the city's right to make basic spending and revenue decisions.

60. Response: As previously noted, informed negotiations are underway on the exact nature of the monitor.

DEBATING THE CITY'S FINANCING NEEDS

With all of the budget balancing and market access conditions met, as discussed above, the Committee believes that New York City should then be in a position to meet its financing needs on its own and that, as a result, the risk of bankruptcy after June 30, 1978, City and State officials have continued to argue, on the contrary, that such an outcome is not possible in the absence of a long-term Federal financing commitment.
61. **Response:** As mentioned, while local sources obviously have the ability to meet the City's financing needs, there is no difference between the ability to lend and the willingness to do so. This was vividly seen in the failure of the City's Note Offering in November and the recent decline in MAC securities. To increase lenders' willingness to provide funds to New York, the guarantee is essential. Without it, required capital improvements cannot be made, financing actions to eliminate the residue of the fiscal crisis and provide budgetary relief cannot be taken, and the City will struggle from year to year with no permanent solution in sight.

In his testimony at the Committee's hearings, Felix Rohatyn, Chairman of the Municipal Assistance Corporation, outlined his estimates of New York City's financing needs, both short-term seasonal and long-term capital needs, over the next three years. He also described his plan for meeting these needs, which involved a phased-out of the $3.6 billion in Federal seasonal loans and a phased-in of $2.25 billion in Federal long-term lending over that three-year period.

Since the date of the hearings, the Rohatyn plan has undergone a number of modifications and was amended as part of the Four-Year Financial Plan presented to the Treasury in New York City on January 30. However, the basic outlines of the plan are still the same, and it still envisages both an extension of the seasonal loans and $2.25 billion in Federal long-term lending in the form of guarantees of MAC bonds backed by City bonds. Using this plan as a basis for discussion, the Committee believes it can be clearly demonstrated that non-Federal sources are available for meeting New York City's essential financing needs, both short-term and long-term, over the four-year period.

**Long-term Financing**

Of the $6.1 billion in estimated long-term financing needs contained in New York City's Four-Year Financial Plan submitted on January 30, only $4.5 billion is allocated for basic capital financing ($2.9 billion "true" capital; $600 million to cover capitalized expense items until they are fully phased out), and this is all that is needed to accomplish the basic goal—preventing bankruptcy. The other $1.6 billion could be used for certain financial restructuring actions.

The Committee feels that the Municipal Assistance Corporation should be a major source of this capital financing. As Mr. Rohatyn stated in his testimony, "we have the economic horsepower within MAC's rating and bond covenant structures to raise another $2.5 to $3.0 billion on the City's behalf," assuming State authorizing legislation and favorable markets. This means that in the best case, MAC might be able to cover almost all of the City's capital financing needs; even should it fall short of this, it could contribute a substantial portion.

62. **Response:** See Response #20 of this rebuttal.
Unlike New York City, MAC has been able to borrow in the credit markets over the past three years. In 1974 alone, the Corporation issued $700 million from new bond issues, along with pricing at a substantial premium to existing City and MAC obligations. MAC should be prepared for continuing access to the market by reason of the fact that it can offer strong security to investors. Pursuant to state law, MAC is authorized to issue obligations backed by certain City-related state tax collections, and payment of debt service is assured by the fact that these revenues are channelled directly to MAC for that purpose. MAC First Resolution bonds are backed by collections of State sales tax within the City and by stock transfer tax revenues. MAC Second Resolution bonds are backed by per capita State aid due the City and by a subordinated claim on the State sales and stock transfer tax revenues, to the extent that they were not needed for First Resolution bonds. In the Restructuring Agreement executed last August, the Corporation agreed to increase the protections afforded to bondholders, by reducing the maximum allowable annual debt service on both First and Second Resolution bonds and requiring that the revenues provided for the outstanding revenues would be at least twice the amount needed to pay debt service in any given year.

63. Response: In view of the difficulties experienced by the recent MAC issue, it is not certain that MAC can meet a substantial portion of the City’s long-term needs. In fact, MAC has publicly stated that it will not attempt to come to the market before May or June of this year. This is further evidenced by the narrow spread in yields between City and MAC securities having the same maturity in spite of MAC’s “strong security”.

Mr. Rehatsch informed the Committee that the revenue stream backing MAC’s debt service would support an increase of $3 billion in the Corporation’s borrowing authority, in accordance with the terms of the Restructuring Agreement. However, there will have to be State legislation passed to increase MAC’s borrowing authority by $3 billion to $6.5 billion, to extend that authority beyond the present expiration date of June 10, 1980, and to permit MAC to do capital financing on behalf of the City. The Committee recommends that the necessary legislation be proposed as soon as possible with the intention to obtain passage by the New York Legislature no later than April 1, 1978.

64. Response: See Response 42 in this rebuttal.
In addition to the MAC borrowings, the City should also be able to count on a substantial amount of additional financing from its employee pension funds. The Committee recognizes the major contribution that the City employee pension funds have already made in underwriting the issuance of New York City’s long-term financing needs in the past three years, since the credit markets closed to the City. By June 30, 1975, the pension funds will have a total of $2.25 billion invested in New York City and MAC securities, which amounts to 35 percent of their total assets. This included $2.25 billion invested pursuant to the November 26, 1975 Amended and Restated Agreement, which formed the basis of the financial rescue package.

It may not be reasonable to expect the pension funds to increase substantially the proportion of their resources invested in long-term City bonds over the next four years, but neither would it be wise to encourage a significant decrease in their holdings at the very time when the City may be in need of a financing bridge to the long-term capital markets. Moreover, the financial fate of the pension funds will still be closely linked to that of the City. So whatever may be the expressed desire of the union leadership, the Committee believes it would be reasonable to expect the City employee pension funds at least to maintain their existing level of commitment to the City’s long-term financing, which would involve the following actions:

1. Repayment of the amounts of their holdings which will be maturing in the next four years. According to information obtained by the Committee, this amounts to a total of $841 million: $2.25 billion in fiscal year 1979, $2.72 billion in fiscal year 1980, $2.72 billion in 1981, and $1.55 billion in 1982.

2. Investment of 35 percent of new investable funds resulting to the pension funds over the next four years, thus holding constant the overall level of investment in long-term City bonds. Figures obtained by the Committee indicate that this would amount to a total of about $3.41 billion: $2.25 billion in fiscal year 1979, $2.72 billion in 1980, $2.72 billion in 1981, and about $1.48 billion in 1982.

65. Response: The City substantially agrees with these figures. However, the managers of the funds have said they want to reduce the proportion of these funds invested in City securities. While it might be possible to negotiate further pension fund investments in City securities, any concession in this area might result in higher wage settlements, thereby adding budgetary pressure. And it should be remembered that genuinely balanced budgets are essential to the City’s financial health. For this reason, the Plan asks the Federal government, with State backing, to guarantee additional pension fund purchases of City securities.

It is likely that an extension of Public Law 94-236 with some amendments would be needed to permit these additional City pension fund investments. The law was passed in early 1976 pursuant to the Amended and Restated Agreement on the New York City financing package. It permits the pension funds to make the investments in City obligations set forth in the agreement in order to maintain the City's ability to make future contributions to the funds and to meet future obligations to pay benefits to retirees. To the extent that such obligations are incurred and held pursuant to the Agreement, Public Law 94-236 exempts the City pension funds from (1) the requirement...
of the Internal Revenue Code that a qualified trust be for the ex-
cclusion benefit of the employees of the beneficiaries, and to the
self-filling prohibition of our Code applicable to tax-exempt govern-
ment-issued bonds. Should an extension be needed, then the Committee
recommends that the Administration request the necessary legislation
in a timely fashion.

66. Response: We agree that an extension of this legislation
would be needed to permit additional pension fund invest-
ments in City securities, guaranteed or not.

If an extension of the State indemnification law
is also needed, then the Committee expects that prompt action will
be taken at the State level.

67. Response: The City is pursuing this matter.

In all, then, the Committee believes that sufficient long-term
financing should be available to the New York City over the next four
years from sources other than the Federal government to more than
meet the $6.7 billion in basic capital financing needs. At least $2.25
billion of that amount could be supplied by the City employee pension
funds, at the rate of $200 to $300 million a year, without increasing the
percentage of their assets currently invested in City obligations. On
the basis of recent experience, it would seem entirely feasible to obtain
the remaining $4.25 billion, or roughly $630 million a year, through the
sale of MAC bonds, to private investors. This annual amount is well
below the $700 million in new bond sales that MAC was able to
refinance in 1977.

68. Response: While the calculations in this paragraph are
accurate, they do not take into account the stated intention
of the City pension fund advisors to reduce the proportion
of the funds' holdings of City and MAC securities;
nor do they consider the recent market difficulties experi-
cenced by MAC securities. In view of these realities, the
City does not believe it can meet all its long term
financing needs without Federal assistance.
In addition to the $1.1 billion in basic capital needs, the City's financial plan calls for an additional $1.8 billion in long-term financing to be used for financial restructuring purposes. While this restructuring may be desirable, it is not absolutely necessary in order to prevent bankruptcy. The financial restructuring contemplated in the City's plan should therefore be considered an action to be taken only if resources obtainable from the public credit markets permit. It is entirely possible that some or all of these needs could be met through sales of MAC bonds or new City bonds if the City continues to show progress toward bringing its expenditures in line with its current revenues.

69. Response: The Four Year Plan called for a refunding of $560 million of MAC securities, funding $250 million of the MAC capital reserve and bonding the $800 million State advance. The refunding is expected to reduce debt service expenses by approximately $17 million in fiscal 1979, $40 million in 1980, $56 million in 1981 and $81 million in 1982; funding the capital reserve will save almost $100 million in fiscal 1979 and $30 million in 1980. Since these actions relieve fiscal pressure, they should be pursued.

As for the State Advance, it represents accumulated budget deficits. It also increases the City's seasonal borrowing needs. To the extent it can be bonded, the City can reduce its reliance on the Treasury for short term borrowing.

At the current time, about two-thirds, or $1 billion of debt service on the City's obligations is for principal repayment. About 50% of the $2 billion of combined City and MAC debt service is for principal repayments.

However, the Committee does not believe there has been sufficient justification to provide long-term Federal guarantees for the purpose of facilitating financial restructuring actions which are not absolutely necessary to maintain the City's solvency.

70. Response: The Four Year Plan does not request long-term Federal guarantees of securities to be sold for restructuring the City's finances, only for issues to provide funds for true capital projects.
The City's Financial Plan, as submitted to the Secretary on January 20, describes three components of the proposed $1.5 billion refinancing plan: $350 million for refunding certain MAC bonds; $450 million for refunding a MAC capital reserve fund; and $350 million for bond preparation costs. The most important of these items appears to be the $250 million for refunding a MAC capital reserve fund. Under the State law establishing the corporation, MAC is required to establish a reserve fund equal to one year's debt service. This is a common practice for bond issuers generally, to provide a margin of security. Because of the magnitude of the borrowings, MAC had to undertake, it was given four years, until fiscal year 1979, to build up that reserve through borrowings. In the meantime, the reserve has been funded out of the City's budget. Thus the funding of this reserve through $250 million in MAC borrowing would not only meet the requirement in State law but also provide some budgetary relief to the City.

Response: See Response #69 of this rebuttal.

Next would come the refunding of the $350 million in high-interest MAC bonds, which is intended to provide some savings in debt service to aid in balancing the City's budget. These savings would help offset the cost of phasing out the expense items in the capital budget; otherwise, the City will have to make deeper cuts in the operating budget. So although this refunding may be desirable from the City's standpoint, it does not appear to be essential and should only be done if resources permit. This component of the financing plan may be easier to achieve through sources in the financial community, since it involves a refunding of outstanding obligations other than the issuance of new securities.

Response: See Response #69 of this rebuttal.

Finally, there is the bonding out of the $450 million State advance, which appears to be of more dubious benefit. On the one hand, it would reduce the statutory effect of reducing the City's seasonal borrowing needs. With this and some other adjustments, the January 20 Financial Plan estimates that the City's present seasonal borrowing needs of about $3.2 billion a year could be reduced to as low as $405 million. This would lower the City's debt service costs and quite possibly facilitate its re-entry into the credit markets for short-term borrowing purposes.

On the other hand, the $405 million seasonal financing is basically guaranteed the City, whereas the equivalent amount of long-term financing is not. Moreover, New York State would be the principal beneficiary of the bonding out of the advance: this would relieve the State of its present need to provide backdoor seasonal financing to the City and thus improve the State's own borrowing picture considerably. All this runs counter to the Committee's view that the State should be more, not less, involved in the City's financing. While not opposing the bonding out of the State advance if it can be done with available resources, the Committee would certainly not assign it top priority and would definitely not favor the use of Federal long-term financing to accomplish this purpose.
73. Response: The State Advance represents accumulated budget deficit. For that reason, bonding the advance would, like the phase-out of capitalized expenses recommended by the Committee, remove a symbol of the City’s past fiscal gimmicks and thereby facilitate market re-entry, in addition to lowering the City’s interest cost and improving the State’s “borrowing posture.” In this regard, the City would, because the Advance assists the State, request a “quid pro quo” in the form of higher recurring State aid. As noted, the City has not asked for a Federal guarantee of securities to be sold to bond the Advance, only for securities whose proceeds will be used to rebuild the City’s physical plant.

In conclusion, then, the Committee finds there is ample reason to believe that New York City could cover its long-term financing needs over the next four years from resources immediately available to it, even in the absence of any financial aid from the Federal government beyond June 30, 1979. Furthermore, it is important not to overlook the possibility of the City’s doing some long-term capital financing on its own through offerings of new City bonds, at least in the latter part of the four-year period. In fact, the January 30 Financial Plan includes sales of at least a modest $140 million in City bonds in the last two years of the Plan. However, the figures cited above indicate that the City’s basic long-term financing needs could be met even without any sales of City bonds.

74. Response: As previously stated, there is a difference between the ability of local sources to lend and the willingness to do so. The realities of the market place, in fact, make this a truism. That is why the City needs long term Federal financing assistance.

Seasonal Financing

The Four-Year Financial Plan submitted on January 30 estimates that the City’s short-term seasonal financing needs will amount to $1.6 billion in fiscal year 1979 and will decline in later years. The Plan proposes that these needs be met (a) by an extension of the Federal seasonal loans on a declining basis ($1.5 billion in fiscal year 1978, $200 million in fiscal year 1979, $200 million in fiscal year 1980, $60 million in fiscal year 1981, and $20 thereafter); (b) by obtaining a $600 million line of credit from the New York City Clearing House banks; and (c) by obtaining at least $600 million of credit from local sources, including the banks and the State pension funds.

75. Response: As mentioned, the Four Year Plan calls for $600 million line of credit from the Clearing House Banks.
In a previous report, the Committee recommended that the City and State take steps toward revising the City's revenue collection schedule and amending existing laws of the reassessed property, in order to reduce the City's large annual slack-time borrowing needs and the attendant interest costs. Thus it is encouraging to find that the City's January 28 Financial Plan contains proposals to do this. These include revised collection of real estate taxes within the fiscal year and changes in the timing of state and Federal aid payments. The Special Deputy State Comptroller made similar suggestions in a report issued January 18, which included proposals to repay the State's advance until later in the fiscal year and to defer payment of the City's share of the pension until the end of the year, rather than paying it in regular monthly installments (which is not legally required).

The Committee recommends that the City and the State, with the aid of the Secretary of the Treasury, take immediate action on a program to reduce the City's $1.3 billion seasonal financing needs by at least $400 million in fiscal year 1979 and by additional amounts in succeeding fiscal years. The Committee understands that a $400 million reduction could be achieved relatively quickly by such measures as accelerating collection of real estate taxes and delaying repayment of the State's advance.

76. **Response:** See point 26 of this rebuttal.

In addition, further reductions in peak annual needs could be achieved if the State were to reach an agreement to delay the City's contribution to the pension fund.

77. **Response:** As previously stated, labor officials have publicly objected to delaying pension payments. Therefore, any concessions thereon in this area might result in higher settlement payments, thereby adding budget pressure.

With such a program in place, the Committee believes that the remaining amounts of seasonal financing needs—a maximum of $1.1 billion in fiscal year 1979 and $1.3 billion thereafter—should be forthcoming from sources other than the Federal government. This is especially true in light of the following considerations:

1. The history of the City's seasonal borrowing is a record of a strong economy than anticipated revenues from the State. The State's credit is strong, and there are no other agreements or commitments to provide these revenues over at least the next three years.
2. The City has an impeccable record of repaying its seasonal loans from the Federal government in full and on time or ahead of schedule. There is little reason to believe that other investors would not feel comfortable of a similar repayment record. Furthermore, with the Federal Government out of the picture, there would be no requirement of repayment arising out of any express or implied priority on revenues by the Federal Government.
3. Although the recently attempted City note offering was cancelled due to the economic conditions, both the Comptroller of the City and the Federal Reserve Board declared that the notes would be eligible investments for the banks they regulate and need not be classified. This was an important vote of confidence in New York City's financial condition and the influential Federal bank regulatory agencies.
Response: This point is an argument for continued financing assistance to the City since its credit is much stronger today than it was in 1975.

Given these considerations, and assuming accomplishment of the budget-balancing and other actions recommended above, the Committee finds that New York City should be able to meet all of its seasonal financing needs in the public credit markets after June 30, 1975.

Response: The Committee may find that the City "should be able to do...in the public credit markets" but these markets tell us what we can do, as evidenced by the failure of the City's Note Offering in November. The market, not the Committee's finding, is the test of reality.

This will require a major effort by the New York City banks, as both underwriters and investors in New York City obligations. As noted above, the City's January 30 Financial Plan suggests that the large Clearing House banks could provide a $600 million annual line of credit for seasonal financing purposes, which would amount to almost half of the adjusted total needs. The Committee finds that this would be a good start but believes that these banks and other New York financial institutions could do a lot more to aid the City without jeopardizing their financial condition.

Response: In addition to requesting a $600 million line of credit from the Clearing House banks, the Four Year Plan asks the banks, along with other New York financial institutions, to purchase $1 billion of City and MHC bonds during the period.

Information supplied to the Committee shows that the total domestic assets of New York State commercial banks, savings and loan associations, and savings institutions were approximately $100 billion as of June 30, 1977, and approximately $47 billion of those were assets of financial institutions with headquarters in New York City. From these figures, it is evident that it is well within the means of the New York financial institutions to cover much or all of New York City's seasonal financing needs, which equal less than one-half of one percent of their assets. The question then is whether the condition of these institutions and of the City would permit such a level of investment.
There is every reason to believe that financial institutions located in New York City and in New York State are in a far better position now to take on more New York City-related obligations than they were in 1971, for several reasons. First, the city is in better shape, and the financial prospects of the banking industry have improved. Second, the banks hold no short-term City notes at all as of present time, nor are there any such obligations still outstanding or in default. Third, in most cases, total bank holdings of long-term City and MAC bonds have remained constant or declined since 1971, while assets as a whole have increased. Fourth, the City has made tremendous strides toward putting its financial house in order in the past three years and is likely to do so still more in the next few months. Fifth, the banks can look to the record of repayment of the Federal seasonal loans as a firm indication that the City will live up to its commitments and repay its borrowings. Sixth, there is the fact that the Comptroller of the Currency and the Federal Reserve Board both declared the proposed City notes to be eligible investments for the banks they regulate. For all these reasons, the Committee finds it reasonable to expect the banks and other financial institutions in New York City and New York State to pick up a substantial volume of short-term City notes over the next four years, and significant amounts of long-term MAC and City bonds as well.

81. *Response:* The City agrees that all these points make it reasonable to expect the banks and other financial institutions in New York City and New York State to pick up a substantial volume of City notes... and bonds in the next four years. They are also excellent reasons why the Federal government should help the City in the event its financial institutions do not.

The Committee heard testimony at the hearings from the heads of the largest banks in New York City—City Bank, Chase Manhattan, Morgan Guaranty, Bankers Trust, Manufacturers Hanover, and Chemical Bank. These banks alone represent total capital of $10 billion and total assets of $129 billion. Among them, Chemical Bank has by far the largest holdings of New York City and MAC bonds—about $131 million, or 9.9 percent of assets, in 1971. The other banks had a much smaller proportion of their holdings in these obligations, and information submitted to the Committee indicated that most had reduced their holdings since September 30, 1972. Thus there is every reason to assume that these banks and other New York City financial institutions could lend in far larger amounts of MAC and New York City obligations, including new short-term notes, without in any way damaging their financial position. As the large volume of their loans to foreign countries, the Committee believes it is reasonable to expect the New York City banks to increase their investments in City-related obligations. And although the banks who testified were reluctant to make firm commitments, they did indicate that they would do their share in any future efforts to meet New York City's financing needs.

82. *Response:* The City is actively trying to convince New York's financial institutions to "do their share" in meeting its financing needs.
33. Response: As mentioned, the State is legally prohibited from "lending its credit." As for the City's pension funds, the State Comptroller, who is the sole trustee of these funds, has refused to buy substantial amounts of City or MAC securities, citing his fiduciary responsibilities.

The Committee believes that New York State must play the main role here, both in reducing the City's peak seasonal needs and in providing build-up seasonal financing to the extent needed. Governor Carey has told the Committee repeatedly that the State Constitution prohibits lending to a municipality. However, a memorandum from State Comptroller Levitt which the Governor submitted to the Committee last year gives some indication that the Constitution may not bar lending for short-term seasonal purposes. The memorandum stated, in part, that "the present Constitutional ban on gifts or loans of the State's credit precludes borrowing to assist the City except by note payable within a year out of current revenue." (Emphasis added.) The latter phrase would appear to describe rather clearly the nature of seasonal borrowings and would suggest that the State might be able to assist the City directly in meeting some of these short-term needs.

34. Response: City officials are investigating this possibility, though substantial legal barriers are thought to exist to an actual loan.

Even if there might be some problems involved in direct State financing, there is no legal barrier to the State pension funds' picking up substantial amounts of the City's short-term needs. These State pension funds hold very considerable sums, and the Committee was informed in the oversight hearings that they have made no real commitments to the City's financing, either short-term or long-term. Given the importance to the State and its public employees of New York City's avoiding bankruptcy—as eventually which could imperil the State's finances as well—there is every reason to request that the State pension funds backstop the City's seasonal borrowing needs, to the extent that they cannot be met in the public credit markets.

35. Response: See point 33 of this rebuttal.
There are two State pension funds: the general State employees retirement fund, which has a total assets of $80.2 billion, and the teachers retirement fund, with total assets of $5.5 billion. Neither has any significant holdings of either New York City bonds or MBC bonds. Even if the pension funds were asked to pick up as much as $900 million in needed financing in fiscal year 1978 (the amount required over and above the $600 million line of credit from the banks), it would amount to only 5.0 percent of their assets. This would be far smaller than the commitment made by the City pension funds, and it would be on obligations whose quick repayment is assured, and at attractive rates of interest.

Questions have been raised about the ability of the State pension funds to make such investments and still meet their fiduciary obligations. In view of the security underlying these investments, and the likelihood that the amounts involved would be rather small—probably less than $900 million at peak, the Committee believes that the State pension funds should be able to do this seasonal financing for the City without encountering any fiduciary problems. Should Federal legislation along the lines of Public Law 94-206 be considered necessary to clarify the status of these State pension fund investments, the Committee recommends that the Administration request such legislation in a timely fashion. State legislation similar to that provided the City pension funds should also be proposed if necessary.

86. Response: The City supports this legislation.

In conclusion, the Committee is skeptical about the need for continued Federal financial assistance to New York City either for short-term or long-term purposes. A renewal of the New York City seasonal loan program would not necessarily serve the best interests of the Federal government or of the nation.

87. Response: The City believes Federal assistance that would enable New York to regain long-term vitality is in the best interests of the nation.

It would raise the risk of encouraging other cities to look to the Federal government for similar financial aid in times of economic stress.

88. Response: Because New York’s fiscal crisis has national origins, the City Administration will propose a suggested national solution—federal guarantees of pension fund purchases of municipal obligations. All distressed communities will be able to utilize the guarantee program so long as they meet the following criteria:

---The community must have an unemployment rate at least 1% greater than the national unemployment rate each of the past twelve months:
The community's pension funds must be willing to purchase the community's bonds;

-- The community must accept outside review of its finances;

-- The community must have failed to sell its long-term obligations in the public market within the past twelve months; and

-- The State in which the community is located must provide a back-up to the guarantee.

While there is obviously a Federal commitment to assisting cities through various existing grant-in-aid programs, a dangerous precedent would be set if the Federal government became viewed as the ultimate guarantor of the fiscal solvency of municipalities. Such a precedent would certainly weaken the incentive for local discipline at the local level and erode the foundations of our Federal system.

89. Response: To date, Federal assistance has proved an incentive rather than a disincentive to fiscal discipline in the City of New York.

"If the Federal government were to provide long-term financing for New York City as the City and State are requesting, then the precedent would be far more dangerous. It would greatly increase the Federal government's financial exposure, while severely limiting its ability to safeguard its investment through the types of conditions that are presently available."

90. Response: See points 44, 78 and 81 as to why the federal exposure is minimized in the Committee's own words. In addition, as pointed out in The Four Year Plan, the Federal Government's exposure under the plan would at no time equal or exceed the current $2.3 billion exposure under the Seasonal Financing Act.

Under the seasonal loan program, the Secretary of the Treasury can require that certain conditions be met before he extends a loan or before he makes new loans at the start of a fiscal year. A commitment to long-term Federal financing would remove the basis for such constraints. For all these reasons, the Committee believes it would be far preferable for New York City to obtain the financing it needs after June 30, 1978 from sources available to it in New York City and New York State, rather than rely on federal financial aid from the Federal government.

91. Response: While the City also prefers to obtain its financing from local sources, it does not believe it can do so in the view of market reality.
Chairman Moorhead. Thank you, Mr. Mayor, for an eloquent statement.

Ms. Bellamy, would you care to proceed?

STATEMENT OF CAROL BELLAMY, PRESIDENT, NEW YORK CITY COUNCIL

Ms. Bellamy. Thank you, Mr. Chairman, members of the subcommittee. I am honored to testify today. I appreciate the sympathetic understanding you have brought to your inquiry into New York City's fiscal problems.

There are essentially three issues before us. The mayor has talked eloquently about them. I will attempt not to be repetitious about them, although I may emphasize a couple of items that he, too, has pointed out.

The three items are the following.

First, how does New York City's fiscal situation differ today from the problems it faced in 1975?

Second, why do we still need Federal help with long- and short-term financing?

And third and perhaps most essential, why is New York City worth saving at all?

We come to you today as representatives of a city government which is, in many respects, quite different than when we were here 3 years ago, a government that is smaller, with new fiscal institutions, and a budget that is finally under control.

At its peak in 1975 New York City directly employed more than 294,000 full-time workers. In the 3½ years since the fiscal crisis, we have reduced our workforce by 61,000, a cut of over 20 percent.

In the years before the fiscal crisis, New York City prepared questionable revenue estimates, borrowed beyond its means, and put three-quarters of a billion dollars of expense items into its capital budget. Today we have reformed our accounting system, and we are using a sophisticated computer-based, financial information system. We have removed expense items from the capital budget according to a schedule established by State law. And we have repaid, on schedule and with interest, our moratorium and seasonal financing obligations.

Three years ago New York City's budget was increasing at an annual rate of 10 percent. Taking inflation into account, our budget today has actually shrunk by 10 percent, measured in constant dollars.

We have taken other important steps toward fiscal stability. We have increased sales and personal income taxes and reduced business taxes to stimulate economic development. We have increased mass transit fares and imposed tuition at the City University of New York. We have begun to share more equitably the costs of our municipal court system and CUNY's senior colleges with the State. We have reduced the number of our municipal hospitals.

We have adopted new and flexible personnel procedures. We have taken steps toward management reform through an office of operations with personnel drawn from the private sector. We have established a detailed management plan, with performance standards for individual agencies and indicators for programs within those agencies.
Finally, and significantly, the people of New York last November rejected past practices and elected a new generation of leadership to manage our town.

The new City leadership stands before you today and tells you we are committed to do even more over the next 4 years. We shall trim the City's work force by another 10 percent. We shall hold increases in the cost of purchases and supplies to half the rate of inflation. We shall institute additional management reforms. And we shall double the rate at which expense items are phased out of the capital budget.

Despite these achievements and pledges for the future, a crucial problem remains. We still cannot borrow in the open market. Banks and other institutions remain wary of City paper. We should not be surprised by their caution. After all, as the poet Robert Frost remarked, "A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain." We certainly have had more than our share of foul weather in New York this past year and so continue to need your help.

We need your help with long-term financing. Since 1975, New York has met its needs for long-term funds by private placements with local banks and City pension funds. The pension funds now have almost 35 percent of their assets invested in City-related securities. I think those investments are sound, and I think the funds can continue to carry that amount of City paper.

However, as a trustee, and I am a trustee of the largest of the City pension funds, I confess I question whether it would be prudent to expand those investments without some kind of guarantee from the State and Federal Governments.

The Municipal Assistance Corp. has also been a significant source of long-term funding. But MAC's last offering went unsold and was withdrawn, and MAC is now itself unable to borrow in the open market. Its access to that market can only be opened with Federal assistance.

Why do we need this long-term financing?
New York is a very old city. For millions of new Americans, New York was and is a beginning. We have welcomed them, and we continue to do so. But their presence has taken its toll.

Our physical plant is crumbling. We have 5,300 miles of paved, potholed streets that must be rebuilt on a reasonable schedule.

We have a water supply that was skillfully crafted more than 50 years ago, but it, too, is in danger of breaking down, and that is a constant threat to public health and safety.

And the list is much longer. Our bridges are in a dangerous state of disrepair. Large portions of Brooklyn, Queens, and Staten Island suffer from chronic flooding in heavy rains because of inadequate sewer systems. The City's own buildings need major rehabilitation, and its vehicle fleet must be replaced.

We have postponed many of these expenditures for years; we can postpone them no longer. The costs of delay are measured in disruption of City services—reduced garbage collection, slower snow removal, broken water mains, larger potholes. They are also measured in increased probabilities of major disasters—interruption of water
service for a major portion of the City, or bridge collapses, for example. Inconvenience, declining quality of life, and the threat of more serious problems will accelerate the flight of our middle class from the City and put further pressure on our tax base.

Costs of delay are also measured in dollars. Without capital funds, we cannot invest in energy conversion, a step which will pay back its initial costs many times over the years. Moreover, buildings which still can be rehabilitated will soon require full-scale replacement at a higher cost in inflated dollars.

Finally, we need long-term funds to rebuild the City’s battered economy. Without such aid, we cannot assemble land for new commercial uses, or build the streets and sewers for industrial parks. Without long-term financing, we cannot build a new convention center, a crucial step in our plans to stimulate the City’s tourist industry. Without long-term financing, we cannot reactivate our great port facilities with modern container-handling systems and new rail links.

In short, New York today deserves and demands long-term help from its own Government, and we are grateful for the sensible show of Federal support expressed for assistance in this committee and in the White House.

But we shall also need Federal assistance with short-term financing, to smooth out month-to-month fluctuations in receipts from taxes and intergovernmental aid. By July, New York City will run short of the cash it needs for payments to employees, vendors, and pension funds. Without Federal assistance, we shall have three choices.

First, we could default on some portion of those obligations, a step which would set back our efforts at financial recovery by at least a decade.

Second, we could turn to sources other than those outlined in the 4-year financial plan for short-term loans. The Municipal Assistance Corp. is one possibility, though the market is currently closed to new MAC issues. The pension funds are another, but both the State comptroller and union leaders have pledged not to buy unguaranteed securities.

Third, we might adopt some of the financing expedients suggested by the Senate Banking Committee. But those recommendations bring with them their own risks, including new threats to the City’s fiscal reliability.

We have worked hard over the past few years to reduce the City’s reliance on “gimmicks,” such as capitalization of expense items or underfunding of the pension systems. Now the Senate Banking Committee suggests, for example, that we delay until the end of the fiscal year the City’s payments to the pension funds. Such steps might indeed reduce the City’s need for short-term borrowing, but constitute what has already been described as “gimmickry” by the financial community.

We must avoid default. But we must do so in a manner that preserves our fiscal credibility. The Federal seasonal loan program has been a boon to New York City. It is also a program that yields a profit—$30 million over the past 3 years. It is not, and never will be, may I remind you, a dole.

I am convinced we share a number of goals for New York City—a budget balanced according to generally accepted accounting princi-
ples; access to the market for long- and short-term borrowing; a leaner, more carefully managed City government; an active local program for economic development; and long-term fiscal stability. I believe we serve those goals much better by continuing the seasonal loan program than by forcing us to adopt a new batch of dubious devices for short-term cash management.

That is the dollars and cents of New York's situation. There is still the larger question to be answered—why is New York City worth saving at all?

Whatever its recent problems, ours is a city with a favored past. We have nurtured generations of Americans from Europe, from Asia, and from within our own borders. We have been a beacon to those who sought the American dream. We cannot afford to let it die. As Secretary Blumenthal put it, the United States cannot afford to let New York die. The costs, in dollars, in national pride, or in any other measure, are simply too great.

With the optimistic energy of our citizens, with help from the Federal Government, and with our own commitment to reconstruction of the City's economy, I am certain New York will survive and prosper.

Your support in that effort is essential. I am confident that your committee will arrive at a sensible, constructive program to assist the City, and I am certain that the rest of Congress can be persuaded to follow your enlightened leadership.

Thank you for your attention.

Chairman Moorhead. Thank you, Ms. Bellamy. Mr. Goldin?

STATEMENT OF HARRISON J. GOLDIN, NEW YORK CITY COMPTROLLER

Mr. Goldin. Thanks very much, Mr. Chairman and members of the subcommittee.

My basic views on the subject before this distinguished subcommittee were expressed in several hours of testimony 2 weeks ago today when I appeared before you as the City's chief fiscal officer, together with Felix Rohatyn, the chairman of the Municipal Assistance Corp.

My positions and views remain essentially the same, and I will not consume time to repeat them today, except to remind you that I summarized the outlook as follows:

Despite everything the city has done and is now able and prepared to do, despite what the State has done and what the State may be willing and able to do, despite the enormous contributions made by the municipal unions in the form of pension fund investments and otherwise, the city has no credit after June 30 unless it has credit with the Federal Government.

What is new today is that since March 2, we have had the opportunity to examine the proposal of Secretary Blumenthal on behalf of the administration as presented to your subcommittee.

My own view is that Secretary Blumenthal's proposal represents a thoughtful, careful, and good-faith effort to develop the main lines of a legislative package consistent with the City's needs and consistent also with administration principles and policies.

We hope, of course, that the main features and conditions of the proposal will prove acceptable to the Congress.
As one who was actively involved in developing financing and fiscal reform proposals during the original crisis in 1975, I think there is much significance in both the content and the attitude of the current administration proposal. In contrast to the situation in the fall of 1975 which many members of this subcommittee will remember, we have today a situation in which the Department of the Treasury has become second to none in its information, comprehension, and expertise regarding fiscal affairs of the City of New York.

This is because a truly massive amount of data now flows regularly to the Treasury from the City, and because the Treasury has its own public accounting firm and staff monitoring the City's performance.

Mindful of the Treasury's analytical ability to assess our own 4-year financial plan as submitted on January 20, and mindful also of the Treasury's obligation to make such assessment in terms of the national interest, we were naturally gratified that the Secretary on March 2 described the City's own plan as follows: "It is well conceived and would achieve its objective."

The Secretary reflected further confidence in the reliability of the present City administration when he described the revenue and expenditure estimates in the City plan as "realistic" with relatively minor adjustments.

It is especially significant, in my view, that the Treasury came in the course of analysis and study to agree with the City's own conviction that recovery of public credit now requires an entirely new program of long-term Federal guarantees.

We expect that in the course of these hearings and in the course of negotiations among potential financing sources, certain features of the administration plan may be clarified.

Certainly, we in the City agree that primary responsibility for our financing needs should remain with the City itself and that secondary responsibility resides with the State. But the fact that a seriously ill patient must draw first and foremost on his own natural resources does not diminish the essentiality of the blood transfusion, nor does it mean that the blood can be withheld until the patient has given ultimate proof of need through his own expiration.

I do not suggest that anyone is demanding such ultimate and irrefutable proof of need from the City, and I assume that a reasonable means can be developed to insure that the Federal role as a guarantor can be "residual and temporary" in the words of the Secretary, and yet sufficiently dependable and available to facilitate the financing of a nonguaranteed nature which the City must also accomplish. All the financing help which the City has received from the Federal Government over the past 3 years has been "residual and temporary" in the sense that none of it was ever available except for the Secretary's judgment that adequate public credit could not be obtained at the time.

The participation of the commercial banks, which we need very early in the coming fiscal year for seasonal needs, will clearly hinge to a large extent on the strength and impact of the long-term guarantees.

In addition, it remains my own strong conviction, as I have expressed to you in the past, that the trustees of employee pension funds
will require Federal guarantees in the light of their fiduciary obligation in order to perform the future financing role contemplated in the City's own plan or in the administration plan. They will also require that the entire financing package be large enough and dependable enough to accomplish within a reasonable period the City's recovery of its own public credit.

In the light of this condition, I regret that the administration has decided to scale down by approximately $600 million the amount of long-term borrowing which the City believes necessary over the next 4 years. I assume this reduced figure, if adopted, would either rule out the modest restructuring of the debt of the Municipal Assistance Corp. which was designed to provide some relief in early years from the heavy burden of debt service, or would involve a curtailment of the plan to bond out the $800 million recurring State advance which is also essential to regarding ultimately the City's credit.

I agree with the mayor and other City officials that any further whittling of the City's proposed financing program could prove a serious impediment to full participation and ultimate recovery. Our enormous physical plant which must serve up to 9 million residents, commuters, and visitors on any given day, our roads, bridges, sewers, water tunnels, public buildings, fire and sanitation trucks, are falling apart for lack of money for renovation and replacement.

I understand the administration's desire to dispense with further seasonal financing assistance as part of the program for a new type of long-term guarantee. Indeed, the City itself has developed and pursued a program designed to diminish significantly its need for seasonal financing assistance, contingent upon the provision of long-term guarantees.

But I hope the subcommittee and the Congress will understand that it is one thing for the City to construct this type of program, depending as it does on the precisely coordinated functioning of a variety of separate parts and parties, and another thing to be sure it will work with 100-per cent dependability in the very first year.

I urge therefore that the City not be abruptly cut off from all access to Federal seasonal financial help should such help become necessary on a limited and a last-resort basis in the year starting July 1, especially in the light of the fact that the seasonal financing program has been successful in terms of revenue to the Treasury and evidence of restraint and responsibility by the City. I urge that the Secretary be given latitude and discretion to supplement the long-term Federal assistance with some diminished seasonal financing if it proves necessary.

Finally, although I realize that the administration proposal now requires detailed analysis and discussion, I would like to acquaint the subcommittee with the time pressures which will soon bear upon the City.

In the City's January report to the Treasury on cash sources for the present fiscal year, we show approximately $700 million that needs to be borrowed through the sale of bonds in the period from April through June, the final quarter of the City's fiscal year. Of this amount, approximately $20 million represents a scheduled sale to the
City's sinking funds, of which I am sole trustee, while the remainder is a scheduled sale to the employee pension funds.

The City needs this long-term money to replace cash which has been spent or will be spent for capital purposes. We know that the proposed Federal guarantees can become effective only as part of a new financing package after July 1. But it is most unlikely that the trustees of the employee pension funds can legally and responsibly extend large new loans to the City this spring, over the next few months, unless the City's creditworthiness is assured over the long term. As one trustee, I expect that the legal and fiduciary requirements for such a loan cannot be met if there is continued uncertainty over the nature and adequacy of Federal action. And it goes almost without saying that such uncertainty could have a damaging and costly spillover effect on the State's spring borrowing and therefore on the State's viability.

Therefore, the proposed program which is now before you with its essential element, from our point of view, of Federal guarantee is not only the solution to the City's financing problem after July 1 but is also the key to whether or not we can meet our obligations during the months immediately ahead.

The timetable is tight if we are to avoid a damaging race between congressional action and City insolvency.

I conclude with gratitude and respect for the attitude and concern of this subcommittee over the long period of our ordeal. I hope we may turn to you for the measure of support which will insure that all the struggle and sacrifices will achieve the objective which we all share of enabling the City ultimately to stand on its own two feet again.

Thank you.

Chairman Moorhead. Thank you, Mr. Goldin.

The subcommittee will now proceed under the 5-minute rule because of the large attendance and the fact that the House is in session. We will try to impose that 5-minute rule rigidly, and hopefully, if all the subcommittee members have finished questioning, the members of the full committee here present who are not members of the subcommittee will also have a chance to be recognized.

Mr. Mayor, first, on the question of the seasonal financing, when the Secretary was here, I suggested the possibility of taking the full amount that the Treasury was proposing, and giving the option to New York and to use portions of that for seasonal purposes.

But, that would reduce, until repaid, the total amount of the guarantee program.

Can the City live with that sort of suggestion?

Mayor Koch. Yes. That idea which you proposed is one that could be supported by the City. With that kind of instrumentality, the City would suggest that we would need up to $1.2 billion in short-term credits in 1979; and $400 million of long-term credits in fiscal 1979; $800 million in short-term credits, and $1 billion of long-term credits in 1980; and $400 million of short-term credits, and $1.5 billion of long-term credits in 1981. And then the full $2 billion proposed by the Secretary—although we believe that that amount is not adequate; that is to say, we believe it should be $2.25 billion of long-term credits in 1982—if the legislation gave that flexibility to the Secretary, we would support that.
Chairman Moorhead. One of my colleagues has asked you to repeat those figures that came out very quickly.

Mayor Koch. Yes. We analyzed, when you broached that to the Secretary, we analyzed it and so I have the appropriate figures to respond to it.

The City would need up to $1.2 billion in short-term credits in fiscal year 1979; and $400 million of long-term credits in fiscal year 1979; $800 million of short-term credits, and $1 billion of long-term credits in 1980; $400 million of short-term credits, and $1.5 billion of long-term credits in 1981; and the full amount of long-term credits in 1982.

Chairman Moorhead. Mr. Mayor, you realize, having served in this body, that there is going to be some difficulty in getting the legislation passed.

Just how important is the 20-year, rather than the 15-year, situation to you?

Mayor Koch. Mr. Chairman, when we originally proposed the guarantees we thought, at the City level, that it possibly could be done without full term. We have made the inquiries. The pension funds will not invest unless it is full term. And therefore, we believe that, if the Secretary's proposal of 15 years were to apply to 20-year bonds, that they would not be purchased by the pension funds.

So, we urge that the full-term concept be applied.

Chairman Moorhead. Ms. Bellamy, you stated that MAC's last offering went unsold and was withdrawn. I was not aware of that. When did that happen?

Ms. Bellamy. In early winter, MAC had to withdraw the offering, and then subsequently a portion of the offering was sold in terms of private placement. It happened at about the time that the Senate Banking Committee held hearings. And, if one took a look at the MAC market on a daily basis subsequent to some of the statements that were made here in Washington, one could perceive that there was a relationship from some of the statements made, and the impact on the market for MAC securities.

But we anticipated a better market, at that point, and we did not have it. We had to withdraw and put together a new group to purchase.

Chairman Moorhead. But your testimony is that the market is currently closed to new MAC issues.

Ms. Bellamy. The chairman of the Municipal Assistance Corp., Mr. Robatyn, who again testified before you, has indicated at this point that it is his opinion that the market is closed.

Chairman Moorhead. Ms. Bellamy, in your testimony you said you reduced the work force by 20 percent. That is "people." The dollar amount of reduction of wages and salaries is considerably smaller.

Ms. Bellamy. It is. I see the mayor has already prepared a 2-page document, so I will defer to him. But I think one can speak to that point about the differential between the numbers and the wages.

Mayor Koch. If I may respond to that, much has been said as a result of the fact that we say—quite correctly—that 61,000 jobs were dropped from the City payroll. That is a fact.

About half of that were jobs that were not refilled. They were active positions, but we did not refill them, through the attrition process. And the other half were actual layoffs.
And so then the question becomes: Well, if you dropped 60,000 or more people, why is it then that the personnel costs only dropped by 1 percent?

The fact is, they dropped by 5 percent, and I will explain to you what the arithmetic is. When they use the 1-percent figure, they are including in their personnel costs the CETA workers that are not borne by City taxpayer funds, and every city has hired CETA workers. They appear in our total costs. So that is why the figure is just at a 1-percent point drop, because we are paying additional people, but on CETA lines, not city taxing jobs. That is No. 1.

No. 2 is that about 5 percent of the figure of increased costs resulted—came about, I should say, as a result of mandated costs that the Congress imposed. You increased social security, and that was one of the major factors in keeping that figure from being reduced by 20 percent, to correspond with the roughly 20-percent layoffs.

About 10-percent actually represents increases in salaries, but let me explain to you that is over a 3-year period that the workers received a 10-percent increase—or roughly half of the comparable costs—roughly half of the inflationary spiral that occurred in that period.

Have I made it clear?

Chairman MOONHEAD. You have, and my time has expired.

Mr. Stanton?

Mr. STANTON. Thank you, Mr. Chairman. I wish to extend a warm welcome to all of you, and especially to our former colleague, and to many of us a good friend, the honorable mayor of New York.

I want to go back to a couple of points, first, your Honor. In your earlier prepared remarks, I did not quite get you. You know, we went through the "fun city" period, and I don't know if you are in the mayor's office, or head of the chamber of commerce in New York. Is the new slogan "the stroke of genius"? "New York, the stroke of genius"?

Mayor KOCH. If I may—

Mr. STANTON. You better explain it now, because you will have to later. [Laughter.]

Mayor KOCH. I will explain my position. It is really very comparable to what the situation was when I was on an authorizing committee—in fact, I was on this authorizing committee. And when I came to the Appropriations Committee, each member was asked by Chairman Mahlon to stand up and to espouse his point of view. And when I got up, I said:

Mr. Chairman, when I was on the authorizing committee, my promise was you had to give, give, give; but now that I'm on the Appropriations Committee, Mr. Chairman, my motto is: cut, cut, cut.

Now, I, in my new position as the mayor of the city of New York, I have a major responsibility. It is to bear the burden of proof to make it possible for New York to live.

We can only live with your assistance. And so what we are doing in New York is, I am telling you, I believe, extraordinary. We are bringing management to the city of New York. We have laid off workers in the city of New York in the 60 days that I have been there.

That doesn't mean that there isn't pleasure in the city of New York for the people who live there, but there is a new outlook. We recognize
that if we are to get assistance from you we have to do our part, as well. And in our budget, and in our 4-year plan, we show that we are going to reduce our outstanding payments by $170 million next year, and more each year for the full 4 years.

So there is nothing inconsistent with what I am telling you here and what we are doing in the City itself.

Mr. Stanton. I appreciate that, Mayor Koch. I thought it was a good slogan: "A stroke of genius." [Laughter.]

Mayor Koch. Let me just say that statement was lifted from my own inauguration address. [Laughter.]

What I said in the statement that I made when I was inaugurated as the 106th mayor, is that New York is a very special place; if it wasn't here, we would have to invent it. And it is, in a sense, I said then and I say here today with great pride, a stroke of genius.

The other day I spoke with Cardinal Cook. I had breakfast with him. He said to me: Do you know, Ed, that this very morning in the city of New York mass is being said in 37 different languages?

There is no other city in the world where that takes place. That is the "stroke of genius"—that we have been able to take 7½ million people who have come from every country and every State in the Union, and somehow or another we have come out of that diversity with a special clan, a special mark, a feeling that we are New Yorkers, and we are not arrogant about it. You can't be arrogant in the position that we are in. [Laughter.]

But what we are saying to you is: We belong to you. We, the city of New York, we are your city; and that is the stroke of genius.

Mr. Stanton. I hope that did not come out of my time. [Laughter.]

I want to tell you, though, I agree with you to a great degree. You have a great city, and great people, and in my opinion you have great leadership at the moment.

But, you have got to be very tough, and you know that.

Now, going back one step further, now, with this "stroke of genius," I want to, because of your great familiarity, and in which the Secretary of the Treasury was not familiar, but this takes us back 2½ years to the Seasonal Financing Act which, I know you would well agree with me. It came at the last minute from the White House, but it did save—and am I correct to say, that the Seasonal Financing Act of President Ford, as passed by Congress, saved the city of New York from bankruptcy?

Mayor Koch. There is no question about it, and President Ford deserves full commendation and credit for that having occurred during his administration.

Mr. Stanton. Now you have a great influence in that city, and I think—you know, you have a tremendous influence in that city.

Mayor Koch. I can't even get a new car in that city. [Laughter.]

Mr. Stanton. That was your mistake for polling the people. Maybe you could get your statement you just made verbally into the New York Daily News. I would like to see that in print—page 82, or something like that. [Laughter.]

Now I will go on to one question—and time has already expired here—and that was while you were speaking.
But, as the chairman has said—I want to ask two questions of you, or Mr. Goldin. There are two questions I would like your opinion on.

No. 1, of course, is the Seasonal Financing Act expires June 30, and we are in the scenario, you know, to come out of this subcommittee, and then the committee, and then we are going to wait, maybe, to see what the Senate does, and we have big plans.

What it will come down to is a vote, up or down, by the general membership of the Senate and the House.

Question No. 1: Wouldn't it be an advantage to the City not to wait till June 28 or June 29, but to know where we are going in April, or early May? That is the first question.

Question No. 2: Being very realistic, and under the full realization that the members of this subcommittee, and maybe the full committee, will familiarize themselves with what the administration wants—long-term guarantee: the City wants a combined long-term guarantee, plus a continuation of the Seasonal Financing Act, for a while. That is your position.

If you were given a choice and had to make a choice between the administration's long-term guarantee—and you had no other choices—the administration's long-term guarantee or a continuation of the present act for a little bit longer than 2½ years, what would you want?

Mayor Koch. Your first question, I would urge that whatever is done be done quickly, and that you not wait it out until June—and April is fine.

With respect to the second, I can only compare it this way—the two aspects. They are both important; they are both intertwined. But if you were not to give us the long-term guarantees, that would be like cutting our lifeline. It would be over. It could not possibly survive.

If you do not give us a seasonal loan, you are torturing us. We will survive torture, but we cannot survive a cutting off of our oxygen line.

Mr. Goldin. Mr. Stanton, may I add and amplify on the mayor's first point? I hope that it will be more clearly understood by the Members of Congress and by the administration that the City's financing plan for the current fiscal year, promulgated as part of an overall 3-year plan in 1975, contemplates investments by the City's pension funds for essential capital purposes and to replace funds that have already been expended for capital purposes to a maximum of some $700 million between now and June 30.

The trustees of the City pension funds must have a signal respecting the long-term viability, financially, of the City for the period after July 1, if they are to be expected as a matter of law and as a matter of ordinary principles of fiduciary responsibility to make ongoing investments during this fiscal year to that magnitude.

It is for that reason that our application is not simply for action by the Congress, but for action at an early date, so that we can preserve the City's security and financial integrity after July 1 and, no less importantly, for the balance of this fiscal year.

Mr. Stanton, I am very glad you added those remarks.

Chairman Moorhead. Mr. Lundine.

Mr. Lundine. Thank you, Mr. Chairman.
I would like to also welcome all three witnesses. As someone who came down here as a mayor, I guess I have learned to cut, cut, cut. And I would like to welcome our former colleague who made it a lot easier for me to understand the spend, spend, spend that we do down here.

But, as a former mayor, I am particularly concerned about the percentage of your budget that is in debt service. In either numerical or percentage terms, I wondered if you could give us an idea of how big that is. And second, what is your estimate of the probable interest rate difference between the Treasury proposal and your own?

Mayor Koch. I would like to share that question with the comptroller, but the actual amount that is involved in debt service is $2 billion out of a $14 billion budget. And that is an extraordinary load to carry.

Your other question is with respect to the interest rate, the difference between getting the guarantees and not getting them. Is that basically it? I am going to leave that to the comptroller.

Mr. Goldin. Well, on the first point, let me emphasize, Mr. Lundine, that not only is the figure and the percent overall with respect to the City's projected debt service costs next year very substantial, but when you analyze it even further, you realize how meaningful the City's own commitment to paying off its accumulated operating deficits and to phasing out of the practices of the past is, respecting ongoing debt service burdens.

One out of every four locally raised dollars next year we anticipate is going to have to be dedicated for debt service purposes, and I think that dramatizes even further the extent to which the people of New York City are now committed to bearing the sacrifice, to bailing out their own boat, because of the fix in which they found themselves and which was produced by discredited practices in the past.

Now, if you could define a little more precisely the second question, I would be glad to try and answer it.

Mr. Lundine. If you are able to get the kind of a package combining short-term and long-term borrowing, as opposed to just a 15-year guarantee, can you make any estimate of the difference in interest costs that that might mean in the New York City budget?

Mr. Goldin. Well, clearly, Congressman Lundine, to the extent that we negotiate or move any of the parts, that affects each and every one of the moving parts in many ways, including the projected or anticipated costs of interest.

It is our belief that, if all of the pieces necessary to get the City from month to month during the fiscal year and to provide assurances to creditors to whom we are going to look either in the public credit markets through MAC or on a negotiated basis or through the guaranteed securities, essentially pension funds, that the City will have the breathing room over 4 years to reestablish its credit, that that will enable us to do essentially two things. One is to achieve the reforms that are necessary to reestablish our credit at the end of 4 years and to affect the sales to creditors on a reasonable basis; and second, at the end of that period, to reestablish our public credit.

We can't anticipate today at what price that credit will be reestablished in terms of coupons that we might have to pay after the expira-
tion of the 4-year period for ongoing seasonal or long-term financing
debt. That is a function of many variables which can't be predicted to-
day.

But we do think that we are making a realistic assessment and docu-
menting, and we think the Secretary, on behalf of the administration,
has accepted the fundamental premises respecting the likelihood of
the reestablishment of credit.

Ms. Bellamy. If I may just add one comment. There is some ques-
tion of one's capacity to borrow, obviously, without the guarantee. So,
the question of the interest on the borrowing, if you can't borrow in
the first place, is obviously something to take into account.

Mr. Lundine. Ms. Bellamy, I think you hit a very important point
when you spoke about the long-term economic circumstances of the
City, and I am deeply concerned about it. I understand that, over the
last decade or so, 600,000 jobs have been lost in the City. That is more
people than there are in most big cities in this country.

And I also have read and been apprised of reports that are fairly
negative about the long-term economic prospects of the city of New
York. You addressed that a little bit in your statement, but I would
be interested if you or the mayor have comment, because, ultimately,
whether New York succeeds or fails depends on the strength of its
financial and business climate. And I wonder if you could give us any
further insight into that.

Ms. Bellamy. Well, without the benefit of a crystal ball, I would
make some comment. I, in my testimony, pointed out that the Regional
Director of Labor Statistics in the Department of Labor has pointed
out that, from their point of view, it would look as though the econ-
omy has bottomed out in the city of New York at this point.

We did lose—the figure goes from 600,000 to 640,000—675,000 jobs.
That seems to be leveling off. We see a number of indicators that have
at least positive qualities to them. One, in increasing the amount of
foreign investment in the City at this point. Two, the decline in office
vacancies, for example—so we see a flow of dollars coming through
the City at this point.

I am prepared to acknowledge, also, that the economic indicators
for the entire Northeast are not looking very good. But I think that
when you take New York City, at least in the context of that Northeast,
we are not looking as bad as we might otherwise look in the economic
future.

Perhaps somebody else would want to comment.

Mayor Koch. Just a brief addendum. It is going to require a na-
tional urban policy by this Congress and by the President to deal
extensively with the problems of the decay in our urban areas.

You are quite correct, Mr. Lundine, when you comment on the fact
that 600,000 jobs left the city of New York, a number which is stag-
gering. We are trying to turn that around. We can't possibly turn
that around if our plant, if our streets, and if our sewers, and if all
of the physical facilities, our bridges, are not replaced or repaired. We
can't possibly attract new business.

I tell people—I tell them facetiously, but I am not so sure that is
true—that if you come into New York City, please tell me what route
you are taking and which bridge you are crossing. We are in desperate
shape in terms of replacing capital project plants, and that is why the
long-term guarantee which would permit us to do that is so essential.
Mr. Lundy. Thank you.
Chairman Moorhead. Mr. Stanton wanted to be recognized to put
some questions in the record.
Mr. Stanton. Yes, Mr. Chairman. I forgot, when I had my time,
that the minority members do have some questions for the panelists,
and would appreciate it if you would just answer them for the record
at a later date.
Mayor Koch. Certainly.
Chairman Moorhead. Are there any members who want to miss this
quorum call and stay through? This is now a live quorum. I think——
Mr. Kelly. Mr. Chairman, could we recess to answer the quorum
call?
Chairman Moorhead. I think that is what we will have to do.
The subcommittee will stand in recess for as brief as possible a
time, and then come back.
[Brief recess is taken.]
Chairman Moorhead. The subcommittee will please come to order
again.
Mr. Vento?
Mr. Vento. Thank you, Mr. Chairman.
Mayor Koch. I have read your statement and I think there is a
good deal that I agree with. There are, however, some other things
I would want to explore.
The request for additional seasonal financing or a phase-in, as has
been proposed, is something that we ought to look at.
One of the main concerns that we have is what the parameters and
the scenario are that will meet the Treasury’s qualifications for a
guarantee. In other words, what are the interest rates? What is the
percentage? And I don’t know, but we have asked staff to try and
work out some of those, because it is a new financing scheme and we
would like to explore that and look at what the suppositions, what
the assumptions, what the essence of that will be and how it will work.
Invariably, when we begin to look at New York City or any politi-
cal subdivision’s need for financing, we begin to look at how they are
spending money. And I am sure that you will excuse us for doing that.
But in this case I think that it does become necessary, and I hope that
we can keep it within the realm of reason. Sometimes that has been
demonstrated not to be the case before this subcommittee.
But one of the concerns that I have is the economic development role
of a community. Certainly the capital facilities that you have need
maintaining, and the water systems, the streets and bridges that you
refer to are things that basically are a public service that you have to
meet.
I wonder if you are going to be struggling for new models to leverage
your money. I feel that you ought not to try to play that role, and
especially in the light of the fact that New York City has a severe fiscal
crisis.
We have all sorts of conventional tools that you can use, whether it is
property taxation or other types of incentives to accomplish that, but
I think that you are suggesting from a direct bond route getting in-
volved in terms of providing, in some cases, various types of assistance. You are offsetting it. It is something, as we have learned in other committees, that moneys and dollars are fungible and they transfer from one place to another.

So, I hope that you will take a close look at that.

I guess what we really feel is that there should be a market test, and if the City provides substantial opportunity—the expectation is that they will—any investment that takes place in New York City will follow those types of dollars, those types of benefits. They will assume as little a risk as is necessary.

So, I guess what I am interested in, Mr. Mayor and Ms. Bellamy and Mr. Goldin, is, how do you see—how are you going to do that? What type of scheme are you going to use in order to make your dollars go as far as they can and not provide dollars that are not necessary?

Mayor Koch. That is a very fair question: How are we going to leverage our dollars so as to increase economic development? And what is it that we are doing in that area?

Well, one of the things that I have done is to continue and to support, and to strongly implement the office of deputy mayor of economic development. And I am directly involved with that particular branch of government.

I have said to every group in town—particularly business groups—but, whatever I have said to one group, I have said to every group that has called me before them—that I believe that the city of New York has to provide a climate which will cause the private sector to provide jobs and profits—"jobs and profits."

The city of New York cannot provide jobs as the employer of last resort. Those days are over—if they ever existed.

Now, how do you do that? Well, one, we address ourselves to the fact—and you commented on it—that you have to have a physical plant that is not falling apart.

I have before me just some statistics. If our streets were to be restored, repaired, rehabilitated at the current rate, it would be every 200 years. I used the figure of 125 years; it is every 200 years. I see, from the actual figure, it should be done every 35 years—although, in Meridian, Miss., they do it every 7 years—and I commend them for it.

Our water mains, now, are replaced at the rate of every 200 years, if you use that span of time, whereas it should be at the rate of 75 years—which we would do, under our new proposal.

Our sewers, similarly, are replaced not when they should be, but three times the period of time that is ordinarily required goes by before they are replaced.

Now we are also committed to, for example, having a convention center. A convention center—the reason we would have a convention center is to bring in business. It will do it. We are convinced of that. And so the city of New York is committed to doing that. That is an enhancement of the private sector. It is going to help the private sector because it means people are going to come there and spend their money in hotels, and restaurants. It is going to create jobs—thousands of jobs.

We are going to enhance our industrial parks. In the South Bronx, where the President has said—he has made a commitment—that the "South Bronx shall rise again,"—
Mr. Vento. Let me just interrupt you, Mayor Koch. I am concerned about what that role is. One of the things we did, we built a civic center in the city of St. Paul, which I represent, and guess who is guaranteeing that? The private sector is guaranteeing it, in terms of any operating or maintenance loss.

You have to look to that type of cooperation. In other words, if the private sector is all enthusiastic about it you are going to give them something for nothing, or you are going to stand behind it on a credit basis. They ought to be willing to participate in a limited fashion in terms of helping you meet future costs.

Mayor Koch. We are convinced that, with respect to that particular item, the convention center, that it is a net, large plus for the City as a result of the taxes that will come to the City treasury as a result of the increased business that comes to New York.

The studies show that. So it is not—even though there are operating deficits for the convention center itself when you compare that with the taxes that the City receives, we are convinced that it is extremely well worthwhile.

Mr. Vento, I think the best test of that is whether someone is willing to stand behind it, in terms of operating costs or guarantees, on the basis of what they make. If they are willing to do that, then I think you have got something. That is one way to test it; I think there are others.

Ms. Bellamy. Mr. Vento, if I may share a personal opinion, we would be delighted to have you speak more about your tax-base sharing in your area, because that is something that perhaps other cities should be considering.

But, in any case, I would point out that we have heard in Washington a great deal of talk about States and cities and the responsibility of the State.

Well, at the request of the City over the last couple of years, I think it is important to note that we have taken a number of steps: The phasing out of the stock transfer tax; the repeal of the sales tax on business machinery, aimed at stimulating that kind of an economy; and a number of other similar steps, to try and stimulate the economy.

We see an increase, interestingly enough, in some manufacturing jobs. It is a small increase, but it is something that one would not expect in urban areas because it has not been occurring. But we see that.

And again, under Deputy Mayor Milano, I think we see an attempt now to pull together public and private sector operations in the area of economic development. So I would just point out a number of things that have been going on and that are going on at this point.

Mr. Vento. Thank you, Mr. Chairman.
Chairman Moorhead. Mr. Kelly?

Mr. Kelly. Good afternoon, Mayor Koch.
Mayor Koch. Good afternoon, Mr. Kelly, old friend.

Mr. Kelly. You know, I used to be a judge before I came here, and justice is a thing that I have a lifelong interest in. When I heard that a car ran a New York politician into a ditch, it just had a ring of justice since politicians have run New York into a ditch.

So, I took note of that, and had a special interest in it, and I just wanted you to know that I was keeping in touch with you.
Mayor, you said that New York has a "new team." And I don't mean this is a verbatim way, but I think in a very real way the "new team" sounds like the old one.

Mayor Koch. Why is that, Mr. Kelly?

Mr. Kelly. Because everything in New York is all right, and everything is improving, and they just need one more bailout. Everybody has come in, the labor unions and everybody, and the only thing we are doing here is deciding how you are going to get the money—not whether you should.

And so the conversation really has pretty much the same ring to it that it has had all along.

And so what I want to do is ask you about some areas that I hope you will cause the conversation to take a new turn, consistent with being a "new team."

We have the claims of you and the other witnesses here with you today about the good work that has been done. But it would certainly seem that what New York needs for there to be something new is for there to be some real political courage exercised—not talked about.

And in this regard, I would like to ask you: What are your intentions about the cost of City labor? You have these negotiations coming up. Do the unions understand that you are bankrupt, and that a great city, a city that you have called "our city," is here begging, wanting help, for what other cities are able to do without?

Now, do you intend to tell those people that they have to take a cut? That they can't continue to work under a 35-hour work week, and receive over 50 days of leave? I mean, you can't say that a city really needs help when it is living like that.

When you were in Congress, did you have over 50 days of leave a year when you did not work? I am not getting my 50 days, and I don't think that many Americans get over 50 days a year.

As it is now, you have a 261-day work year, and over 50 days leave, an average of over 50 days. And you pay more, when you consider the total package. You pay more than any other city in the United States. How are you going to do about the labor?

Mayor Koch. May I respond to that?

Mr. Kelly. I am hoping—

Mayor Koch. I was hoping you would ask me that question. Let me tell you what we are doing that is, perhaps, different than what existed before.

Collective bargaining negotiations are going on, so one has to be very careful about what one says over a table such as this—which is not the negotiating table—but let me try to do my best, in giving you the feeling of what we are seeking to do.

In the first 60 days of my administration, we laid off people. That has not been done in the city of New York. We actually laid off people. That is No. 1.

Mr. Kelly. But, Mayor, that is not really my question.

What I want to know is: Are you going to go to those people and tell them they are going to have to take a cut?

Mayor Koch. If you will permit me?

Second, with respect to the labor negotiations, for the first time that I know of—and I think probably for the first time—as opposed to walking into labor negotiations and having labor sit there and make
its demands, and the City capitulate, labor made its demands; and we, in turn, submitted to them counterproposals on things that we wanted back.

Mr. Kelly. Can you tell me what those counterproposals were?
Mayor Koch. There is a list of them.
Mr. Kelly. Did you suggest they take a cut?
Mayor Koch. In effect, yes.
Mr. Kelly. Did you offer them a wage increase?
Mayor Koch. No, sir.
Mr. Kelly. What did you suggest—what range did you suggest—as a cut; was it 10 percent? Five percent? Twenty percent?
Mayor Koch. If I may, sir, the total demands that we have made upon them—were they each to be exacted—would come to $400 million; that is No. 1.
Mr. Kelly. On a percentage basis, what does that come to?
Mayor Koch. Well, I think our total labor cost—it is about 10 percent is what I am told. But let me say this to you—
Mr. Kelly. They are saying I am out of time, and I would like to go to another thing.
The suggestion was just made, and I would be glad for you to submit an answer later because I really want to get the whole thing, that you are going to stimulate the economy.
There doesn’t seem to be any real question that, if you abolish rent control, you could stimulate the economy. What is your position on that?
Mayor Koch. I am going to answer that, but I think in all fairness—as a judge, particularly—you should let me finish my answer, particularly since I won’t take more than 1 minute to do it.
Mr. Kelly. Will you come back to the rent control?
Mayor Koch. In just 1 minute, so everybody hears it. Because not everybody reads the record.

Now, the labor unions have filed—one of them, anyway—just the other day, unfair labor charges against me. That has never been done. Why? Because I said that we cannot give what we don’t have. And when the PBA—some people on behalf of the PBA, supporters of them said: Well, you know, out in another county—not New York City—they just got a 24-percent increase, and they are bringing in that same labor negotiator to get them increases comparable from you here in the city of New York, aren’t you a little distressed about that? And I said: I don’t care if they bring in Godzilla, we cannot give what we do not have.

As a result of that, unfair labor charges have been filed against me. It does not bother me, simply because I am simply saying what in fact is the City’s position. We are negotiating in good faith, but I am not going to be terrorized.

Mr. Kelly. That is good public relations. Do you mean it?
Mayor Koch. Well, you see, the problem that we have, Congressman Kelly, is no matter what I would say to you, I am not convinced that you would accept it.
I am telling you that I want to do all that I can do. I can tell you that I have been the subject of a good deal of vilification in the press; that is OK with me. I have to stand up for 7½ million people—not in
an arrogant way, not as though it were a monolog. There is a dialog that goes on. And when you say, quite correctly, that there have been excesses; there have been. But, at the same time, it would be wrong if I were not to say that labor unions have not assisted us. Still, we are making greater demands of them.

But to simply dismiss them is not fair. And as a good judge, you would want to be fair.

Now, your second question which relates to rent control: let me tell you about rent control. Since 1970, because I assumed we, having had discussions on prior occasions, that would come to your mind—since 1970, many rent-controlled units in the city of New York have had their rents increased by 86 percent.

In addition, a 1971 State law has required that all rent-controlled apartments that become vacant have to be rented at the landlord's option, at market, or economic rents.

A second startling statistic which comes from the U.S. Bureau of Labor Statistics: The typical household in the New York metropolitan area spends 42 percent of its budget on housing.

Now, let me tell you about the number of rent-controlled units, and what is expected there.

Mr. Kelly. Does that include property taxes?

Mayor Koch. I don't understand the question.

Mr. Kelly. Well, does that 42 percent include property taxes, since they are the highest in the United States?

Mayor Koch. Property taxes are nowhere near 42 percent.

Mr. Bellamy. They are not the highest in the United States.

Mr. Kelly. They aren't?

Mayor Koch. That includes a pro rata share of the tax that the landlord is paying on the apartment house, because we are generally talking about apartment houses.

But let me go on, if I may, with respect to rent controls.

In the city of New York—and by the way, we are not the only city to have rent controls. Rent controls exist in Washington, D.C., and 250 other units in the country, metropolitan areas, and cities in this country.

Second, we have—the original number of rent-controlled units was 1.3 million. We are now down to 390,000. It is expected that it will be appreciably phased out. Between 70 and 75 percent of the total number that we began with will be out from under rent control by 1990.

Mr. Kelly. Do you mean they will all be torn down by then?

Mayor Koch. No, sir. You see, rent control—and people don't appreciate this, because the city of New York is not where everyone lives—but rent control is for the benefit of the middle-class citizen. In fact, the only area that receive any protection from rent control are the middle class.

Why do we do that? Because the middle class is struggling, the middle class gets so little for its tax dollar, if in addition to everything else you took away the rent-control aspect, then they would truly leave.

Does that mean they don't pay increases? No; that doesn't mean they don't pay increases. They pay increases at the rate of 7.5 percent each year.

Is that so small? That is a 15-percent rent increase every 2 years. Is that so small?
All we are simply saying is that when there is a market which is so limited that it is less than 5 percent by way of a vacancy rate and the landlord has you by the throat, in middle-class areas, not in poverty areas, but in the middle-class areas, that there has to be some protection, and the law specifically says that without any action on the part of the legislature, rent control ends the day that there is a 5-percent vacancy rate.

Do you know what the normal vacancy rate is for landlords and tenants to be in a bargaining-equitable position, according to real estate people? Ten percent. We have cut that to 5 percent.

I don't think that what we are doing is so bad, if you want to keep middle-class people in the city of New York.

Mr. Kelly. Mr. Chairman, my time is up, but I would like to state one question and ask that it be answered for the record. Could I do that?

Chairman Moorhead. Yes.

Mr. Kelly. The information available to me is that there are 21,000 units a year that are rent controlled, that are being torn down, and that to date, more than 200,000 have been abandoned or torn down. Could you confirm those figures?

Mayor Koch. May I respond to that, Mr. Chairman?

Chairman Moorhead. The judge's time has expired. We want to keep moving. If it is a 10-second answer, yes.

Mayor Koch. You are talking about abandonment, which has nothing to do with rent control. You will find those same figures in every major city in the country. Abandonment of property in changing and slum areas has nothing to do with rent control because there effectively is no rent control in the slum areas of the town. They pay less than the economic rents in the ghetto areas of this town, the slum areas of this town, where people are suffering—happen to be less than the rent-controlled rents.

Chairman Moorhead. Mr. Barnard?

Mr. Barnard. Mr. Chairman, thank you.

Your Honor, today your testimony and reply to the questions has certainly been a stroke of genius, and it is easy to see how you got elected to this important position in your community.

I am interested in the operation of the Emergency Financial Control Board.

Are they totally in agreement with the plan that you have offered the Congress?

Mayor Koch. Yes, sir. The Emergency Financial Control Board, on which I serve with the Governor with the comptroller, Harrison J. Goldin, of the City, and the comptroller of the State of New York who doesn't sign off on the plan—but I can say that the Board is supportive of this.

I don't have a statement from the comptroller of the State, but the Governor and myself are working jointly on it, and the Board is for this proposal.

Mr. Barnard. You, the Governor, Mr. Goldin, and who else makes up this Board?

Mayor Koch. The Board is made up of seven members: the Governor, the mayor, the State comptroller, the City comptroller, and three persons from the private sector appointed by the Governor.
Mr. Barnard. So you all can outvote those three members any time.

Mayor Koch. It has never happened, and I would say, Mr. Barnard, that the private members have the largest influence on that Board because everybody on that Board knows that they could not withstand a blast by the private sector.

The fact is, that Board has been exceptional, and I support the continuation of the Board with all of its powers, and I sit on that Board, and I continue to sit on it now as the mayor of the City.

Mr. Barnard. Do you think the Board is properly structured if it is to sit as an oversight Board?

Mayor Koch. Is it properly structured? I believe it is.

There were proposals—there may even be some proposals to change the Board so as to have a majority in the private sector. The banks wanted that. I thought that was disastrous. No city should ever be governed in the sense that we are talking about, where there is a final arbiter as to what the city can or cannot spend—should be governed by people who are not elected.

But this mix of four people who are public officials, elected, and three from the private sector has—it is unique. It has performed wonderfully well.

Mr. Barnard. Well, I would question that, because I look at this Emergency Financial Control Board somewhat as a trusteeship, especially in this time of financial stress, and it appears to me that the trustees who are involved with their own businesses would find themselves in a “conflict of interest” situation. I do not exactly understand that structure.

But I did want to address myself to that question, and I would assume that the Governor, being on this Emergency Financial Control Board, is likewise in agreement with the plan that the City has offered as opposed to that of Secretary Blumenthal.

Mayor Koch. Whether the Governor is supportive of this?

Mr. Barnard. Yes.

Mayor Koch. The Governor and myself are working jointly together.

What I have said to you is supported by him and what he will say to you when he comes—I think it is tomorrow—is substantially the same. We are in total accord on what has to be done.

Mr. Barnard. Mayor, the problem that some of us are having is that we are very sympathetic with this problem, and we want to be in a spirit of helping, but we likewise have responsibilities back in our own districts to explain the situation.

Do you actually think that the long-term plan is an austerity-type program?

Mayor Koch. Yes, I do, Mr. Barnard, believe that what we are doing has been, is, and will be of an austerity nature.

When you consider that in our financial plan, the long term plan, that we are going to lay off over the next 4 years 10 percent of our workers, having already laid off 21 percent—not laid off, but by virtue of attrition, not to fill those spots—that that is exceptional.

When you consider—and I am just repeating here, and if you will bear with me—that we increased our subway fares by more than 40 percent, things that we have done, in my judgment, very few cities
would have been willing to do or capable of doing. We have done it and we will do more. We are going to save. We are committed to saving $174 million out of our budget next year. We are going to do more. That is where we start from. We are going to do all within our power, all within our power, to do what you would demand of a city similarly situated to do, because we have the burden of proof and we accept it willingly. We just simply think that we meet that burden of proof.

Mr. Barnard. Well, austerity does address itself in what you have said, but it doesn’t seem to be an austere program, especially if you are going to take the capital funds, $2.5 billion, and buy land for commercial uses, as you enumerated, provide industrial parks, a convention center, and provide attractions for tourist centers. Those of us in other communities have to do that for ourselves.

Ms. Bellamy. I believe I commented on that in my testimony, and I was not talking about the proceeds of the long-term financing. I was talking about economic development and some of the steps that should be taken.

It has been suggested in the past that the city of New York was not concerning itself with the business climate, with the private sector, and with assuring that in fact if we were able to survive as a municipality, we would have a climate in which we would continue to survive.

But I was not attempting to suggest in my testimony that those proceeds would be directly used for that.

Mr. Barnard. Well, I misunderstood. It was my impression that the proceeds were going for capital improvements.

Mayor Koch. If I may comment upon that, what you described—you did not use the word “frills,” but in a sense, you know, it is extras—industrial parks, a convention center, assistance to the tourist industry. The tourist industry could be one of our largest moneymakers. Whole countries live on the tourist industry overseas. We help them. New York City, if it could develop its tourist industry, would be delighted. How do you do that? Well, you do it, for example, by having a convention center.

We have costed it out. We have ascertained what the tax revenue would come as a result of people coming in, not only assisting in terms of more jobs at the restaurants and the hotels but simply paying additional sales taxes. Those are not frills. Industrial parks are not frills. That is the life blood of the City of New York.

We lost 600,000 jobs in the last 10 years. We want to bring some of those jobs back.

Mr. Barnard. My time has expired, but I would like to bring one question to Ms. Bellamy.

I believe you said there was no market for the MAC bonds in January.

Ms. Bellamy. If I may again—what occurred is that there was a syndicate put together. There was a certain dollar amount that MAC intended to sell. They went out into the market. They were not able to market all of those securities. There was great fluctuation in the market at that point. The syndicate held for awhile. They were able to market a certain number of them, and then the remainder of these securities were purchased by the members of the syndicate or were retained by members of the syndicate.
Mr. Barnard, So there was a market for the MAC bonds?
Mr. Golden. May I add to that, Mr. Barnard? What Ms. Bellamy is saying and did not say before is that it emerged quite dramatically in November and December, that there was no public market for City or City-related securities in November when the City attempted on its own to sell limited short-term securities for a short duration. There was no public market. The underwriters so informed us. In December when the Municipal Assistance Corp., which had previously been insulated to a large extent from that kind of pressure, attempted to sell a $250-million offering, although there was a firm underwriting bid, and the securities were purchased by underwriters, it emerged that there was a virtually nonexistent public market for the Municipal Assistance Corp., as well.

The securities were sold to a syndicate. The syndicate broke in January because of the restrictions on the public market. Both of those events in November and December established dramatically that because of conditions that then prevailed—and those conditions, I think it is fair to say, have not improved materially since that time—there was a nonexistent public market for City securities and an extremely weak public market, at best, for MAC.

Ms. Bellamy. And I think it should be pointed out that the City security that came out in the fall was a revenue-anticipation note, a very protected security, for which there was no market at that point.

Mr. Barnard. It is interesting to note that in the New York Times today there is quite a bit of trading in MAC bonds, varying from a bid of $105 to $108 up to $125 to $128, which is a pretty good market.

Mr. Golden. Let me point out to you there is also a secondary market. There is active trading in City bonds. There is a secondary market, City bonds to trade. They trade all the time, every day. That doesn’t mean that there is a public market for a new issue.

By the same token, MAC securities trade and trade vigorously. There are various issues of MAC securities that were issued at different times pursuant to different kinds of revenue sources, involving different coupons and rates of interest. And those securities trade.

We are talking about the ability of the entity, whether the City or MAC, to offer new securities with new forms of underlying guarantees and new forms of security features and whether or not there is a public market for the one under any condition and whether or not there is a public market for the other sufficient to enable it to sell its securities on a new-issue basis at remotely reasonable rates of interest. There is not.

On the other hand, you are correct in saying that existing securities in the secondary market, in fact, trade every day of the week.

Mr. Barnard. Thank you.

Mayor Koch. May I just place in the record at this point, so to take any mystery out of the capital projects, the highlighted list of the capital projects, which I think you will find to be the kinds of projects that you would approve of.

Chairman Moorehead. Without objection, they will be made a part of the record.

[For a list of capital projects referred to by Mayor Koch, see section IV, pages IV-3 and IV-4 of "The City of New York Four-Year..."

Chairman Moorhead. Mr. Caputo.

Mr. Caputo. Thank you, Mr. Chairman. I would like to welcome the New Yorkers here to Washington. All of them in different incarnations, are colleagues of mine.

I am glad Mr. Barnard covered the statements about MAC. I think they quite possibly might have been misunderstood. There is no question that there is a market for MAC securities. The last MAC offering was not altogether successful, but it was sold out by way of the underwriters themselves absorbing what could not be sold to the public, and a large fraction was sold to the public.

Most of the MAC instruments are selling at a premium now. Even that compromised last issue is close to a premium. It is 96% in the New York Times today. So that the MAC market is there, and nobody meant to imply it is not. There may be some trouble selling more MAC, but I think that would be substantially improved if we got what Mr. Blindenthal recommended we get. So no one should misunderstand where we stand with MAC.

I don’t want to take too much of my time with that.

Mr. Goldin. And I don’t want to prolong this discussion, but I would point out, Congressman Caputo, as you know and have highlighted, that even on the MAC sale which was largely eaten by the underwriters, although in dribs and drabs, it has been parceled out to the public.

As you point out, there is still a trading discount of nearly 400 points, and that, of course, represents a deficiency from the original offering price.

Mr. Caputo. I wanted to turn to the seasonal finance, and, as I understand the Proxmire thesis, it is that the banks in New York can finance the City on a short-term basis. Well, the banks of New York, presumably, are the Clearinghouse banks, two of whom are nationally chartered and regulated by the Comptroller of the Currency, and the balance are State-chartered but keep reserves at the Fed and so regulated by the Federal Reserve.

I understand both Federal regulators require that any regulated bank keep their assets invested in investment-grade instruments, Moody’s investment grade 4 or notes, short-term borrowings.

The last City issue, the November 1977 issue, received a 4 rating, the minimum possible under Federal requirements for investment, suggesting that, at best, the Proxmire thesis is very tenuous, that it may be impossible under Federal law and regulation for the City banks to do what Proxmire has recommended we rely on with no fallback. Is that your impression?

Mr. Goldin. Well, I agree with the thesis, Mr. Caputo, that the theoretical availability of pools of assets in the City, whether in the commercial banks or otherwise, to finance the essential needs of the City is an abstraction, because, as a matter of fact, whether based on fiduciary principles or other legal nations or principles of prudence, the capacity of the fiduciaries over those assets to invest in the absence of a Federal participation is, to my mind, highly questionable, to put it mildly.
Mr. Caputo. Since we are on the razor’s edge of being an ineligible investment, it might be sensible to have some standby authority to do what we have done in the past.

Mayor Koch. Just to elaborate on that, in the response to the Proxmire report, we have said exactly what has been said over this table, and you have added additional factors relating to the regulators’ requirements.

But you had testimony by Edmore C. Patterson that the banks would not invest. You can say that a bank has money——

Mr. Caputo. Why don’t you explain who Mr. Patterson is?

Mayor Koch. He is chairman of the Morgan Guaranty, who said that the banks will not invest under the current situation.

You can say that a bank has money and it should invest. But, under our system of government— and I would not change that system—you cannot compel them to invest, and they have made a decision not to unless that security is there which will show that the City will survive, and that is why we are asking for the guarantees. And we are not asking for guarantees for the banks. We are asking for guarantees for the pension funds, and that guarantee for the pension funds and the investment by them gives the banks, then, the incentive and the understanding that the City will go forward.

It is that confidence that is required which does not exist without the guarantees.

Mr. Caputo. Without responding to that; I want to get onto something else, but the point is, even if the banks were willing to invest, they may not be able to invest under Federal regulations, and that is why a standby authority to loan seasonally would be sensible.

I want to talk about the possibility of assuring the Federal Government repayment without prejudicing the marketability of future City notes and bonds. Under the Blumenthal proposal, in the event of a default the Federal Government would have a very strong argument that it came before all prior and subsequent creditors as a Federal lender. It would take priority in a default.

The overwhelming view seems to be that, under the Blumenthal proposal, in the event of a default the Federal Government would have to come first. Certainly, that would discourage future creditors of the City, because they know they would be getting on the back of the line rather than competing as equal creditors in the event of a default.

Would it be possible to create a State agency?

And then make the City’s income tax a State tax just as the City’s sales tax has been made a State tax, but have that flow to the new State agency. If the operators of that State agency have a need, they would withdraw from the flow of City income taxes and now State income taxes imposed on the City, what was necessary to meet its own amortization requirements. The new State agency would issue bonds. The proceeds of that would be used to buy City bonds. The Federal Government would guarantee the State agency.

There may be some problems with lawsuits similar to MAC, but I think it satisfies the problem of assuring the Federal Government adequate coverage for its risks, the City income tax being 3½ times
the likely annual amortization, without giving the Federal Government an unneeded priority and default.

Is that acceptable to the City?

Mr. GOLDBIN. I think, with great respect to the thoughtfulness of your suggestion, Congressman Caputo, that there would be several problems with it, and I say to you I have never heard it before, and I respect the creativity of the suggestion.

In the first instance, that would represent the creation of a parallel MAC mechanism. If not given the authority to issue securities in the first instance, it would nonetheless divert revenue of the City. And the very problem that you suggest would be solved by the creation of that agency would, in many respects, be exacerbated, because future debt offerings by the City would be offered on a basis that would not provide future creditors with assurance respecting the availability of that revenue source, which would have been diverted through your proposal, for the protection of a prior guarantor.

There is no way, therefore, to avoid providing the Federal Government with the kind of preference that you described, whether that preference is made available through the lien, in effect, that our proposal and the Secretary's proposal would provide through Federal revenue sharing, or whether the lien, in effect, comes not from revenue-sharing proceeds but from the income tax.

The fact of the matter is that there would be a preference respecting certain streams of revenue, and I can see no way to avoid that, and I don't see, frankly, that segregating one source of revenue as opposed to another source of revenue, which is essentially your suggestion, would obviate the critical long-term problem that you correctly identify, which is that at the expiration of the 4-year period when the City's credit is hopefully reestablished and it begins to borrow on its own, whether for long-term or short-term purposes, we have, in fact, as a matter of survival, to reestablish the City's viability, segregated out certain streams of revenue, and, in effect, made them unavailable to future creditors.

We will have to live with that. In effect, that provides part of the constraint that on an ongoing basis is going to limit the City's ability into the future to be able to borrow.

Now, that is not necessarily bad news, since it will impose upon the City ipso facto much of the discipline that external analysts believe that the City requires, not over the next 4 years alone, but indefinitely into the future, because the available revenue streams to support or substantiate or provide borrowing authority for future indebtedness will have been diverted and encumbered for a period of many years.

Mayor KOCH. Just a little addendum. The concept that you have enunciated here is one that members of my financial staff became familiar with, and they think it is worth pursuing without, obviously, my being able to state at this time, because the comptroller has raised questions concerning it, and it is a very complicated matter and, therefore, one that can't be disposed of in a 3-minute time period. But it is certainly one that we would look at. It is novel, interesting, and may very well be workable, but it requires a good deal of exploration.
Mr. CAPUTO. I am afraid my time has expired.

Thank you.

Chairman MOOREHEAD. Mr. Pattison.

Mr. PATTISON. Thank you, Mr. Chairman.

Mayor Koch, let me make a statement, and then let me yield time to you so you can have some time to think about this, to addressing yourself to some of the questions that Congressman Kelly has asked that you are not allowed to answer.

My statement is that I think, indeed, you have brought a new spirit to New York City, and I think it is on that primarily that will depend your success in this body, your ability to convince this body that, indeed, you and the people of New York City understand your problems and are addressing those problems with dedication and sincerity and toughness and determination and good spirit.

And, in that regard, I would like to make another point, which is this, that the argument that the seasonal loans and the long-term loans entail no cost to the U.S. Government is, I think, a very bad argument. I think that we all hope that that will be true, but I think it is a bad argument.

I recall being asked by many clients when I was a lawyer whether they should sign notes for their neighbors because it wasn’t going to cost them anything, and, indeed, we all know, as lawyers, that there is a potential cost.

It also seems to me that the argument that the security by Federal funds, Federal revenues, to secure the repayment of the guarantees, although I think it is very useful and in the case of minor defaults may be very helpful, if, in fact, there is some sort of a massive default on the part of New York for reasons that are not within anybody’s control, then, in fact, I think that those—the hostage of those revenues becomes a myth, and obviously this Congress is not going to allow people in New York City to starve and to have no medical care and all of the rest of those things.

And so, although we would take that money, that is for general revenue sharing, for instance, and dedicate it to the repayment of the guarantees, we would also have to come up with other revenues to take care of these human needs that would cry out to be met.

So that I think that those arguments should be underplayed, and the argument and the convincing of people that you are sincere and that you are going to do what needs to be done is far more important.

And let me now yield to you.

Mayor Koch. First, with respect to the security of the “no cost,” all we are saying is that, on the seasonal loan, the 3-year history shows that the Federal Government made more than $800 million. That is all we are saying with respect to that.

With respect to the security, we believe that—not with respect to the welfare payments, but with revenue sharing and CETA funding, and other, that there is ample security there. And, that if we were to go under, the cost to the Federal Government would be far greater than permitting us to live by providing us with this assistance.

Now let me talk about the “new spirit.” When I became the mayor on January 1, 20 days later there was an enormous snowstorm. It was a blizzard. It was 13 inches. And, at about 3 o’clock in the morning,
I was called at my home by the personnel director—3 a.m.—and he said, "Mr. Mayor, there is a terrible snowstorm out there, and I am calling to ask whether we can call it a snow day."

So, being new at this, and always being a little suspicious, I said, "What does it mean to call a snow day?" "Well," he said, "if you call a snow day under the arrangements that we have had, the workers who don't come in get paid; the workers who do come in get time and a half."

So I said, "Nothing doing; no snow day."

Now, there were three such days that would have been called as a result of, as I have said to others, "God testing me in this area." No snow days were called. We saved, as a result of that, approximately $8 million.

That is what I mean—$8 million. That is what I mean by the "new spirit." And here, with your permission, Mr. Pattison, I am trying to address Mr. Kelly. You are a good friend. I believe that. My father, who lives in Florida, tells me that you want us to live. And you have been to the city of New York, and I have had the pleasure of having lunch with you, seeing you at City Hall.

I tell you, Mr. Kelly, the country would really not survive the loss of New York City. I am not talking about financially. I think that is true, too; but the spirit that we provide, the kind of special attraction that the city of New York is. There are a lot of gems in this country, but New York City is one of them.

And if we, for example, did not have the burden of spending—out of local city tax dollars—more than $1 billion to pay for medicaid and welfare, we would not have a deficit.

Now the city of New York has always been the place where people could come, and they have come, from every State in the Union. And not only are we barred by the Supreme Court from imposing a residency test—it would not be right to impose a residency test, not in America; people should be able to travel without passports, which are required in the Soviet Union, to go from one city to another, or to live in a different city than the one you were living in just before you moved. We don't have that, thank God.

And so, as a result of that open and free society that permits people to move, we have a welfare burden of $1 billion a year that we pay out of City tax dollars.

What I am saying to you, Mr. Kelly, is: People certainly should retire and go to Florida, or live there when they are young—whatever it is—it is a great State.

We are great, too. Our greatness comes from the multiplicity of interests, and the diversity, and the plurality, and the wonders that we have in the city of New York.

We are now in hard times. We are doing everything we can. And I am pledging to you that this team, which is a new team, a new spirit, will continue to do everything that is necessary. Don't let us down. Don't take the position that we are not a part of this country.

Every immigrant—almost every immigrant from every part of this country probably came through the Port of New York, or their fathers and mothers came through the Port of New York. We are yours; don't leave us.
Mr. Pattison. Mr. Mayor, my time has expired, even though my grandparents came through Boston. [Laughter.]
I will place my "I love New York" button back on, and wish you well. [Laughter.]
Chairman Moorehead. Mr. Steers?
Mr. Steers. Mayor Koch, I understand that Secretary Blumenthal used the figure of "$4.5 billion," and that you indicated that you were regretful that he had not stuck with the "$5.1 billion."
I also urged you before I left a few minutes ago, to say something about not cutting off your oxygen line which is keeping you alive.
Will $4.5 billion keep you alive?
Mayor Koch. There is no question about it. But what we are saying is that the $5.1 billion is actually what we need.
Mr. Steers. $4.1 billion.
Mayor Koch. No, $5.1 billion.
But remember, we are not asking for guarantees in excess of $2.25 billion. What we are saying is that we are going to raise the balance in the private sector. There isn't an obligation on the part of the Congress to raise that differential. We happen to disagree with the Secretary with respect to how he comes to his ultimate figure. It is understandable. He doesn't believe that we have to restructure our MAC debt to the extent that we do believe it would be helpful, by restructuring it the way we want to.
We are going to have less payments each year, because they will be strung over a longer period of years. So that, really, basically is the difference between Secretary Blumenthal and us.
Mr. Steers. You used the term "credit" in your testimony, several times. Were you intending to imply merely "guarantees?" You are not looking for "loans," at all?
Mayor Koch. The seasonal loan—
Mr. Steers. But the term "credit" is confined to the seasonal part?
Mayor Koch. Exactly, sir.
Mr. Steers. As far as I know, there is no bill before this committee, and I urged Secretary Blumenthal, since he favors helping you, to get a bill before this committee.
I have heard— I don't need to tell you; you know far better than I—that usually we don't even have hearings unless we have a bill. And the longer you and/or the administration wait in getting a bill before this subcommittee, and hence the committee and the Congress, I think the worse off you are.
Needless to say, I realize the subcommittee chairman is aware of this, and has probably spoken to you about it, but let me just add my urging that you get it just as soon as you can.
I don't care whether it comes from you, or Secretary Blumenthal, or jointly, but let us have a bill.
My last question relates to what I also have asked several earlier witnesses; namely, I have a city in my State which has a lot of problems: It has a board of education whose budget is included within the city budget, and it has a diverse population. It is not as big as New York, but it is a big city. It is Baltimore. And it has had a surplus in 1978, as I recall it, of some $50-odd million.
What is the matter with New York that it can't do what Baltimore did?

Mayor Koch. Well, I can't pass judgment on Baltimore, but I can tell you why I believe, in part, we are where we currently are.

The first reason is that—and I am being quite honest about it—prior administrations did not properly manage the City. That is an honest statement. They used capital budget for expense items. They were good people, but they were not doing what their duty required them to do—which was, to run the City in a proper way.

We are paying the price for that. We are trying now to have our renaissance, or "resurrection," if you will, and we are applying the management aspects to running the City government. That is one.

And then you have a unique city, a changing city, a city that lost so much of its middle-class population that left and, at the same time, a poorer population in terms of education, and finances came in—decent people who needed more help than the middle-class taxpayer.

And we had to contend with that. That is the nature of our society—that New York was this place where everyone came with the thought that they would be able to make it. People, perhaps, from Baltimore, surely came there, and we welcomed them all. That is part of the reason we are in this.

And the other part is that we are paying so much that we should not be paying, in terms of medicaid and welfare, because we are the repository of so many people who left so many other cities and States.

Mr. Steers. Mr. Chairman, I would turn any remaining time I may have over to my colleague, Mr. Caputo, if he wants it.

Mr. Caputo. I just wanted, for the record, to establish this: In talking to people who are considering voting for legislation of this kind, they seem to divide on this issue of whether the City is going to get something for nothing: or whether the City is going to be paying; at commercially competitive rates, for whatever loans or guarantees it receives, and the Federal Government will attach appropriate collateral with sufficient rigor that it can be used, if that becomes necessary.

Mr. GOLDSN. If I may just add, I understand the essential point. The collateral issue has been addressed at length. We talked about it, inferentially, a few moments ago, and I think that you are so well informed on this matter that you are in an excellent position—

Mr. Caputo. I would rather have Mayor Koch answer it.

Mr. GOLDSN. On the first point, if I could just add: The rate of interest that would be paid in connection with the 4-year investment program would not enable the City to "get away with murder."

We have not yet focused on the rate of interest that would be paid to the pension systems, which would be purchasing the securities which would have the Federal guarantees attached to them. That issue remains to be negotiated with them, and ultimately perhaps to be discussed with the Congress in connection with the enactment of the program.

But, lest there are members who are worried that the guarantee attached to purchases by the pension system will enable the City to get away with murder on its debt-service costs, I would urge you to point out to them that the aggregate, or accumulated debt-service
costs to the City now and into the future are so enormous that it is hard to talk about the City getting away with murder on debt service in the aggregate.

And second, that the issue of what the coupon would be—which is the precise question respecting those securities that would be sold to the pension system—is an open question about which we are prepared to talk.

Mayor Koch. Let me supplement that by saying we are going to pay to the Federal Government, were we to receive this legislative, one-half a percent for the guarantee, or the guarantee used, and the interest to be paid to the pension fund, and all others, would be the market rate.

So, we are not getting a bargain from the market. We are going to pay to them the competitive rates of interest.

Mr. Caruana. Thank you.

Chairman Moorhead. Mr. LaFave?

Mr. LaFave. Thank you, Mr. Chairman.

It is good seeing not only my former colleague, but my former colleagues here. Because I don't know if the members of the committee know, but I served in the State senate with Jay Goldin, and I was in the assembly when Ms. Bellamy was over in the Senate, and we shared the same apartment building together. So, it is good seeing all three of you again.

I recall to your mind the fact that, in 1975, it was so necessary for us to conduct an educational process, and a good many of us went around to the individual conferences of caucuses of the various State delegations. I would suggest to you that, rather than a present Member of the House, a former member who is now mayor of New York City might be extremely persuasive in such a setting. And so, I would encourage you to go to any State delegation who would want to meet with you.

I would think we would have a much better chance of success.

Second, I also think we will have a much better chance of success in helping the City to help itself out of this dilemma, not by "torturing the City," as you put it, by refusing seasonal loans, but for giving you the 15-year guarantee and by putting your back against the wall—not "torturing," but "putting your back against the wall."

And I analogize that to the concept that we have in the IMF, for example, that as a former member of this committee you are familiar with, of "conditionality."

I think that we must have conditionality—preconditions within this Federal legislation—certainly some type of Federal monitoring board that would oversee your activities and approve certain of your activities prior to a use of the guarantees would be a minimal precondition.

I think we are going to have to come up with some other things, though, to satisfy the appetite of those who would want to put your back to the wall for other purposes than those of us who would want to put your back to the wall in order to help you do that which you want to do. And that is: To implement those management efficiencies and make the budget cuts that are so necessary.

So what I would look to you for in the days ahead are rational measures of conditionality. That is very important.

Would you want to comment on that?
Mayor Koom. Well, as I have said during this testimony, the Emergency Financial Control Board must be continued, and with its powers unabated. I am for the strong Emergency Financial Control Board that we currently have.

Second, of course, the Secretary has an ongoing oversight function. The Secretary had that ongoing oversight function during the seasonal loans, and as we know, every loan was paid—repaid on time, or prepaid. We are establishing that record, good management and accountability. And I believe that the flexibility given to the Secretary will be such as to make sure that his oversight management prerogatives will keep us in line were we to stray out of line, and I am telling you now we will not stray.

Mr. Goldin. May I just add, Congressman LaFalce, one brief comment, which is that under the City's own plan and indeed the Secretary’s variation of it, the federally guaranteed piece of the long-term financing would be phased in over time, and the Secretary would have a statutory duty to monitor and certify that the milestones to which the City indeed is committing itself respecting austerity and fiscal reform, keeping its budget in balance and so forth, are adhered to before the guarantees would be put in place. So that for those members who are concerned that there be a tandem arrangement pursuant to which guarantees be phased in on the demonstration by the City under the plan of its adherence to fiscal probity and the rectitude and the reform, that is comprehended not only by the City's own plan but most assuredly by the Secretary's, and we would expect by that of the Congress.

Mr. LaFalce. One more question.

In 1975, this subcommittee came up with a legislative product that would have called for a long-term guarantee but would not have limited those guarantees to either a City- or State-operated pension fund.

The recommendation of the Treasury—and I take it that is a recommendation rather than something as cast in concrete—is that we have a maximum 15-year term and that it be exclusively for bonds that would be purchased by City- or State-operated pension funds.

Now, one of the City's points has been that the period of guarantee must be coterminous with the maturity of the bonds. Otherwise, the City- or State-operated pension fund would not under the exercise of sound fiduciary principles be able to invest in such bonds. Clearly, if we opened it up to something similar to the 1975 product, that is, a guarantee that would not merely be for City- or State-operated pension funds but for the private financial institutions, would it not be easier then to market a bond with a guarantee but not a guarantee coterminous with the maturity?

Mayor Koom. We don't think that it is in the cards, and we are not asking for the guarantee to go to any other purchaser other than the pension funds because of that special situation, so we are not asking for that.

If the Congress wanted to do it, obviously, we would not refuse, but we don't think that is a viable request.

Mr. LaFalce. I know you are not asking for it, and I know the administration has geared everybody's thinking toward a combined
City- and State-operated pension funds system—but I remind you that we reported out of the full committee and through the Rules Committee and to the House a bill which would have permitted guarantee without limitation as to who the purchaser of the bonds would be.

Mr. Goldin. May I just add to that?

Mr. Kelly. Mr. Chairman, we are going to run out of time. If you are going to come back, I will wait until then to make an announcement; otherwise, I need 10 seconds.

Chairman Mooney. I would like to adjourn, so why don't we give you 10 seconds now.

Mr. Kelly. Mr. Chairman, we have established a pattern, at least for the minority. I have not been getting the testimony of the witnesses, and I am informed that the Governor of the State of New York does not know what he is going to say yet. Mr. Chairman, with the 5-minute rule, we just simply don't have a fair opportunity to do our job as a Congress under the circumstances, and either these witnesses ought to be rescheduled, or the rules ought to be obeyed.

Now, this is just nonsense. There is no reason why the City and State of New York, which has an office here, can't get that testimony to us according to the rules.

And Mr. Chairman, I object. It is not fair. The normal process is being thwarted. The rules are not being obeyed and it is starting to be just the standard routine. I call upon the Chair to protect the minority, because I question whether everybody else is doing without the testimony. Somebody must know what these people are going to say, and I want to know before they get here.

Mayor Koch. Mr. Kelly, you are not talking about us.

Mr. Kelly. I'm talking about every witness that has appeared here, Mr. Mayor.

Mayor Koch. I would just say, Mr. Kelly, we were told yesterday to appear here today. We were originally scheduled for Thursday. So I don't think that particular statement bears upon us.

Mr. Kelly. I am just not getting the testimony.

Mayor Koch. But won't you agree that we were called yesterday to come here today, and that that statement does not apply to us?

[Questions submitted to Mayor Koch and the replies follow:]
Questions on Assumptions Included in the Baseline Revenue Projections of the City's Four Year Financial Plan (Refer to pp II-8 - 11-10)

Question (1):

The first assumption under the baseline revenue projections is that the City's sales tax rate will grow at an annual rate of 6 percent. For the sake of comparison, what has been the actual growth rate of the sales tax during the last five years?

Answer:

The growth rates over the last five years are:

<table>
<thead>
<tr>
<th>FY</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>5.3%</td>
</tr>
<tr>
<td>1976</td>
<td>4.4%</td>
</tr>
<tr>
<td>1975</td>
<td>5.4%</td>
</tr>
<tr>
<td>1974</td>
<td>3.7%</td>
</tr>
<tr>
<td>1973</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

We employ economic relationships of previous years in a regression equation to forecast retail sales tax revenues. Even though the growth rate of retail sales tax revenues in the last five fiscal years averaged 4.4 percent, in two years, the growth rate exceeded five percent and in one year exceeded six percent. We believe that the general improvement in the City's economy warrants the 6 percent forecast. To date, collections in FY 1978 are running over six percent above the comparable FY 1977 period.

Question (2):

The Plan assumes that the national unemployment rate will remain above 6 percent until fiscal year 1981. How did you arrive at this conclusion?

Answer:

At the time the January Plan was issued, the national unemployment rate forecasts by Wharton and other major econometric forecasters were generally above 6 percent in the 1979-1981 period. Subsequently, the U.S. Bureau of Labor Statistics revised 1977 unemployment rate statistics downward. Taking this new information into account, econometric forecasters have lowered their national unemployment rate projections. The current Wharton forecast is for a national unemployment rate falling below 6 percent after 1979. The effect of this decline on City revenues will be reflected in the Executive Budget.
Question (3):

The baseline revenue projections refer to a potential negative impact on the City’s revenue if the City must absorb inequitable shifts in real estate taxation due to recent court decisions, such as Guth v. Commission of Assessment of the City of Syracuse. Would you please expand on this assumption. Why would these cases, which appear to mandate an adoption of 100 percent valuation system for real estate taxation, require the City to even out the impact of such a change in valuation procedures? Have similar suits already been filed against the City of New York? If so, what is their status?

Answer:

The City’s taxing power would not be increased by shifting to 100 percent assessment, because its legal tax limit is tied to a percentage of the 5-year moving average of full (market) valuations, as determined by use of a State-determined equalization rate. The City is currently using 25 percent of its taxing power based on full value. If the City was required to change all its assessment to 100 percent of current market value, it is likely that some major shifts in tax burden would occur, and some process of limiting the amount of increase to be applied to individual cases in any one year might become necessary. Economic and social consequences of these shifts would also have to be considered. The trial of a case similar to the Guth case was commenced in February, 1978, in New York City, and a suit has just been commenced by the Patrolman’s Benevolent Association to require 100 percent assessment.
QUESTIONS ON THE CAPITAL, LONG-TERM FINANCING, AND
SEASONAL FINANCING PLANS

Question (1):

What further approval, if any, is necessary for the construction of the proposed City Convention Center? What will be the costs of construction? How long will construction take?

Answer:

The cost of a new convention center can only be estimated at this time. It is expected to cost between $180 million - $200 million, and the basic financing arrangements have been worked out with the Triborough Bridge and Tunnel Authority which is prepared to issue bonds secured by a joint City-State lease. Construction time would be about four and one-half years. This includes the time necessary to obtain environmental and other permits. Two sites are now in contention and the Administration expects to decide between them within a few weeks. The site on the Hudson River at 44th Street would require a construction permit from the Corps of Engineers, a Congressional declaration of non-navigability and a State indirect source permit. The inland 34th Street site would require a State indirect source permit.

Question (2):

What, if any, commitment does New York City have from the New York banks that they will be willing to carry $1 billion in MAC bonds?

Answer:

The City does not currently have any commitments from the New York banks to purchase either City or MAC bonds in any amounts over the next four years. However, we believe that commitments by these parties as well as the State, and Federal government and pension funds will be more or less simultaneous as part of an overall package to handle the City's financing needs.

Question (3):

The Plan proposes to speed up the collection of Real Estate Taxes. What is the current procedure and how does the City plan to improve the collection arrangement?

Answer:

The City currently levies an annual real estate tax for the City fiscal year which is payable in four equal quarterly installments. Each quarter's installment is due on the first day of the quarter except for the first quarter which begins on July 1 but has a due date of August 1. (The first quarter due date has been August 1 rather than July 1, in order to provide sufficient time to send out the tax bills after adoption of the budget for the fiscal year and fixing of the tax rate.)
The taxpayer also has a 30 day grace period each quarter, resulting in the following schedule:

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Grace Period</th>
<th>Eff. Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td>August 1</td>
<td>August 31</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>October 1</td>
<td>October 31</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>January 1</td>
<td>January 31</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>April 1</td>
<td>May 1</td>
</tr>
</tbody>
</table>

The City proposes to eliminate all the grace periods, thus hopefully moving all collections up 30 days; and to change the first quarter due date from August 1 to July 15, gaining an additional two weeks in that quarter.

Thus, the proposed schedule, compared to the existing one, would be as follows:

<table>
<thead>
<tr>
<th>Effective Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
</tr>
<tr>
<td>2nd Quarter</td>
</tr>
<tr>
<td>3rd Quarter</td>
</tr>
<tr>
<td>4th Quarter</td>
</tr>
</tbody>
</table>

Local legislation by the City Council will be sought to change the 1st quarter due date, eliminate the grace periods and permit early estimated billing based on the previous year’s tax rate. Meeting this schedule will also require intensive efforts by the Finance Department to complete the assessed valuations and billing procedure in a timely fashion.
QUESTIONS ON ASSUMPTIONS INCLUDED IN THE BASELINE
EXPENDITURE PROJECTIONS OF THE CITY’S FOUR YEAR FINANCIAL
PLAN
(refer to pp II-13 - II-15)

Question (1):

What has been the historical growth rate for fringe benefits
for municipal employees? Does the plan view the 10 percent
increase on fringe benefits as an adequate trade-off for frozen
salary levels?

Answer:

We have enclosed a chart which depicts the cost of selected
 fringe benefits from January, 1974 to July, 1977. There have been
a variety of reasons for this historical growth rate in fringe
benefits. Some are directly related to past collective bargaining
agreements. The City also purchases services for its employees
such as health care and the costs result from negotiations with
the service providers. Finally others are imposed upon the City
by various legislative mandates.

The collectively bargained fringes are basically the
supplemental employee welfare benefits which provide dental, optical,
drug and other benefits to employees. For a City title such as
Senior Clerk the payments that the City makes currently are $350
annually. These payments are continued once the employee retires
since he would still be eligible for these benefits.

Health Insurance, on the other hand, is provided to City
employees through several different health carriers or insurance
companies. The City has had benefit of fairly level costs over
the last several years. These level costs are a function of
(a) the City’s declining workforce and (b) contractual agreements
with the carriers. Retirees are also eligible for health insurance
coverage but the cost is lower than for active employees.

Social Security, Workmen’s Compensation and Unemployment
Insurance are a direct result of State or Federal legislation
mandating rates and eligibility. The costs in these areas have
grown considerably over the last several years.

The City’s contributions to its principal pension systems
has generally grown over the last several years. These contributions
are based on actuarial formulas, which have recently undergone major
revisions based on the recommendations of the Mayor’s Management
Advisory Board (Pension Task Force) designed to place the systems
on a sound actuarial basis. These recommendations have been in-
corporated into law and affect all the retirement systems except
for the Fire Actuarial System.
The planned level of Fringe Benefits in the 4 Year Financial plan base estimates was based on the assumption of frozen salary levels and a constant City workforce. Following are the rationales for the planned projections for the major fringe benefits:

**Pensions**

No percentage inflator was used but rather the best estimates of future years' costs by the City's Actuary and other sources were employed. The Actuary's base assumptions were that the aggregate pension payroll remained constant from 6/30/76 with certain known adjustments downward (unprocessed retirees and all pending withdrawals). Also, with the exception of the Fire Actuarial Pension, changes recommended by the Pension Task Force of the Mayor's Management Advisory Board which were passed by State Legislation last year, were taken into consideration. (Built into the Pension Task Force recommendations and the Legislation was the inclusion of salary scale providing for a 3% yearly general wage increase).

**Social Security**

The 10% increase inflator used to arrive at FY 1979 projections and the 3% inflator used thereafter was the City's best estimate of the new Social Security Legislation's impact on the Budget. These estimates were derived before the bill was passed into law by the Congress. The Executive Budget will reflect the new legislation.

**Workmen's Compensation**

The 15% inflation factor that was used in the plan for FY 1979 and thereafter was based on the assumptions of a constant city workforce. Recent State Legislation increases rates substantially over previous levels for new accidents effective 7/1/79 and again effective 7/1/80. In addition there has been legislation increasing medical fees for doctors (estimated to be 15%), and allied health costs such as drugs, hospitalization, and consultant services, are also expected to rise sharply over the next several years.

**Supplemental Employee Welfare Benefits**

This fringe benefit was projected at a 10% increase each year. The basis for this projection was that the City's workforce would remain constant but that the cost for providing the same level of optical, dental, drug prescription, legal services, etc. benefits would cost substantially more. These benefits payments are negotiated through the collective bargaining process.
<table>
<thead>
<tr>
<th>Fringe Benefits</th>
<th>1/1/74</th>
<th>7/1/74</th>
<th>7/1/75</th>
<th>7/1/76</th>
<th>7/1/77</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health Insurance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five Year Patrolman</td>
<td>$506</td>
<td>$532</td>
<td>$560</td>
<td>$590</td>
<td>$621</td>
</tr>
<tr>
<td>Senior Clerk</td>
<td>262</td>
<td>262</td>
<td>312</td>
<td>329</td>
<td>346</td>
</tr>
<tr>
<td>Engineer</td>
<td>474</td>
<td>499</td>
<td>525</td>
<td>553</td>
<td>582</td>
</tr>
<tr>
<td><strong>Welfare Benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five Year Patrolman</td>
<td>275</td>
<td>300</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Senior Clerk</td>
<td>300</td>
<td>300</td>
<td>350</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>Engineer</td>
<td>300</td>
<td>300</td>
<td>350</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td><strong>FICA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five Year Patrolman</td>
<td>772</td>
<td>772</td>
<td>825</td>
<td>857</td>
<td>965</td>
</tr>
<tr>
<td>Senior Clerk</td>
<td>410</td>
<td>445</td>
<td>477</td>
<td>489</td>
<td>489</td>
</tr>
<tr>
<td>Engineer</td>
<td>772</td>
<td>772</td>
<td>825</td>
<td>857</td>
<td>965</td>
</tr>
<tr>
<td><strong>Annuity Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five Year Patrolman</td>
<td>261</td>
<td>261</td>
<td>261</td>
<td>61*</td>
<td>61*</td>
</tr>
<tr>
<td>Senior Clerk</td>
<td>261</td>
<td>261</td>
<td>261</td>
<td>61*</td>
<td>61*</td>
</tr>
<tr>
<td>Engineer</td>
<td>261</td>
<td>261</td>
<td>261</td>
<td>61*</td>
<td>61*</td>
</tr>
<tr>
<td><strong>Uniform Allowance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five Year Patrolman</td>
<td>200</td>
<td>225</td>
<td>265</td>
<td>265</td>
<td>265</td>
</tr>
<tr>
<td>Senior Clerk</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Engineer</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

* Deferred as part of Wage Deferral Agreement
n/a - Not Applicable
Health Insurance Plans

The 10% inflation factor used each year is believed to be a conservative estimate. Health Insurance costs are difficult to project because many of their components are mandated by law and uncontrollable in nature. At the time the projections were calculated the City had received requests for increases from the various health insurance carriers. Also, state legislation had imposed a new coverage program "Accident and Emergency Illness" on the City.

Costs for retirees (which is a growing population) will increase because of (a) increased reimbursement of certain Medicare costs for retirees approved by the city council and (b) because Medicare on Blue Cross increased 1/1/78 (the extra $20 rate increase will add to our blue Cross experience since the city reimburses this cost to the retiree). In addition the city is projecting that increased maternity coverage will be extended to city employees.

Realistic estimates are that hospital costs will continue to rise somewhat (as they have at approximately 15% annually) despite the administration's intentions of holding these costs down.

Unemployment Insurance

Recently enacted State Legislation has mandated that all localities assume the cost for Unemployment Insurance. The city has opted for what is anticipated to be the least costly choice and is in the process of implementing a strong program of control for this new program.

Question (2):

What is the city's formula for cost of living adjustments and how does the formula compare with formulas used in other major cities?

Answer:

Attached is an example of a computation of COLA I and COLA II which the city grants eligible employees. We found that Detroit, Los Angeles and Cincinnati also provided COLA for their employees. However, the cities of Chicago, San Francisco, Indianapolis, St. Louis, Boston or Columbus, Ohio do not provide for these payments to their employees.
An actual example of computation of "COLA" costs for the January contracts for the period January 1, 1974 to December 31, 1975, is as follows:

A. CPI Information

<table>
<thead>
<tr>
<th>Date</th>
<th>Index</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 1974</td>
<td>161.8</td>
<td>-</td>
</tr>
<tr>
<td>Mar. 1975</td>
<td>163.4</td>
<td>+ 1.6</td>
</tr>
<tr>
<td>Sept. 1975</td>
<td>169.3</td>
<td>+ 7.5</td>
</tr>
</tbody>
</table>

B. Lump Sum COLA Computation. Note: This is a one time payment (3 months CPI change) ÷ (factor) = # of units for calculation - 1.6 ÷ .4 = 4 units (1)

4 units X $10.50 (unit rate) = $42 rounded up to highest $10 = $50

C. Annualized COLA computation. Note: This COLA is subject to pensions, (9 months CPI change) ÷ (factor) = # of units for calculation - 7.5 ÷ .4 = 18.75 units rounded down to 18 units, 18 units X $21.00 (unit rate) = $378

Since this rate ($378) starts in the last 3 months of the contract period, we are legally responsible for 3/4 of this amount or $283.50.

D. Total COLA Lump Sum and Annual Cost for FY 1976

Lump Sum COLA Cost - $50.00
Annualized COLA Cost - $283.50
Total COLA Cost during contractual period $333.50

E. "Old" COLA for FY 1977
Annualized COLA Costs $ 378

F. "Old" COLA for FY 1978
Annualized COLA Costs $ 378

(1) This formula resulted from following a pattern of national contracts negotiated by employers with other unions.
<table>
<thead>
<tr>
<th>Payment Period</th>
<th>Measurement Dates</th>
<th>CPI Index</th>
<th>Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/1/76</td>
<td>(a) August 1976</td>
<td>177.6</td>
<td>1.7 ÷ 2 = 9 x 21 = 189 per annum</td>
</tr>
<tr>
<td></td>
<td>March 1976</td>
<td>173.9</td>
<td>189 ÷ 2 = $94.50</td>
</tr>
<tr>
<td>4/1/77</td>
<td>(b) February 1977</td>
<td>182.1</td>
<td>8.2 ÷ .4 = 20.5 x 21 = $320 per annum</td>
</tr>
<tr>
<td>9/30/77</td>
<td>March 1976</td>
<td>173.9</td>
<td>420 ÷ .2 = $210 per annum</td>
</tr>
<tr>
<td></td>
<td>5.1% change</td>
<td></td>
<td>cap. 6% annually</td>
</tr>
<tr>
<td>10/1/77</td>
<td>(c) August 1977</td>
<td>187.2</td>
<td>13.3 ÷ .4 = 33.25 x 21 = $693 per annum</td>
</tr>
<tr>
<td>3/31/78</td>
<td>March 1976</td>
<td>173.9</td>
<td>493 ÷ 2 = $246.50 per annum</td>
</tr>
<tr>
<td>4/1/78</td>
<td>(d) February 1978</td>
<td>190.7</td>
<td>16.8 ÷ .4 = 42 x 21 = 882 per annum</td>
</tr>
<tr>
<td>6/30/78</td>
<td>March 1976</td>
<td>173.9</td>
<td>602 ÷ 4 = $220.50 per annum</td>
</tr>
</tbody>
</table>

**FY 1977**

<table>
<thead>
<tr>
<th></th>
<th>$188.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/1/76 - 3/31/77</td>
<td>$94.50</td>
</tr>
<tr>
<td>½ of 4/1/77 - 9/30/77</td>
<td>165</td>
</tr>
<tr>
<td>FY 1978</td>
<td>$672.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>$165</th>
</tr>
</thead>
<tbody>
<tr>
<td>½ of 4/1/77 - 9/30/77</td>
<td></td>
</tr>
<tr>
<td>10/1/77 - 3/31/78</td>
<td>346.50</td>
</tr>
<tr>
<td>4/1/78 - 6/30/78</td>
<td>220.50</td>
</tr>
</tbody>
</table>
Question (3):

If the current level of CETA program funding were to fall below the $306 million mentioned in the Financial Plan, would the City hire those employees affected by the decrease in funding?

Answer:

If federal funding was decreased, the City would establish priorities with regard to the CETA program and retain those employees who would be performing priority public services. Any diminution of the CETA workforce would be done within the constraints of federal law and regulations. Furthermore, the ability of the City to hire CETA workers for which the funding was no longer available would be dependent upon the constraints of its Financial Plan.

Question (4):

The Plan assumes that the City will switch its pension accounting over to an accrual basis. What is the current accounting method?

Answer:

The four year Financial Plan Statements reflect an amount estimated as the accrued pension liability in terms of Generally Accepted Accounting Principles. The City, in the various public reports that it issues (i.e. Annual Reports, Financial Statements, etc.) notes that Pension contributions are appropriated on a cash basis.

Legislation was passed, in June 1977 entitled "An Act to Amend the Public Authorities Law in Relation to Clarification of Certain Requirements for the Expense Budget of the City of New York".

The memorandum in support of the Legislation states the following position which appears to adequately respond to the query and clarify the issue:

"New York City's contributions to its pension systems are determined and made on a two year lag basis. Accordingly in fiscal year (FY) 1978 the City will actually pay its FY 1976 pension costs. The lag method of financing is required by State Law and is an entirely appropriate financing method. The primary reason for it is that accurate data cannot be compiled in a manner sufficiently timely to finance pension contributions on a current basis."
Section 3638 (4) of the MAC Act states that "any expense item in the expense budget for any fiscal year, which item relates to contributions by the City or other public employer to any retirement system or pension fund shall include only the amounts which under the provisions of law, rules or regulations expressly prescribing the method of determining employer contributions to such retirement system or pension fund and the time of payment thereof, are due and payable in such fiscal year, and no such expense item shall include amounts for any such contribution which under such laws, rules or regulations, do not become due and payable in such fiscal year."
QUESTIONS ON CITY ACTIONS ASSOCIATED WITH CLOSING THE BUDGET GAP
(refer to pp III-8 – III-10)

Question (1):
Is the proposed allocation of 3,060 CETA VI positions to APDC recipients and HR an action which is solely within the control of the City? If this action requires federal endorsement, has that endorsement been received?

Answer:
The current CETA legislation specifically targets public assistance recipients as a priority category for CETA positions. This allocation is within the authority of any prime sponsor, i.e., the City of New York.

Question (2):
What is the Home Care Program discussed on page XIII-8 of the Plan? Why the sixfold increase in expenditures from FY 1971 to FY 1977?

Answer:
The Home Care Program is a composit of three programs: home attendant; home maker; and housekeeper. Historically, authorization of services for this program has been a result of prescription of a specific number of hours services a week depending on the clients need by a doctor. The City’s Department of Social Services had apparently approved all recommendations without review, and reauthorization every six months appeared to be a common occurrence without substantial review of continued need and care. The program which is considered to be an alternative to expensive in-patient hospital care, has been plagued with poor administration, payment problems and poor data collection efforts. Over the last year the program had over-spent its budget. The City is now making a major effort to address many of the inherent problems of the program. Furthermore, the State of New York has mandated the vendorization (utilization of private contractors) as the most practical means of improving the program. With this alternative, however, the costs of the program for administration, supervision, training and fringe benefits will increase.

Question (3):
The Plan assumes that the salaries of 10 of the 30 additional individuals to be hired to improve tax collections will be paid by the State. Why would the State assume this cost?
Collection and administration of the combined state and local sales taxes are primarily the function of the State government. The local governments within the State which have local sales taxes share the costs of administration through a percentage charge applied to all recipients. New York City has a special auditing unit whose costs are included in the amount covered by the administrative charge. This is the unit to be expanded. The auditors will be paid initially by the State but their costs are covered fully in the administrative charge applied to all in proportion to their share of total sales tax collections.

Question (4):

It is assumed that the City will be able to save at least $40 million through "Other Management Improvements". Could you supply some examples of what this category represents?

Answer:

In March, the City issued a document entitled "New York City Actions To Eliminate The Fiscal Year 1979 Budget Gap". This report details the attrition savings by agency which actually totaled $76 million, rather than the anticipated $65 million contained in the January document. In order to maintain the $174 million goal indicated in January, $79 million in expenditure reductions and $9 million in revenue increases were recently developed. We are enclosing a copy of this report for your staff to review and trust that it will provide the detailed information that you requested.

Question (5):

The Plan assumes an annual savings of $15 million for the City if the State re-established indemnification payments that were originally created to compensate the City for the 1974 removal of the City's tax on insurance companies. When the State originally agreed to reimburse the City for the 1974 removal of the City's tax on insurance companies, was it not understood that the reimbursement would be discontinued at a specified point in time?

Answer:

The City tax on insurance companies was repealed by state action during FY 1974. A specific funding bill was enacted to hold NYC harmless in FY 1974. No specific legislation was enacted to provide for future payments. However, during both FY 1975 and FY 1976, the Governor included such funding within the State Budget.
While no specific time of duration had been agreed to between the State and the City, the funding was removed from the FY 1978 State Budget. There is no provision in the FY 1979 State Executive Budget to fund this item. Discussions are being held to obtain the funding.

Question (6):

The Plan assumes an annual yield to the City of $58 million if the State compensates the City for taxes lost on exempt State property. What is the feasibility of such action by the State?

Answer:

The State established a reimbursement for specific localities in FY 1975 to compensate them for the loss of real estate taxes on exempt properties within each jurisdiction. A bill that would compensate NYC in a similar way has been passed by the NYS Senate. The State Assembly has not yet acted.

Question (7):

The Plan calls for state revenue sharing receipts to the City to be based on a 21 percent formula rather than the current 18 percent formula. What justification can you provide for such a change and would it extend to all municipalities in New York State?

Answer:

The original legislation as adopted by the New York State Legislature stated that twenty-one percent of the State receipts from the personal income tax would be returned to localities within the State. Just prior to the first distribution payment, the legislature modified the original legislation to specify an eighteen percent distribution. A change of the distribution factor to twenty-one percent would benefit all localities in the State.

Question (8):

The Plan indicates that the State reimbursement for highway construction is $.40 per square yard rather than the actual cost of $2.50 per square yard. Why the difference?

Answer:

The State established this reimbursement rate for all localities in the State a number of years ago. Inflation has caused an increasing gap between the State’s reimbursement level (fixed) and the actual cost to repair roadways.
Question (9):

Please expand on the category marked "Mental Health Disallowances." Why was State aid to mental health programs reduced and by how much? Additionally, how could the City not know of the reduction for over 12 months following the decision?

Answer:

In the area of mental health, there has been a continuing dialogue each year between the State and City governments. In many instances City mental health programs were never approved until some time during the fiscal year of operations. Historically, the City used as a guideline for State assistance, the State budget. During the particular year in question the City received letters of notification from the State establishing a tentative State aid ceiling. However, the State later imposed a retroactive ceiling on the level of assistance and reimbursements for expenditures above that ceiling were denied. Since programs were in place, contracts signed, services being provided, the City had no alternative but to absorb this $20 million loss of State assistance.

Question (10):

The Plan calls for a one-time $20 million payback to the City for funds previously disallowed under Public Law 95-171, Title IV-A of the Social Security Act permitting localities to "restrict" and limit the use of AFDC public assistance checks if the payee evidenced an inability to manage money properly. Does P.L. 95-171 expressly permit reimbursement for penalties previously required by Title IV-A? If not, what would authorize the State to make a one-time $20 million payback to the City for funds previously disallowed?

Answer:

The Financial Plan, which was released on January 29th outlined as a potential State action the reimbursement to the City of two-party check disallowances. The law specifically included a provision which allowed the right of the federal government to assess disallowances to local units of government which exceeded the prior 10% level for restricted checks. Previously, the State of New York had, in effect, initiated a disallowance against the City of New York for vendor restricted violations. In light of the passage of the new law, we are discussing with the State the legality of its prior disallowances.
Chairman Moorhead. The subcommittee will now adjourn, to meet tomorrow at 9:30 a.m.
We will have all morning for the Governor and Mr. Rohatyn and the afternoon for the legislative leaders.
[Whereupon, at 4:05 p.m., the subcommittee adjourned, to reconvene at Wednesday, March 8, 1978, at 9:30 a.m.]
NEW YORK CITY'S FISCAL AND FINANCIAL SITUATION

WEDNESDAY, MARCH 8, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC STABILIZATION OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 9:35 a.m. in room 2128 of the Rayburn House Office Building; Hon. William S. Moorhead (chairman of the subcommittee) presiding.


Also present: Congressmen S. William Green and Robert Garcia, both of New York.

Chairman Moorhead. The Subcommittee on Economic Stabilization will please come to order.

First, I want to apologize to the members and the witnesses and guests for the size of this room. We were bumped out of the full Banking Committee room because of a hearing with the Secretary of Housing and Urban Development, Patricia Harris. I apologize for this, but I thought it would be better than trying to shift dates again on you.

In its examination of the New York City problem and possible new Federal legislation, this subcommittee, through comments by myself and other members, has made clear its deep conviction that the State of New York must play a major role in the eventual package of assistance. As has been said many times, under our Constitution cities are the creatures of the States, not of the Federal Government.

Today we hope to get from Governor Carey and our other witnesses clarification on several major points.

First, Secretary of the Treasury Blumenthal disclosed to us that the State has pledged direct, additional budgetary assistance to the City of about $200 million in the forthcoming fiscal year 1979 and that this sum would rise to $400 million by the end of the City's 4-year financial plan. We want to get confirmation and clarification of this presumed pledge. Among other things, we want to know whether this magnitude of additional State aid for the City is agreed to by both the Governor and the leadership of the State legislature.

Next, we are aware of the fact that the State constitution prohibits the State from lending its credit to the City. Some of our members have wondered whether there is any effort to amend the constitution.
to solve this problem and why such an effort was not begun some time ago. And we also want to know whether this constitutional provision does or does not prevent the State from extending short-term seasonal loans to the City.

There are other questions. Is the State ready to enact a central mechanism to replace the Emergency Financial Control Board? Is the State prepared to increase the borrowing authority of the Municipal Assistance Corporation—MAC? Will the State agree to a "lien" on its general revenue sharing or other Federal aid, as suggested by Secretary Blumenthal, as part of the security behind the Federal guarantees of new City bonds?

And finally, what is the present situation of the State's own credit, including the outlook for the large $4 billion spring borrowing?

Governor Carey, we have given you a full plate. We are here in a constructive spirit, but you will appreciate that we must have the answers to questions of this kind before we can proceed to write legislation.

Do any other members seek recognition at this time?

Governor Carey, you may proceed.

STATEMENT OF HON. HUGH L. CAREY, GOVERNOR, STATE OF NEW YORK

Governor Carey. Thank you, Mr. Chairman. I am delighted to be here again and share these quarters with members of the committee on which I once served in my early days in Congress. I say we in New York are becoming quite accustomed to living in a confined fiscal environment. So these quarters give us no discomfort whatsoever. I will come to the questions that you addressed immediately.

I have reviewed with the legislative leadership; I have discussed with the mayor and other participants, with the chairman of the Municipal Assistance Corporation, who accompanies me today, Felix Rohatyn, and he anticipates the questions that you brought forth, and the answer is yes, we are prepared to extend the powers of full functions of the Emergency Financial Control Board on the time plan that will be a part of negotiation, and that negotiation, of course, will develop the length and duration of loan commitments and/or guarantees.

But we are prepared to do that in the legislative session now pending. We, of course, envision as well, as part of the financing plan, the need to be an enlargement of the borrowing powers of the Municipal Assistance Corporation. And we are prepared to handle that legislation.

I would like to reserve to a short time later the question as to setting up reserves for any, if you will, indemnification or other reason in the event of the invocation of the guarantee. We will come to that and Mr. Rohatyn will address that, as well as I, in his testimony.

I am here today to present the case ready for the Congress to approve Federal participation in the resolution of the City's problem. I welcome the President's proposal for Federal participation in the solution for the City and the cornerstone of that, of course,
is the so-called long-term guarantee. That will add useful leverage for the City's effort to get back into the financial market which is our end objective.

This we regard as a step forward. I support the President's proposal with certain modifications which the State feels are necessary. I want to say that the administration's plan did not develop from the isolation of the realities that faced New York because the Secretary and his deputy, Roger Altman, made repeated trips to New York City and to Albany for consultation with City and State officials. They know the pictures.

The administration has been persuaded to act by the considerable evidence it gathered and I am especially pleased that the administration feels the State has done its fair share in assisting the City.

The administration's proposal verifies what State and City officials have said: New York City has come a long way toward financial stability since 1975, but some further efforts must be made with continued Federal participation.

I can highlight for you the progress we have made, but I believe this subcommittee well recognizes now the steps that have been taken, over the course of the past 3 years, have been effective.

The occasion that brought us to Congress in the first place was the cancellation back in March 1, 1975, of a modest offering of City tax participation notes. That marked the beginning of the City's crisis. We came very close to bankruptcy. That indeed would have precipitated a great crisis, perhaps one unprecedented in the history of public financing of local government.

That scenario has been much discussed, and the very notion that we could contemplate that again lies in the face of the grim experience that we all had in 1975 when we reviewed worldwide what the effect of bankruptcy could be. Let me say no court of any kind has ever administered any enterprise in bankruptcy or any other condition that could remotely approach the size and complexity of the problem of the city of New York. And the court system might well have been tested beyond its limits and it would be if that would of course happen today.

Let me say on the positive side why New York City and the metropolitan market need to be sustained because we are one of the largest purchasers of goods and services in the Nation. Therefore, it is in the national interest to act decisively to stabilize the financial condition of such an important economic sector. We are the Nation's foremost international city. Therefore, it is not in the national interest given the status of the dollar today to put this City in danger to a bankruptcy which would symbolize a failure of the national will. I would repeat with emphasis what the Secretary has said, Secretary Blumenthal, that a major urban bankruptcy would add powerful international strains on the dollar. This is unthinkable.

For these reasons and many more that the President and the Secretary have said that it is in the national interest to protect the solvency of the City. We have done that. We did not go to bankruptcy in 1975. And the survival of the City and its step to recover rested indeed on an unprecedented coalition uniting the public and private sectors, including labor leaders, who acted as statesmen, with
constraints and prudence, and cooperation, the financial community, business leaders, leaders in political fields and public officials at every level of government on both sides, Federal, State, and local. This coalition saved the City and strengthened the State. That is the same coalition that is in place today that works for full and speedy recovery of the City.

It was clear that there was in the offing back in that time in 1975 a premonition that there could be an earth shock that would have traveled to every corner of the national economy and the recent recitation by Congressman Benjamin S. Rosenthal's committee of the holdings that are still in the possession of banks large and small of City paper and around this country is still an occasion for concern as to what the impact of further talk of insolvency and the uncertainty of a solution could mean to holders of paper of New York City and State agencies around this country.

New York State has met its full obligations. The City has taken drastic steps, working with the State, to bring City expenditures into line with actual revenues. You heard that recitation from Mayor Koch yesterday. And we then secured the Federal seasonal loan program. This subcommittee helped to bring that work into fruition.

The seasonal loan program, due to expire at the end of June, just 4 months from now, did make demands on the City and State and they have been completely met. I do hope the Congress understands that it has had a good experience with New York. I hope that each and every one of the constituents you represent understands that helping the City costs them nothing and we are not asking now for any special consideration, something in the form of a handout, from the people of the United States.

The people of New York pay their own way and I believe the people of the other 49 States can understand that very well. We have done much, as I said, since 1975. The uncertainty and confusion and doubt have been replaced by certainty and public accountability. The budget accounting system of the City was fragmented and incomplete. That cannot be said today. A new integrated accounting system is in place and fully operational.

Federal, State, and City officials can agree on acceptable figures for the City's fiscal condition. The Municipal Assistance Corporation was created by the State, and with effective management and foresight and ingenuity, I would say has financed some $6.8 billion of City debt in an orderly and controlled fashion. The Emergency Financial Control Board, which I chair, was created to develop a monitor, a credible financial plan leading toward a balanced budget and to maintain an effective oversight mechanism, and I am prepared, as I said at the outset, to offer to the legislature a bill that will extend the Control Board for a time period at least as long as Federal commitments, loans, and otherwise exist.

Let me repeat a few points I made in my testimony before this subcommittee by way of emphasis. We are well in the process of restructure in the way government works in New York City. The growth of State spending has been kept below the rate of inflation for the period 1975 through 1978 and 1979. We balanced the State budget. We have saved $1.5 billion in welfare and medicaid costs
through better management since 1976 and 1977. That means we saved Federal dollars as well as State and local dollars.

In the last 3 years we financed over $3.3 billion in special advances to the City without which the City would have been unable to pay its employees’ salaries and meet its obligations. We provided other aid to the City such as greatly increased aid to the City University and to mass transit. We accelerated reimbursements to the City. We assumed the costs of City functions, such as the cost of maintaining the court system. Our commitment to help New York City is a continuing one that the people can rely on.

My executive budget for the State fiscal years 1978 and 1979 will continue the special $800 million advance to the City. Moreover, the State has agreed to provide the City with $200 million in versatile funds, funds that can close the budget gap. That is aimed at the $457 million deficit through fiscal year 1979. This amount of $200 million has been endorsed by the leadership, both Republican and Democratic, in the State legislature and the finance committee of that legislature and the ways and means committee.

The general assumption has been the City and State Governments must have demonstrated conclusively that we are doing all we can to fill our responsibility before we call upon the Federal Government to assist us. I believe we have met that assumption. We came here 3 years ago in the belief that what we then proposed, the combination of long- and short-time measures would be sufficient for full recovery. The experience of 3 years of good faith effort on our part has shown that the solution of 1975 which was a short-time solution, was enough to give us a stronger recovery but not full health.

An important component is lacking, and that is the ability of the City government to enter the financial markets. Secretary Blumenthal pointed out that the City cannot reenter the market now, due to continued City budget deficits. He also emphasized, and I agree, that domestic confidence lags behind true progress. We have made true progress in restoring confidence and we must not falter now.

There must be a willingness on the part of the State, the financial community, the municipal unions, and the Federal Government to join the City to complete the task we began 3 years ago. I can promise the State will do its share. I expect normal growth in State-aid programs for municipalities will, over the following 3 years, result in very substantial increases in budget balancing aid to the City.

We join the administration in proposing a Federal guarantee of up to 15 years for long-term City bonds. Without such guarantees, all the budget-balancing actions of the City, the State, and municipal unions and the Federal Government do not matter, nor does it matter we have agreed to continuation of an oversight mechanism and other financial controls if the capital requirements of the City cannot be financed over the next 4 years, the City will confront insolvency even though the financial plan is in place and on target.

Three years ago, this subcommittee recognized the City’s real needs, and recommended long-term Federal aid. However, the administration, then in control, ultimately supported only seasonal financing for a 3-year period under a plan that included a moratorium on City notes. You well recognize that moratorium was
declared unconstitutional under State law, but still faced with that setback, MAC responded and through a refinancing system, raised the holders' demands of the moratorium notes.

The impending expiration of the seasonal loan program still leaves the City without direct access to the markets and reserves the possibility of City bankruptcy. To complete the job we began in 1975, we renew our request to the Congress for limited long-term Federal assistance. That is limited by what the Secretary specified.

And we ask that such a system be complemented by a continuation of seasonal financing to the extent necessary to assure the minimum seasonal credit needs of the City are met.

All of us try to think of parallels and metaphors that will fit this situation and I can only say as a student of government, it would appear if we were to have the long-term assistance only without the seasonal needs that may occur, we would be in the posture or in the position of a student that needs some remediation, who has been placed in position to receive that remediation with the guarantee that the special tutoring is in place and the tuition is paid, but there is no money to provide the lending of the books necessary for improving reading and mathematical skills. Now that is about as close as I can come to this. In order to complete the course and graduate, we not only need the enrollment and the institution of the kind that we need to receive our certificate or diploma, we have to have the short-term aid necessary if it becomes clear that that seasonal borrowing is required.

Let me point out as well that because of the cost of the seasonal borrowing, the City is not likely to pursue that unless it is clearly necessary. I can assure you the State will work closely with the City to find ways to reduce the City's seasonal requirements. I expect—and that can be done not only by the State accounting on its own, but through the Control Board's careful review of the City's accounts.

I expect therefore the use of seasonal lending will be less than half of the need during the past 8 years.

So that is a clear result of the progress made. We are not coming back for the same amount. We are talking about less than half of the original requirement.

As in 1975, we ask for Federal help only because the maximum available State and City resources are insufficient to do the job effectively. Guarantees and the authority for short-term loans will have no impact on the Federal Government and thus no impact on the taxes of your constituents. All we are asking for is a credit vehicle that recognizes the special needs of the City at this point.

Our recognition of these special needs is reflected in our commitments. We are committed to continue year by year monitoring of the City's revenues and expenditures. This is no small task for the government of the State and the staff of the State executive branch to take on the additional commitment of being the fiscal monitor of the City. It would be likened to a Member of the Congress in a busy district where you not only had to secure Federal aid, but then be in place in your district to administer the apportionment of the aid to make sure it met the Federal requirements that you
yourselves laid down, I would not want to be a Congressman as I was
and have to handle the commitments on both ends. But we have to
do that in New York, and we are prepared to do it.

We want to see careful City management of its labor problems, and
the leadership of the City has pledged itself to do just that.

The City must arrive at agreements with its work force which will
not endanger the City's ability to carry out its plan in 4 years and
achieve a truly balanced budget. But that must be done, and I think
we should all agree in an atmosphere of full and fair collective
bargaining that is the way negotiations should obtain in many parts
of this country.

I assure you that part of the continuing role of the Control Board
and its successor will be to monitor labor contracts and to insure
their consistency with the financial plan. That can take place in an
atmosphere of full and fair collective bargaining. There is common
interest among myself, the legislature, and the mayor on these
matters. We have a common need in seeking Federal assistance of
this kind. So we therefore renew our request for the long-term
guarantee necessary for full solution to the City's problem and a
continuation of seasonal borrowing authority on a limited basis.

We turn to the Federal Government to help us provide the security
required to insure the City's borrowing needs will be met. The chair-
man of the Municipal Assistance Corporation, Mr. Rohatyn, is with
me today. He can provide further details. I can assure the committee
we want to limit the involvement of the Federal Government as
much as possible and limit Federal risk as much as possible. There
is a much lower risk, however, in giving New York City full and
timely help than not helping us at all.

Let me end, Mr. Chairman, by saying this subcommittee's function
under the reorganization of Congress is to have oversight over
economic stabilization, and we are all seeking that for the urban and
suburban areas of population centers in and around this country. We
are all involved on a program for balanced urban growth. The
National Governors Association just concluded their consideration
of urban planning and policy. I cannot contemplate forward move-
ment on any urban planning and policy into an action faced unless
and until there is provision made for the Nation's largest city to be
able to move from its needs to a position where it can stand among
its peer cities in this country and be able to recenter credit markets.
Without that, the uncertainty and indeed the vagueness of the
future of the City will drain the vitality of that City at a time when
we are trying to bring it back to full health. The City has resources;
the City has indeed a renewed spirit. And the City at this time comes
to its friends in Washington and pledges itself to continue as the
State will to make progress along the road to full recovery.

That, I believe, should be one of the cornerstones and milestones,
if not the cornerstone, of a recovering financial system that will
allow us to have a growth of employment, a growth of equality of
living, and not just mere survival for the people of New York State
and New York City.

Thank you, Mr. Chairman.

[Governor Carey's prepared statement follows:]
Chairman Rockefeller, Members of the Committee, I am happy to be here again. I want to address the plan set forth by the Administration to give financial help to New York City, and to press the case before the Congress for federal participation in a resolution of the City's dilemma.

I am pleased by the President's proposal for long-term Federal participation in a financial solution for the City. Long-term guarantees will add useful leverage to the City's attempts to get back into the financial markets. This is a major step forward toward a secure financial future for the City.

I can support the President's program, as recommended by the Secretary of the Treasury to this Committee, with certain additions or extensions which the State feels are necessary.

The Administration's plan was not developed in isolation from the realities that face New York. The Secretary and other Federal officials have made repeated trips to New York City and Albany for consultation with City and State officials.

The Administration has been persuaded by the considerable evidence it has gathered of City and State actions. I am especially pleased that the Administration feels the State has done its fair share in helping the City.

The Administration's proposal verifies what State and City officials have said: New York City has come a long way toward financial stability since 1975, but some further efforts must be made with continued Federal participation.

The Administration's willingness to propose long-term guarantees is clear recognition of the great progress that the City and State have made together since 1975. In that light, I want to give the highlights of our progress, because this Committee and the Congress must look at the record of the recent past, for the most accurate guide to the near future.

Perhaps I can provide a fresh perspective if I review again the situation in the City in 1975, when the crisis peaked. The causes of the crisis go back many years before that. They include inadequate budgeting procedures, very high State and local taxes, the high costs of providing essential services in a big city, a large population of poor people, and an old and rapidly deteriorating physical plant—roads, bridges, sewers, and public buildings.
Three years ago, on March 1, 1975, New York City newspapers reported the cancellation of a $260 million offering of City Tax Anticipation Notes. In the public mind, this marked the beginning of the City's crisis.

In only a few months of intense public and private discussion in 1975, it was clear that the City was rapidly approaching a moment when it would not have the money to pay its bills, meet its payroll, and pay the interest on its million dollar. About $6 billion of debt was due within a year. The City came very close to bankruptcy, which would have precipitated a true crisis on a scale unprecedented in our history of public finance and local government.

The scenario for the bankruptcy of New York City was much discussed at the time, and has been repeated lately. I want to add to the discussion, not out of any lark for the subject, but for the sake of emphasis.

No court of any kind has ever administered any enterprise in bankruptcy, or in any other condition, that even remotely approaches the size and complexity of the City of New York. It takes a dangerously naive faith in the capacity of the judicial branch of the Federal government, to assume that any judge or group of judges, could by themselves assume the total responsibility for the daily administration of the City, not to mention the monumental task of resolving the endless litigation consequent on formal bankruptcy. The court system might well have been tested beyond its limits.

And then what? It is just as well we never found out. There is no fourth or fifth branch of government to pick up the pieces.

New York City is one of the largest purchasers of goods and services in the nation. Surely it is in the national interest to act decisively to stabilize the financial condition of such an important economic activity.

New York City is the nation's foremost international city, one of the world's great centers for commerce, communications and finance. It is not in the national interest to put this city in danger of a bankruptcy that would precipitate a fallout of the national will.

And it is worth special emphasis to say that a major urban bankruptcy would add to the painful international strains on the dollar, at a time when this should be unthinkable.

For all these reasons and many more, the President and the Secretary of the Treasury have said it is in the national interest to protect the solvency of the City.

The City did not reach bankruptcy in 1975, because the State Administration and the State Legislature took effective measures to save the City. The City's survival, and its steps to recover, rested on an unprecedented coalition uniting the public and private sectors, labor leaders, the financial community, business leaders, and political leaders and public officials at every level of government—Federal, State, and local.

This coalition saved the City and strengthened the State. It is this same coalition we are now exhorted to work for a full and speedy recovery of the City.
In 1975, when I took office, we discovered that the State itself faced a serious crisis. The bipartisan action the State then took to save the City must be seen in the context of real risk and consequence for the State.

In 1975, the State budget was projected to be seriously out of balance. Municipalities throughout the State were in serious credit and fiscal difficulties. Not only was the public finance of the State in difficulty, but the private economy was badly deteriorated.

The State’s private economy could not generate the tax revenues to fund the ballooning public sector. The credit markets were closing for New York City, for Yonkers, for Buffalo for school districts, and for major public authorities. The State itself was threatened.

It is surely clear that the potential existed for a fiscal earthquake whose shockwaves would have traveled into every corner of the national economy, and into every city and village touched by the financial markets, and into every major financial institution.

None of this happened. The State of New York met its full obligations to act in crisis. The City took drastic steps, working with the State, to bring City expenditures into line with actual revenues. And in a crucial move that put the keystone of the arch in place, the Congress enacted the Federal Seasonal Loan Program. This Committee’s work was instrumental in that solution.

The Federal Seasonal Loan Program, due to expire at the end of June, just four months from now, made demands on the City and State. Every demand has been met, and every scheduled repayment has been made, on time and with interest. New York City and New York State have met their full obligations to the national community that helped us in 1975.

I hope the Congress understands that it has had a good experience with New York. And I hope that each and every one of your constituents understands that helping New York City in 1975 costs them nothing.

We are not asking now for handouts from the people of the United States. The people of New York pay their own way, and I believe that the people of the other 49 states understand that very well.

Since 1975, much has been done. Uncertainty and confusion have been replaced by clear certainty and public accountability.

In 1975, the budget and accounting system of the City was fragmented and incomplete. Now, a new integrated accounting system is in place and fully operational, and Federal, State and City officials can agree on acceptable figures for the City’s fiscal condition.

The Municipal Assistance Corporation was created by the State, and has financed some $5.5 billion of City debt, in an orderly and controlled fashion. The Emergency Financial Control Board—which I chair—was created to develop and monitor a credible financial plan leading toward a balanced budget.
True financial planning is now made possible by accurate accounting and made enforceable by the control mechanism. The capacity for real planning, simply did not exist before 1970, and it exists now. It exists because we in New York State and New York City made it exist. No one any longer has to guess at the financial condition of New York City. This certainty has itself put us at a great distance from 1972.

To maintain this effective oversight mechanism, I am prepared to offer state legislation to extend the Control Board for a three-year period at least as long as federal bond guarantees exist.

Let me repeat a few points I made in my December testimony before this Committee, by way of emphasis. We are well into the process of reorienting the way government works in New York State. Our budget is balanced for the second year. For the second year, we are offering serious and effective tax cuts to our citizens and businesses, who have been the most heavily taxed citizens in the country. The growth in state spending has been kept below the rate of inflation for the period from 1973-76, through 1976-79. We have saved $1.5 billion in welfare and Medicaid costs through better management since 1976-77. That means we have saved federal dollars, as well as state and local dollars.

We brought the size and costs of state government under control. We took effective steps to revitalize the state's economy so we could provide jobs for our people. And we took extra steps to help the City.

In the last three State fiscal years, we financed over $1.5 billion of special advances to the City, without which the City would have been unable to pay its employee's salaries, and meet its other obligations.

We provided other aid to the City, such as greatly increased aid to the City University and to mass transit. We applaud the reductions to the City. We assumed the costs of city functions, such as court court costs.

New York takes care of itself and pays its own way. We do not want handouts. We want jobs for our people, and we want help in finding a permanent solution for the financial problems of our largest city.

Our commitment to help New York City is a continuing one with the people of the City and with us. My Executive Budget for State Fiscal Year 1979-80 will continue this special $1.5 billion advance to the City. It also provides an overall increase in state aid to the City of about $19 million.

Not all these funds can be used by the City to close the projected deficit, since some of these projects are driven from expenditures-driven demands, such as public assistance and Medicaid costs.

However, the State has agreed to provide the City with $250 million to reduce the projected $477 million deficit in FY 1979. This amount of $250 million has been endorsed by the leadership—both Republican and Democratic—of the State Legislature.
This amount together with proposed City actions totaling $174 million, will cover more than 80% of the budget gap projected by the City for FY 1979. I understand assurances have been given by Federal officials to City officials that additional Federal aid can be counted on to close the remaining gap.

In considering how much New York State is able to do to help balance the City's budget, it should be emphasized that, unlike most states, the bulk of our State budget consists of aid to local governments. In the next fiscal year alone, 67% of our total budget of $12 billion is for local assistance. Only $1.2 billion or 27% supports State operations, with the remaining 10% supporting capital construction, jobs service and other fixed charges.

New York City receives a large share of per capita State aid and categorical aid. The only way significantly more aid can be channeled to the City is through improved economic growth resulting in total revenue growth, and through continued austerity in State operations—policies which we have set in motion during the past three years and which we intend to continue.

The general assumption has been that the City and State governments must have demonstrated conclusively that they are doing all they can to fulfill their responsibilities before we can call on the Federal government to assist us. We fully recognize and agree that since all powers of local government flow from the State, the State has a major responsibility for ensuring and supporting the fiscal health of cities within the State. Moreover, we are acutely aware that the stability of New York City is essential to the continued economic well-being of the State.

Thus we gave credit assistance to the City in its crisis; we substantially increased our budget aid to the City; and we have established fiscal control and reform in the City.

We have worked for three full years to get New York City on its feet again, precisely so it will not need outside help. We have not only put the necessary mechanisms for reform and oversight in place, but we have made them work. In the process we have seen an extraordinary shift in both local and national public opinion—from despair and deep cynicism to full confidence.

So why are we in Washington again, asking for Federal participation in a long-term solution?

We came here three years ago in the belief that what we proposed then—a combination of long-term and short-term measures—would be sufficient for full recovery. The experience of three years of good-faith efforts on our part has shown us that the solution of 1975—which was a short-term solution—was enough to give us strong recovery, but not full fiscal health.

An important component is lacking, and that is the ability of the City government to enter the financial markets. Among other things, it must be enabled to refinance its high-interest obligations, to lower the burden such a heavy debt places on the City's taxpayers. We believed it would be possible last fall, but the private financial community demanded more experience before it would commit itself.
Secretary Bingham pointed out that the City cannot recover
the market now, due to continued City budget deficits. He also
emphasized, and I agree, that investor confidence lags behind
those projects. We have made true progress, and we must not halt now.

There must be a willingness on the part of the State, the
financial community, the municipal unions, and the Federal government
to join the City to complete the task we began three years ago.

It requires a major effort by all three levels of government:
City, State, and Federal—to reduce City expenditures, increase
revenues and eliminate the remaining budget gap. I can promise you
that the State will do its part. I expect that the Federal government
will do its part. But how do you get State aid for municipalities if
the Federal government continues the aid to the City, too?

We join the Administration in proposing a federal guarantee
up to $25 million is worth for long-term City bonds. Without such guarantees,
all the budget-balancing actions of the City, the State, the
municipal unions and the Federal government itself, past, present,
or future, do not matter. Nor does it matter that we have agreed
as a condition of an overall moratorium and other financial
controls. If the capital requirements of the City cannot be
financed over the next four years, the City will continue
insolvency, even though the financial plan is in place and in effect.

Three years ago, this Committee recognized the City's real
needs, and recommended long-term Federal aid. However, the Ford
Administration ultimately supported only seasonal financing for
three-year period, under a plan that included a moratorium on City
dsents. The incompleteness of the seasonal loan program
still leaves the City without direct access to the market and
revives the possibility of City bankruptcy. To complete the job
we began in 1975, we renew our request to the Congress for long-
term Federal assistance, and ask that such assistance be
complemented by a continuation of seasonal financing to the point
necessary to assure that the minimum seasonal credit needs of the
City are met. I can assure you that the State will work closely
with the City to find ways to reduce the City's seasonal credit
requirements, and to hold to that the use of Federal seasonal
loans will be less than half of the needs
during the past three years.

As in 1975, we ask for Federal help only because the maximum
available State and City resources are insufficient to do the job,
and we ask for the minimum amount of help we think we need to do
the job right. Guarantees and the authority for short-term loans
will have no impact on the Federal Budget, and thus no impact on
the issues of your constituencies. All we are asking for is a credit
vehicle that recognizes the special needs of the City at this point.

Our recognition of these special needs is reflected in our
commitments. We are committed to continued year-by-year monitoring
of City revenues and expenditures. We are committed to limitations
on City expenditures, with State help. And we want to see careful
City management of the labor program.
And the City must arrive at agreements with its work force which will not endanger the City's ability to carry out its four-year plan and achieve a truly balanced budget. I assure you that part of the continuing role of the Control Board and its successor will be to monitor labor contracts to ensure their consistency with the financial plan.

There is common interest between myself, the Legislature, and the Mayor in these matters. We have common need in asking Federal assistance. We renew our request for the long-term guarantees necessary to a full solution to the City's problems, and for continuation of seasonal borrowing authority.

We turn to the Federal government to help us provide the security required to ensure that the City's borrowing needs will be met. The Chairman of MAC, who is with me today, can provide further details, but I can assure the Committee that we want to limit the involvement of the Federal government as much as possible and to limit Federal risk as much as possible.

There is much lower risk in giving New York City full and timely help than in not helping us.

Thank you.
Appendix A

PROGRESS SINCE 1975

-- The City's Budget for Fiscal 1979 is in balance according to the terms of the Federal Seasonal Loan Act.

-- There are in place a financing vehicle—the Municipal Assistance Corporation (MAC)—and an oversight mechanism—the Emergency Financial Control Board (EFCA).

-- The municipal Labor force has been reduced by over 40,000 positions.

-- The City has installed a modern information system (IFIS).

-- The City is operating under Accounting System Directives prepared by the State Comptroller and its books are prepared under Generally Accepted Accounting Principles (GAAP), as modified by the State Comptroller for specific application to New York City.

-- The City's four-year financial plan proposes a cap on the property tax through Fiscal 1982 at $9.75 per $1.00 of assessed value.

-- The City has been able to eliminate or reduce certain taxes (examples include the rent transfer tax, the bond transfer tax, and the estate tax).

-- The erosion of the City's economic base has slowed noticeably and may be at a turn-around point, according to Herbert Steinwax of the Federal Bureau of Labor Statistics.

-- The City has demonstrated its ability to implement both cost-reduction and management-improvement programs.

-- The City has been able to reduce the ineligibility ratio for Public Assistance recipients from approximately 17.1% to 8.8%, based on the most recent data.

-- The City has met or exceeded the schedule set for it in the MAC legislation for phasing out expense items in the Capital Budget.
Appendix E

STATE ACTIONS TO HELP SAVE NEW YORK CITY

In order to help save New York City from fiscal default, the State of New York took extraordinary action in a number of significant areas:

1. The State used its access to credit markets during the period to finance over $1.3 billion of special advances to the City, without which the City would have been unable to pay its employees' salaries and its other obligations.

--- In its 1975-76 fiscal year, the State made the following special advances on behalf of the City:

* Welfare aid, $720 million
* Education aid, $177 million
* Miscellaneous, $23 million
* Loans, $750 million
* Motor fuel taxes, $15 million

--- In its 1976-77 fiscal year, the State undertook the following additional advances:

* General advances, $850 million; and
* Motor fuel taxes, $15 million.

--- In the current State fiscal year, the following additional advances were provided:

* General advances, $800 million
* Motor fuel taxes, $15 million

II. The State also provided additional aid, including reimbursement to New York City, for the costs of certain functions formerly performed by the City.

--- To assist the City University of New York, the State:

* Advanced $24 million in SFY 1976-77;
* Picked up an addition: 25% of senior college operating expenses ($34.3 million in SFY 77-78);
* Increased its Tuition Assistance Program (TAP) which provides approximately $42 million or one-third of the total tuition received by CUNY in SFY 78, and
* Proposed to increase its contribution to the
  City University Construction Fund from the
  present 50% level to 75% in CYF 1975. This
  would save the City an estimated $10 million
  annually.

-- To assist the City in mass transit, the State:

* Advanced the $53.5 million State operating
  assistance payment to the Transit Authority in
  CYF 1973-74 and 1974-75;

* Approved a development of portions of City
  parking funds;

* Provided a $4.4 million bridge loan from March
  1975 to March 1976; and

* Participated in the "beams" shuttle by absorbing
  48% of approved Transit Authority capital
  construction costs. Projects totaling $244.3
  million have been approved thus far.

-- To assist the City pay its court costs, the State
  assumed an extra $2.5 million in the current City fiscal year,
  and will pick up an estimated $1 million in CYF 1974-75.

-- The Executive Budget contains proposed modifications to
  the State's basic formula aid formula. As a result of these
  modifications, the City could receive an estimated $14 million in
  additional aid in CYF 1974-75.

-- In Social Services, the State instituted a broad cost
  containment program in both public assistance and Medicaid which
  the City included as a significant component of its financial plan.

-- In other areas:

* The State will share 50% of the loss of revenue
  from a phased reduction of the impact of the
  State Stock Transfer tax. When the program is
  complete the State's share could amount to as
  much as $120 million annually;

* The State has assumed the administration of the
  City's personal income tax saving the City an
  estimated $10 million;

* The State is passing approximately $34 million
  of its share of Federal Countercyclical revenue
  sharing funds through to local governments.
  During the current State fiscal year, the City
  will receive approximately $64 million of these
  monies;

* The State led a nationwide effort to obtain
  settlements for outstanding claims under the
  Federal TVA and WPA programs. Assuming timely
  Congressional action, the City may receive as
  much as $51 million in Federal reimbursement
  because of State efforts.
Beginning in July, 1978, the State will begin
prefunding 90% of Dental Hygiene claims. This
will result in a one-time cash payment of
approximately $28 million for old claims in
CY 1978 and lead to an improved cash flow
for the City thereafter;

The City cash flow position will also benefit
from the State's takeover of the Medicaid claims
processing function in CY 1979. The takeover is
made possible by the State's new Medicaid
Management Information System; and

Legislation is pending to permit the use of
certain information related to employers' wages.
This data will be cross-checked against Social
Security numbers of welfare applicants and
recipients. The City estimates such action
will produce a savings of $2 million initially
in city funds during CY 1978 and as much as
$4 million annually thereafter.
Chairman Moorhead. Thank you, Governor, for a very eloquent statement. The City is fortunate to have an advocate like you at its side.

Governor, I notice attached to your statement are certain appendices. Without objection, they will be made a part of the record. The subcommittee would now like to hear from Mr. Felix Rohatyn, chairman of the Municipal Assistance Corp.

STATEMENT OF FELIX G. ROHATYN, CHAIRMAN, MUNICIPAL ASSISTANCE CORPORATION

Mr. Rohatyn. This is essentially by way of an addendum to the testimony that I was privileged to give this committee about 2 weeks ago.

I join the Governor in supporting the basic approach of the proposal made by the Secretary of the Treasury. The keystone of that proposal is the availability of $2 billion in Federal guarantees for New York City's long-term financing. That keystone, when firmly in place, will support a broad arch of State and City efforts which should serve as a bridge to self-sufficiency.

Secretary Blumenthal was careful to leave open for negotiation and the legislative process the details of the way the guarantees would work, as well as other aspects of his plan.

For example, the administration's present view is that the City can do its own seasonal financing, and that the total amount of borrowing can be reduced from the level outlined in the City's 4-year financial plan. However, the Secretary indicated he was open to further evidence on these and other points, and we will continue to have conversations with him and the other parties to develop specific legislative and financing proposals.

I would like to mention a number of the areas which will form the substance of these conversations.

First, the total amount of the financing plan. The difference between the $4.5 billion recommended by the Secretary and the $5.1 billion contained in the City plan may seem moot, since the principal issue at stake is the amount and the workings of the Federal guarantee. With a $2-billion Federal guarantee, the City should be able to finance the remainder of its long-term needs, whatever the total may be. Obviously, the precise amount of the City's financing needs over 4 years cannot be calculated now.

The City may not be able to spend the full amount it has included in its capital program and it may generate other sources of cash to reduce its need for the State advance. However, it is desirable to have available substantially the full amount called for in the City's plan, to insure before the first dollar is asked or ventured that the entire program can be completed.

For example, it is important to know from the beginning that the $900 million State advance can be bonded out or otherwise eliminated, since this will substantially reduce the City's need for seasonal loans and make seasonal self-sufficiency a real possibility.

I mention this point first since it emphasizes the interdependence of the entire financing plan. Without adequate long-term assistance,
the City cannot do its own seasonal financing. Without seasonal financing, no long-term lender could prudently invest in City bonds.

Second, as I indicated, the only chance at self-sufficiency for seasonal financing is a substantial reduction in the seasonal needs, probably down to $1 billion or less. This can be accomplished by bonding out the State advance and by other actions which the City can take.

Once the amount of borrowing is reduced, the City can approach the market with City notes, and we also are working on a plan for MAC notes. However, the City cannot rely totally on the market next year, or, perhaps, for several years. Accordingly, to be safe, we need precommitments of between $750 million and $1 billion from local banks and State and City pension funds. Since these will be the same parties essentially, we will have to ask for long-term commitments; we cannot be sure they will be willing or able to participate in seasonal financing in the amounts we feel safe.

Therefore, we believe at this point that the City needs a standby Federal commitment for seasonal financing. I use the word "standby" in this case deliberately: To the extent the City can secure seasonal financing from other sources, it will not draw on the Federal facility, and it is possible the Federal backup will never be used. This standby procedure is possible in the case of seasonal financing because the City's seasonal needs can be reduced to manageable proportions.

This brings me logically to the third point, which is that a standby for seasonal financing should be coupled with a firm commitment for long-term assistance. While the City's need for seasonal financing can be reduced to an amount the City may be able to manage, the needs for long-term financing over the next 4 years are so large and the available lenders so few that the City must know in my judgment from the beginning when and how it will use the Federal guarantees.

As I mentioned, we believe the City's long-term needs are close to $5 billion. Even with $2 billion in guaranteed loans firmly in place, the remaining $3 billion is still a big push, especially if the City is also expected to do its own seasonal financing.

We believe the City can and should obtain advance commitments from City and State pension funds to purchase $2 billion of guaranteed bonds on a firm schedule, roughly equal amounts over 4 years. The balance, which will be made up of unguaranteed MAC bonds and unguaranteed City bonds, will require a minimum commitment of $1 billion from the banks, savings banks, insurance companies, and possibly City pension funds, leaving $2 billion to be done in the public market over 4 years.

With guaranteed investments made early, and with a new financial monitor in place, we believe this kind of market access is possible. We would plan to sell about $1.25 to $1.5 billion of MAC bonds and from $500 to $750 million of City bonds.

Again, with the remainder of the plan firmly in place, I believe we will be able to market these bonds—about $400 to $600 million each year—without unreasonable strain and with increasing market access for the City's own bonds.

This steady pace in the market, with the gradual and carefully timed reentry of the City itself, is a key element of the plan.
To maintain this steady pace, however, we must be able to count on
the firm, scheduled use of the Federal guarantees in specified amounts
at specified times.

Other issues concerning the guarantees are to be worked out. For
example, we are open to discussion concerning the creation of a capital
reserve fund or the use of revenue sharing as a form of security.
However, we ask you to be mindful of limiting the credit risk to the
State, so as not to impair the State's own ability to raise between
$3 and $4 billion each year in seasonal financing as well as $2 billion
in long-term requirements for the State and its agencies.

Finally, I want to mention some of the other issues which remain
to be resolved, to indicate how complicated this program is, and how
much remains to be worked out. For example, both guaranteed and
un guaranteed City bonds will require an extension of the Emergency
Financial Control Board or the creation of some other institution
with similar composition and function.

In addition, City bonds will require the development and enactment
of a new series of financial conditions, such as limitations on
short-term debt, the build up of a reserve fund, and a number of
other protections to assure the purchaser that once the City budget is
in true balance it will stay in balance for the life of the bond. All of
these matters, including creation of the financial monitor, should be
completed before the first guaranteed bonds are sold.

The new fiscal monitor and other terms of a new City bond will
require State legislation. State legislation also is required to increase
MAC's borrowing authority and permit its bond proceeds to be used
for the purposes contemplated in the City's plan.

Also we will have to determine whether the Federal guarantee
will attach directly to a City bond or whether it will be administered
through MAC or some other State agency created for this purpose.
There are legal and financial advantages and disadvantages to each
of these alternatives; our current thinking favors the use of a new
kind of MAC bond or perhaps a new State agency.

The number and complexity of these issues indicate how much
remains to be done. The President's support of long-term guarantees
gets us off to a good start, but the rest of the way may be the most
difficult. I know the process of negotiation and legislation tends to
pare things down, to reduce the cost and exposure of the parties that
have the most leverage.

There will be a strong temptation to make optimistic assumptions
to limit the Federal involvement, and to maximize the demands on
the City and its local institutions. But I want to close by emphasizing
something I have said to this subcommittee before, that it is as impor-
tant to the lender as it is to the borrower that the loan be big enough
and long enough to do the job. When it is finished, this plan should
have some margin in it, some room for error that may not be needed,
but that will not make failure the price of miscalculation.

One other matter which is not a part of the financing program but
which is obviously related to it is the current negotiation with the
City's unions for new contracts. MAC will review the outcome of
these negotiations as a part of its continuing review of the City's
budget, but is not otherwise directly involved. Still, the form of the
new fiscal monitor will influence the outcome of the contract talks, and the outcome of the negotiations will influence the City's ability to finance itself. I am convinced that a major strike will be harmful to the City's ability to obtain financing, harmful to management and labor, and harmful, most of all, to the City itself.

To avoid a strike will take real statesmanship on both sides, which means an absence of rhetoric and a willingness to accept facts as they are. One fact is that labor should receive some increase. Another fact is that no increase can be allowed to impair the City's ability to balance its budget and deliver service, and that probably means the cost of a new contract will have to be offset by give-backs, real productivity improvements, and personnel reductions. These are not easy facts for many to accept, but they must be accepted if we are to continue the kind of labor-management cooperation which has brought the City this far through its period of crisis.

Thank you, Mr. Chairman.

Chairman Moorhead, Thank you, Mr. Rohatyn.

The subcommittee will now proceed under the 5-minute rule.

Governor, it appears to me as I see this situation, we are getting closer and closer together, that is, between the governmental parties—the State, the City, the Treasury Department—and what I perceive to be the congressional contingent. In other words, the long-term guarantees, as you said, were the cornerstone. We seem to be in agreement there.

Mayor Koch yesterday indicated that he was dissatisfied with the 15-year period and urged us to have a 20-year period, which is more than the Secretary of the Treasury has indicated he would give.

In your testimony, you refer to 15 years. I am sure you would rather have 20 years, but I take it you think the State and City can live with 15 years; is that correct?

Governor Carey. I am mindful of the Secretary's reference that the guarantees would be periods up to 15 years. Obviously, the longer the length of the guarantee, the longer the length of the stretch, and the easier it will be on the cost of debt service over that period. I can well understand the mayor's desire to have a longer period because one of the key impediments to full recovery and economic improvement in the City is the cost of debt service. There is no disagreement there. But I am bound by what the Secretary recommended. The mayor, on the other hand, is duty bound to ask for longer term if he can secure one.

Mr. Rohatyn. If I might add, Mr. Chairman, obviously 20 years is better than 15 years. I think we can live with 15 years. I think 10 years would be a real problem. I think that when you look at the length of the Federal guarantees, you have to also bear in mind the Comptroller's position, that he would only guarantee investment in paper that is guaranteed by the Federal Government.

We have numbers of 15 and 20 years, and 15 years begins to impose a strain but I think it is a livable proposition. If we have to go down to 10 years, I don't think we can do it.

Then the alternative is losing the cooperation of Comptroller Levitt, and when we lose cooperation of Levitt, I think the whole plan begins to fall.
Chairman Moorhead. The second point on which we have not reached total agreement is on the matter of seasonal loans. As you know, it was not in the other regional Treasury plan; however, in answer to a question the Secretary of the Treasury said he would not object if the seasonal loan were in effect taken out of the $2 billion but only to the extent that it was not repaid. I asked the mayor about that, and I understood him to say he could live with that. Would you agree on that?

Governor Carey. It is a matter of degree. The man who is putting together the mosaic that gives us the eventual plan is Mr. Rohatyn, and in terms of how much shorter term need there might be within the $2 billion compass, is one of gradation and from one degree to another as we move into the financing plan.

Mr. Rohatyn. Mr. Chairman, the MAC gave a plan to the Governor in November and December, which I will be happy to give to the subcommittee, which in effect had a package of seasonal loans and long-term guarantees where we phased the seasonal loan down as we phased the long-term financing in. I think that kind of a structure would be perfectly livable. That if you had a total of, say, $2 billion, we were using $2.25 billion, but if you had $2 billion of total credit that is available, and if you could never use more, but you could change the mix, especially in the early years, so if in the first year you were using $500 million of guaranteed loans, you would have maybe $1 billion of guaranteed credit available to use. In the second year you used another $500 million of guaranteed long-term loans and were up to $1 billion total, the seasonal would come down to $1 billion, and so on. At the end of the 4 years, we were up to $2 billion or $2.25 billion of long term and down to zero seasonal. As far as I am concerned, that would be a perfectly livable proposition.

Chairman Moorhead. Mr. Rohatyn, yesterday the president of the City Council, Carol Bellamy, said MAC was now closed out of the market. Is that your understanding?

Mr. Rohatyn. No; I did not know that was her understanding. One lives and learns.

Our market is a public market. We have large numbers of bonds trading every day. We have a number of bond issues outstanding. Some of them are trading above 100, some of them are trading between 90 and 100 cents on the dollar, depending on their interest rates. We had a difficult market issue, as I testified to this subcommittee. We sold $250 million of MAC bonds in December, and we were impacted at that time very negatively by the Senate hearings and the letters that Senator Proxmire and Senator Brooke sent to the President. It hurt our markets. Thanks partly to the attitude of this subcommittee our market has recovered. Not as satisfactorily as I would like to see it, but it has recovered.

I would say to you, Mr. Chairman, we have a market. We have $5 billion of bonds out there. I would not choose to go to the market with a MAC bond issue at this point because I do not know what I could disclose to the prospective bondholders as to what the situation might be post June 30. That is a different issue. We could write a 500-page prospectus and still not be able to adequately disclose what the situation was because I do not know what it is.
So from that point of view, I do not think we can go or should go
to the market until this situation is resolved. But we have investment
credit ratings from Standard and Poor and Moody's after a certain
amount of struggling and I would certainly dispute Ms. Bellamy
that MAC does not have a market.

Chairman Moorhead. My time has expired. Mr. McKinney.

Mr. McKinney. I was going to explore that subject a little further.
The word I had from the street was that that issue was a turkey,
the word commonly used. It was very tough to get rid of it, and it is
down to what, 84, 85?

Mr. Rohatyn. Something like that.

Mr. McKinney. How long can you stay out of the market?

Mr. Rohatyn. The issue was an issue on which a lot of underwrit-
ers lost money. On the other hand, we have had issues on which the
underwriters made a lot of money. So do not really waste a lot of
time feeling very sorry for them. I am in that business. That is life.
We do not need to be in the market until next fiscal year. We would
have liked to have been in the market to a greater extent this year
to refinance some of these high coupon bonds that we still have out-
standing. But I do not foresee that we will do that. That is why we
have included—we have actually included another $500 million of
refinancing that we would have liked to have done this year in the
4-year financing plan because we do not really foresee going to the
market before June 90.

Mr. McKinney. Governor, it is very nice to see you here again,
and I would commend you on the job you have done. Since the State
has a smaller budget than the City in many ways and with the State
constitution of New York directly prohibiting the loans to any city
in the State, if any part of the plan fell apart that the Secretary
has come forth with, what could the State do for the City with that
stipulation?

Governor Carey. The State has within the limits of its powers put
together a package for this year. Since it press up budget balancing
moneys, the total around $200 million, versatile funds we might call
it, but that is our planned commitment for this year. We had to—we
would have had to scratch very hard to find any more money and it
would only be modest sums. Any advance that we make must be
repaid within the year, or it would be carried as a deficit in our State
budget and we are not allowed to carry a deficit in the State budget.

Mr. McKinney. You have coincidentally used a figure of $5.1 bil-
lion in the plan and the Secretary has come out with a $4.5 billion
figure; where is the difference? I mean it is a lot of millions we are
talking about.

Governor Carey. It depends upon where you bond out $400 million
of the State advance to relieve the City and State of that amount of
note expense, and then there is a separate opinion or separate opin-
ions on the extent of the capital expenditures in the City's 4-year
financial plan that should be made over the period of time. It is a
matter of judgment. The City is well aware, and this is something
we have to watch and keep in mind, and that is that the City has a
deteriorating physical plant, bridges, important communications works are corroding and reaching the danger point, as far as major repairs are concerned. A great deal of work has to be done because the City has been very severely impacted on record-breaking storms that occurred in the City. Buildings and structures that are necessary for health and schools and preparation programs are in need of major modification. All these things are part of the capital programs that the City should be attending as a matter of maintenance, but in the 4-year financial plan there is a commitment of about $1.0 billion, I believe, of capital expenditures.

Mr. Rohatyn. There is another—I mentioned this, half a billion dollars of MAC refinancing that we thought we might do. We were scheduling a total of three-quarters of a billion dollars, and after the last sale of $250 million for the reasons that you mentioned, we decided we just were not going to do any more financing this year. But we did put it in the 4-year financial plan because if we do not refinance the $300 million, at the rates we thought we could do, we are adding maybe another $100 million to the City’s deficit or not reducing it by that amount by keeping those 10¼-percent and 10½-percent short bonds outstanding. Obviously, if you argue bankruptcy, it is not a question of life and death as to whether we finance those. We believe it is very important that we do that, but, again, that is a matter of judgment as to whether you include that or not. We have included it and they may feel it is less important than we do.

Governor Carey. If I may, I used to be in the private sector and once in a while you would run into a marginal account which was a good account but ran into a setback of some kind in the marketing of its product or ran into credit difficulty because the capital necessary to expand its product line was insufficient for the demand. Well, you tended to look at the outlook and say what is best for this company, do we pull credit on it and make it collapse and lose a good customer and at the same time write off the loss or do we allow the company to expand, make it a good solvent strong customer and improve our marketing. That is the decision here. If you want to cut the City back to a point where it is close to skin and bone and cannot resume its run toward full conditioning, that is why the restructuring of the debt is important to allow the City to have enough leeway to move itself forward and against deterioration of its physical plant and allow it to free up money for needed services. If the difference was half a billion dollars on a loan commitment on the books anyway, that would give you a more healthy vigorous city. I would put that into my financial planning. That is what I am talking about.

Mr. McKinney. The last time we discussed this subject, we wrote a bill which would have made aid available for any city in the country and made Mayor Tom Bradley of Los Angeles make the comment.

Well, New York City may want it, but I would sooner see Los Angeles sink into the ocean before I ever accepted those control terms.

Do you think we should write a bill only for New York or one available under those stringent controls for any city?

Governor Carey. Well, Malibu seems to be doing all right on its own as far as sinking is concerned.
I think it is a realistic matter, Congressman McKinney, the way we are talking about the configuration of aid to New York City, to be in a position of a Control Board by the State and safeguards that have to be in place, requirements that are laid down upon the City to qualify for the loan, those requirements are so stringent that I do not see other municipalities beating a path to the Federal door if they have to wear the shirt that we have been wearing for the last 3 years.

Mr. McKinney. Thank you very much.

Chairman Moorhead. Mr. Lundine.

Mr. Lundine. Governor, on page 4 of your testimony, you make a statement about bringing the size and cost of Government under control. Some may regard that as a boastful one. I want to start by saying I think you have done an absolutely remarkable job of restructuring the finances of the State.

It is my understanding that as a part of that total restructuring of the State's finances, and revitalizing of the State's economy, you proposed a tax cut in the coming fiscal year.

I further understand that Senator Proxmire and others have criticized the State and the City for asking the Federal Government for some sort of guarantee or credit at the same time you are making that proposal.

I would like to hear you comment on the issue of the State tax cut and how that bears upon matters before this subcommittee.

Governor Carr. First of all, the tax reduction program of the State is one that is vital to the recovery of the economy of the State. As the former mayor of Jamestown and author of the Jamestown plan to attract industry, you put in place incentives and various ways in which you attracted industry and changed the unemployment pictures drastically to begin in your county and in the city of Jamestown a return to a sense of expectation and betterment for the people of that area.

And that plan has frankly been the inspiration for many localities and is the basis for economic planning in the State. If you look carefully at the complexities of the taxes we are talking about, let me point out that fully a third of those taxes were laid on almost at the direction and mandate of the Federal Government to close a budget gap which was in the State and to put it in the words of the administration, before the State and City could qualify for aid, they said you must fulfill your constitutional obligation with regard to your own budget, close the gap in your own budget. Federal accounting and review said there was a gap. We laid on some taxes that were temporary in nature. They are due to expire. They were laid on businesses. They were retroactive surcharges and made it very hard on business firms. And they would have the tendency, if they were not removed, to curtail employment.

You look at the balance of the tax package, and they are the kind of remediation which confines the State tax to conform to the Federal, by saying the exemption, for instance, and moving it in two steps to $700 and $750 over 2 years, so it is not an immediate cash reduction shown by the State of the levies that are imposed. It brings the State into consistency with the Federal programs of tax reduction that have been enacted by the Congress. Again, it is over a 2-year period.
Insofar as the reduction of personal income tax is concerned, here, again, that is a fiscal dividend that has been urged by the people of the State because we cut back on immediate expenditures, we carefully controlled the cost of welfare, and as a result we are able to project a budget surplus on a one-time basis thus far of $360 million.

That money is used in two ways. That plus outgrowth that we apprehended of 7.8 percent partially is directed to tax reduction in a modest amount of $215 million for individual income tax reduction in the form of a 5-percent rebate to all taxpayers at no less than $10 to no more than $100 in the year that will begin July 1.

But as far as the overall tax reduction proposal is concerned, it is a signal and a symbol that when we save money we want to create a fiscal dividend and return to the taxpayers. We will remain, even after this tax program is enacted, and assuming it is enacted, the highest State and local system of tax breaks in the country.

So we are trying to claw our way back to a foothold in the economy and not to have an economic program based upon some form of tax reduction, which would be deadly to the City and State.

It is part of the plan of recovery that we considered this matter of tax reduction.

Insofar as the moneys are concerned, we again point out this has not been noted nor has it received the same degree of comments as has the planned 2-year stretch tax reduction. The budget is constructed in such fashion that we are providing an amount roughly equal to the tax reduction to the localities of our State, to enable those localities, including New York City, to balance their budgets and keep local taxes from going any higher.

In other words, the local-aid side of the budget is roughly equal, $880 or $700 million that go to localities to enable them to meet their needs without increasing local taxes.

Those who are not familiar with the construction of the New York State budget fail to recognize that over 60 percent of all the moneys in the State go to the localities in the form of school aid, in the form of direct local aid as a percentage of the personal income tax, so, in effect, as far as the State's own needs are concerned, for corrections, for transportation, for hygiene, we are limited to just about 20 percent of the total intake of taxation and revenue that we have in the case.

Nevertheless, by careful management of those programs we have produced enough of a dividend to have a modest tax cut in order to relieve the onerous condition that must be relieved if New York State is to have a viable economy.

Chairman Moynihan, Mr. Stanton.

Mr. Stanton. Thank you, Mr. Chairman.

Gentlemen, welcome back.

I started out in the last couple of sessions and, now Governor Carey, I will ask you for the final time. As we look back from the last 2½ years in Federal aid to New York City, the only plan that Congress could pass was the plan for seasonal financial adjustment, wouldn't you agree with that? Politically, when the votes were down, we only passed that by ten. That was the only plan that would pass.
Where do you put the priorities of these items?
Governor Carey. They are all necessary. Let me point out, the
convention center under any plan that I have seen would be financed
in such a way that it would not impact the City’s budget on a capital
basis.

The minority leader of the State senate, Senator Ohrenstein, who
has much of the potential convention center sitting in his district, has
demonstrated some revenue that could come from some applications
that would provide the kind of revenue that would be necessary to
site preparation, acquisition, and fund out a convention center which
would then be operating under quasi-public corporation, something of
that kind.

As a needed attraction to support the economy of the City.
But it would not be a direct burden on the City. It would be an
economic benefit. So much for the convention center.

Insofar as industrial parks are concerned, we are working with the
Bistate Port of New York Authority, which has bonding capacity,
which could help us identify usable sites in the City, South Bronx,
Brooklyn waterfront, that are currently in decay and obsolescence
that need to be brought back to life.

These are aids that would support and undergird the job situation
in the City and allow us to recover economically. But none of this,
none of this, is part of the financial package that we are addressing
where the Federal Government is concerned.

In other words, we are looking to every resource that can help the
City. Self-help, help from the Port Authority, imaginative programs.
The State is participating in a mortgage guarantee plan and a neigh-
borhood preservation plan to try to bring neighborhoods back to life
and restore residency and provide jobs.

We are doing all these things outside the parameters of the kinds
of aids we are talking about here on a financial basis basically for
the restructuring.

Mr. Barnard. These decisions would have to be approved by the
Board?
Governor Carey. Any borrowing, any contract at this time, any
commitment of City funds, must be approved by the Emergency
Financial Control Board.

That means literally hundreds of matters come before that Board
and its staff for evaluation, commission, before the City can be com-
mited in any degree.

Chairman Moorhead. Mr. Kelly.

Mr. Kelly. Governor, I think you mentioned something you
wanted more than just survival for the people of New York. Am I
correct in that?

Governor Carey. I sure hope for that.

Mr. Kelly. And this carries on a theme that was announced in
Mayor Koch’s introductory letters to his final plan, where he said
“I have a further responsibility, however, to find solutions which go
beyond mere survival.”

Now, you join with him because you want this for the people of
New York, but on December 7, 1975, after you knew what the package
was going to be, you were on public television on a program called
"Meet the Press," you seemed to have a somewhat more Spartan
attitude. You said, "we have had to make tough and severe decisions
that will mean that enduring in New York City for some time to
come will call out the best that is in us."

When you wanted something, you were fairly Spartan. Now that
you have it, and you feel the precedent has been established, it seems
as though you have not only set your goals a little bit higher for what
you want to get, but also for what you expect from the people
of New York. In other words, they are going to start faring a little
bit better now that we have got the pipelines to the Federal Treasury
straightened out.

And in this same appearance, you said, and this was when you
knew what the package would be, "We will never need a bailout
again, and we won't come back for help. We are going to make it."

You didn't say "I promise you," but you did say the rest of it.

Now, you are back. And the suggestion has been that you have
performed miracles in New York. I don't share in that endorsement
because I find that the city of New York is an institution of your
State, and you are the chief executive officer of that State. Your city
is bankrupt. I don't think that is good. I think that is bad. I think
it is a miracle that you can bankrupt the richest city in America.

This morning, you mentioned that the capital plant needed to
protect the health and the children of New York, needed some
emphasis, but instead, you are favoring the labor unions in New York.
While your health and child apparently are in jeopardy, your labor
unions are not, because you have the highest paid labor people in the
United States of America.

Now, you also have the highest welfare payments in America. You
also have rent control that is grossly contributing to the bankruptcy
of your town, and your own treasury commission recommended it
be abolished, and there can't be a good word said for any of that.

Let us, you and me, talk about what the real tough decisions that
have to be made are, not borrow more money to plaster over what
has been going on in New York. Let us find some real solutions for it.

Are you prepared now to say that you will support New York
City and endorse a 10- to 20-percent wage cut, not fire a bunch of
people and then wind up spending as much money for what is left
as you did for what was there before? To get a straight wage cut so
that the cost of labor in New York City will get down to where the
rest of the people live and to reduce welfare payments and abolish
rent control?

Are you permitted to say that you will lend your support to the
city of New York as the chief executive officer of New York to get
that done? Will you do that now? Because these are the hard
decisions.

These other decisions that you have been talking about are just
mishmashing with the money to plaster over the issues.

What you need to do is reduce expenditures. There is no reason
in the world that while your child and health are in jeopardy, you
should be having more than 50-day annual vacations and that you
should be working a 35-hour week.
Come down with the rest of us and let us struggle together. Don't come here begging in the name of the people of New York. Because it is an affront to them.

As a person who loves New York and respects all that it stands for, I am embarrassed by the whole affair. Absolutely embarrassed by it. It is the richest city in the United States, and for its leaders to come begging for help is just an incredible thing.

Now, will you lend your aid to try and accomplish these real reforms that are necessary to try and straighten out the finances of New York?

There are three things.

Governor Carey. Congressman Kelly, since you began with a promise and a recital, let me address you that and let me tell you that everything that I said in 1975, I would reiterate. You know as well as I do as a student of what has gone on over the past 3 years, the part of the plan which was legislated in 1973, was heavily dependent on a moratorium that covered $2.8 billion of City notes that were not to be paid, but that was set aside by the highest court in our State.

We, therefore, had to undertake strenuous and emergency measures to meet those note holders' requirements. And that was done through a system of refinancing.

Had we had that $2.8 billion stretch, that would make a considerable difference in what we are asking for today. That is one of the matters that, frankly, intersected our planning, and we had to compensate for.

In regard to being a Spartan and having a sense of endurance in New York City, that has been true. And I appreciate your compassion and sympathy for the children and the needy and elderly in New York City, the ones who really are bearing the brunt of sacrifice; we can only help those people if we have trained, professional, paraprofessional people who are in public services and social services who are able to cope with their condition.

I am sure you know from your careful study of the figures that the unemployment rates among teenagers, minorities, women, in the City isn't 10.3 percent, it is as high as 40 percent. Those are onerous conditions on which we have to grapple in New York City. Yes; it takes a Spartan kind of commitment and determination to try to look at a situation in New York City and alleviate its severity.

Now, how is it done?

Well, you know, and I am sure you recognize, there were 60,000 employees separated from the City payroll.

Mr. Kelly. Yes, but you only reduced the payroll 1 percent.

Governor Carey. Yes, because on the City payroll are CETA workers that you provided in order to carry forth a national program.

Mr. Kelly. Governor, I didn't.

Governor Carey. They are there. Will you suggest that if CETA workers were provided to help those children and help those programs that we not avail ourselves of that program?

Mr. Kelly. I would rather have given the children money.

Governor Carey. We don't give children money. We try to educate them. That is of more value, beyond money.
Mr. Kelly. Teachers' salaries don't lag behind.
Governor Carey. We can argue that.
Mr. Kelly. Most of the cost of living in New York is taxes. If you cut the taxes, you would cut the cost of living.
Governor Carey. You do approve of that part of my program to reduce personal income.
Mr. Kelly. Yes, but not at my expense. You do anything you want to but just don't send the rest of us the bill.
Governor Carey. The only time you get the bill is when New York gets bankrupt and you have to take up the cost of essential services. Then you will pay the bill.
Mr. Kelly. Let me mention one thing to you, because I know my time has expired.
I want you to have an opportunity to comment. In your testimony in 1975, you said we asked for Federal help only because the maximum available State and City resources were sufficient to do the job, and we asked for the minimum amount of help we think we need to do the job right.
Guarantees and authority for short-term loans have no impact on the Federal budget, and, thus, no impact on the taxes of your constituents.
Governor Carey. You will make money.
Mr. Kelly. Sure. Governor, if you think that we are dumb enough to believe that nonsense, then you can recognize that we are dumb enough to believe that your books in New York are balanced. Because it is the same nonsense that got you in bankruptcy in New York.
Governor Carey. New York State is not in bankruptcy.
Mr. Kelly. There may be 504 people on this Hill that can't see through this. But the American public and I, we can see through it.
Now, when you start loaning money to somebody that is bankrupt on the theory that it doesn't cost you anything, just get out in the broad daylight and try it sometime.
Governor Carey. Congressman Kelly, I don't want you to lend money to a bankrupt. I would be the last one to suggest that. That would be most unwise. Since you are so well aware of the figures, you must be totally aware that every advance made by the Federal Government under the seasonal loan program was paid not only timely but in some cases, ahead of time. We paid the interest, and the Secretary of the Treasury, and I am sure you believe him, said the total money that you have earned for the Federal Government on that program by the end of this fiscal year will be $40 million.
Mr. Kelly. And everything that was required was done and you are even balancing the books.
Governor Carey. Correct.
Mr. Kelly. Weight is a funny balancing job when it got done.
Governor Carey. Well----
Mr. Kelly. It wasn't----
Governor Carey. Quoting the Secretary of Treasury, "The books of New York City now are among the most exemplary in New York City, and they are balanced according to generally accepted accounting principles."
You are welcome to come and see how the books are balanced, and the Arthur Andersen Co., retained by the Treasury Department, has been combing all over the books of the State government in Albany. Now, all of the things you say are pertinent and certainly tenable, but the time frame is wrong.

We needed you around back in the years 1969 to 1973, when we did get into this business of making major Federal loan commitments, and floating paper under something called the moral obligations system and far extending the State and City resources in terms of wage settlements, fringe benefits, and all of those things, on the theory that New York had a very wealthy economy and rich economy.

Mr. Kelly. Just last fall, Moody said you couldn't rely on the financial reporting systems that came from New York's bookkeeping, and I didn't say that. It is Moody's. You have more control——

Governor Carey. You are talking about the Moody's appraisal of the $275 million?

Mr. Kelly. I am talking about when you couldn't float that last attempt to market some bonds.

Governor Carey. Notes.

Mr. Kelly. Notes. They said the financial reporting was defective, and this depends upon your books, because every time they got a report, it was different from New York.

Governor Carey. I think Moody said the last of certainty of the situation in the City was such that they couldn't, under the present circumstances, give a good grade to notes. Even though the State had acted to sequester the actual moneys to identify funds for repayment of those notes.

Mr. Kelly. And they didn't complain about the financial reporting?

Governor Carey. Oh, the financial reporting system, obviously, needed improvement. That has been worked on for a matter of 3 years. It is now in place.

Mr. Kelly. I am talking about it last fall.

Governor Carey. It is called the Isma system.

Mr. Kelly. If you believe this, you are going to miss the boat.

Governor Carey. If you fail to recognize what has been done in New York City, and insist on seeing it through the opaque scope of years ago, then really you are not in tune with the City today. I suggest that you come and see what has been done. I do recognize there are some major systems that have been undertaken. We welcome any reasonable recommendation you have for improvement of that City and the new mayor and leadership of the City have undertaken very great restraints.

Chairman Moorhead. The time of the gentleman has long since expired.

Mr. Kelly. I wonder if the Governor would answer the three questions that I asked in writing?

Governor Carey. You mean roll back the compensation of employees by 10 percent in terms of real dollars? I think you might find more than that has been done.

Do you know any other locality in the country that has been operating under a wage freeze for 3 years?
Mr. Kelly. While they were getting a pay raise?
Governor Carey. They didn’t get the pay raise.
Chairman Moorhead. Mr. LaFalce.
Mr. LaFalce. Thank you, Mr. Chairman, yesterday, Mayor Koch
came before us and said there is an entirely new attitude in New
York City. Not only on the part of the government officials, but on
the part of the people. I am thinking back to 1973. I introduced a
bill, when I was representing upstate New York, mandating tuition
at CCNY. I was perceived as a Hun by my friends in New York
City. I think for sure the attitude has changed, and they realize it
is necessary to take steps such as that which in fact they have done.
For Mr. Kelly’s benefit, and for those others of similar perspec
tive, it is important to note that when you took office you faced a
deficit of $800 million in 1975. $800 million difference between a
balanced and unbalanced budget insofar as the State of New York
is concerned.
You have now brought us to the point where we are able to
contemplate a tax reduction of almost similar magnitude.
In order to avoid the type of situation where industries such as
Houdaille Industries in my congressional district, because of New
York State incomes taxes, flee New York and go to the State of
Florida, and it is precisely in order to keep industry in New York
State that you are contemplating the absolutely necessary tax
reductions.
I know people from Florida would like you to refuse to reduce
taxes, so they would be able to gain the benefit of the fleeing industry,
but it is necessary to stop that flight and keep industry here. It is
necessary, therefore, to reduce those taxes.
It is also necessary for the record to point out that what was
comprehended in your “Meet the Press” statement, which I remember
fairly vividly, as I recall your statement, Governor, you said it would
not be because of any failure on the part of New York State or of
New York City that you would be back here in 1978.
And I find in the testimony of Secretary Blumenthal in analyzing
the actions of New York City and New York State, that he has
said the City and the State have lived up to every condition explicit or
implicit comprehended within the terms of seasonal loan agreement.
So you are fully consistent now with your testimony and statement at
Meet the Press.
It has not been a failure on the part of New York State or New
York City which has brought you to the table today.
What has brought you to the table today, as you pointed out, and
which needs underscoreing, is the fact that there was comprehended
within the terms of the seasonal loan agreement, against your wishes
and against our wishes, a State-imposed moratorium of the then
existing debt of $1.8 billion, which, as you suggested then, would
be declared unconstitutional, and was declared unconstitutional, which
meant that those terms could not be fulfilled, not because of any
action on your part, but because of the requirements of the New York
State and Federal constitutions.
Also comprehended within the terms of that seasonal loan agree
ment was the existence of a State advance of $800 million to the
City in order to achieve not a genuinely balanced budget, but a legally balanced budget. That budget is still legally balanced. That budget still, because of that $800 million advance, comprehended and called for within the terms of the seasonal loan agreement, is not genuinely balanced.

It is the failure to reach that genuinely balanced budget, as comprehended and intended by the terms of the seasonal loan agreement, that has meant the inability of the State or the City to go to the financial markets such as they did in November.

That is not by way of question, but I think it is necessary to underscore those points so that all concerned realize why it is you are here today.

Having said that, Mr. Rohatyn, Secretary Blumenthal wants to help, and he says he wants a standby guarantee.

Now, today you have come before us, and said, "We have to have an official guarantee."

Well, I don't know that we could ever have a guarantee that is so firm in nature that we can say, "Here it is." We must enact legislation that would provide for a standby guarantee in order to provide the leverage for the other parties to do that which must be done, that is, by the State, the City, and especially the private financial institutions.

Now, I am not sure to what extent we can expect private financial institutions to take up both the excess of the long-term financing that is required, whether it be an additional $3 billion, and none of us really can say with too much precision what it would be, nor am I sure of the extent to which they will do that, plus provide the absolutely necessary seasonal financing, but I do know that it would be necessary to have a standby guarantee as opposed to a firm guarantee, to, in my judgment, provide the leverage to get them to do what they must do.

You seem to dispute that. I am curious.

Mr. Rohatyn. I think there is a question of semantics involved here which is an important question, which is, "What does one mean by standby guarantee?"

I don't argue against the necessity to withhold guarantees until the other pieces of the financing package have been put together, until we get commitments from the banks, from the pension systems, from the insurance companies, and so forth.

If you define "standby" purely from the point of view that the Secretary of Treasury will withhold the granting of those guarantees until he is satisfied that we have a workable package, I have no real problem with that.

I don't call that "standby."

Mr. LaFalce. That is my understanding of his definition.

Mr. Rohatyn. What I understand his "standby" to mean, and this is one of the things we will have to explore over the next 2 or 3 weeks, is that even his authority to bring the guarantees into effect, would only come into play after we have failed with a certain level of market access, namely, we can put a number of pieces of the package together, and then we go out and try to market MAC
bonds or City bonds, or whatever, and if that attempt is a failure, then the Treasury Department would come in and make up whatever we couldn't sell publicly through the guarantee route.

I say that that is something I can't live with. I am giving you a personal judgment. I don't want the market to think—say if in year 1, we put down a requirement for total financing, say, of $1.5 billion, because we want to fund out the State advance, I have to give the market an assurance that no more than a certain amount of MAC bonds, for instance, would be pushed down the market's throat, and I would like to obviously limit that to the greatest extent possible.

So, if we have our hypothetical $1.5 billion in the first year, obviously, we would probably go to the Treasury and say, "We would like to have $500 million of federally guaranteed bonds that the pension systems would commit to buy."

In addition, we will seek private placement commitments from the banks, and the insurance companies, for nonguaranteed MAC bonds.

We will take our chances on being able to sell another half billion MAC's in the market, because I have no problem with that. And I think it is perfectly fine for the Secretary to say, "We will only give you the guarantee on the $500 million when we see that you have the other commitments."

But I don't want to try to sell $1 billion worth of MAC bonds in the market, and only if I fail, will the guarantees come into play, because that almost assures failure.

Mr. LaFalce. I understand better now your comments. I do not think that that is something that we can address through legislative specifics.

Mr. Rohatyn. I don't think so either.

Mr. LaFalce. Because of the nature of the legislation, we must provide for first, conditionality; and second, discretion on the part of the Secretary of the Treasury to determine whether or not those preconditions have been met.

So, really, in your testimony today, I think you are calling not so much for the Congress to give you firm guarantees, we must give you the standby guarantees, you are calling for the Secretary of Treasury to give a firmer commitment as to what his intent is that he does intend to act so long as a package can be put together that would embrace both additional long-term financing and short-term seasonal financing through the private sector.

Mr. Rohatyn. That is absolutely correct, sir.

Mr. LaFalce. Thank you.

Chairman Moorehead. Mr. Caputo.

Mr. Caputo. Thank you, Mr. Chairman. I would like to pursue the comments at page 5 in your testimony about establishing that third resolution MAC or some other State agency to use the guarantees.

It seems to me the Federal Government has two primary objectives. First, to get its money back, which is understandable; and second, to allow the City to rush to the commercial credit market ending Federal Government involvement.
The guarantee of City bonds would create a problem. As I understand section 3486 of the Revised Statutes, there is a priority for any Federal claim in the event of insolvency, which would mean that the Federal Government would come first.

Now, that might intimidate future creditors. It certainly accomplishes the No. 1 objective of the Federal Government to get its money back in the event of insolvency.

It accomplishes that in spades. But it seems to me it may unduly jeopardize the second objective of letting the system ever get back into the commercial credit markets at least in a reasonable time frame.

I gather you are suggesting an alternative. That would be to either have a new resolution of MAC bonds, or an altogether new State agency which would be guaranteed; whose bonds would be guaranteed by the Federal Government instead of City bonds, and those bonds would be used to buy City indebtedness.

Presumably, there would be a debt reserve fund in this new agency, or if you can do for a third resolution of MAC bonds, though I am not quite sure how that would work out. Further, the City income tax or some other stream of revenue would be dedicated to the repayment of this new State agency’s issues or the third resolution.

I understand the income tax represents 2½ to 3 times the maximum annual amortization that would be necessary to insure repayment to the Federal Government, so that is pretty comfortable.

The Federal Government would be protected first, by the debt service reserve fund, and then by the City income tax, and since this would be a moral obligation agency, and MAC is already one of those, through that mechanism as well.

In my judgment, it would increase the marketability of future City debt because there is no prior claimant on all City assets in the event of an insolvency.

It does take out one City revenue which reduces, but I don’t think by as much, the attractiveness of future City issues.

Is that the kind of next step that we are contemplating and do you think that has to be written into the Federal statute?

Mr. ROHATYN. Well, Mr. Caputo, we are studying the legal aspects of this. We have a man in New York called Professor Wein, and Professor Wein, who teaches at Brooklyn College, but should be in Mozambique someplace, makes a career out of suing the City and State every time we do something new, and he has had a reasonable batting average at least in slowing us down.

The diversion of another revenue stream to underpin a new security would certainly bring Mr. Wein and, probably, 37 other Mr. Weins, onto the scene with litigation.

As I said, we are studying this issue. One of the reasons for my suggesting possibly a new State agency is because of that very point.

The other is also the way we fund the capital reserve. A new State agency might not require a capital reserve fund.

These are all open points. As I said, we are studying this issue. The City is studying this issue.
We haven’t reached any definitive conclusion. But the points you bring up are obviously the points that are at issue here.

Mr. CAPUTO. Are we going to have to put that in the statute?

Mr. ROHATYN. I can’t answer that yet because I am not a lawyer. I don’t think we are at the point—I think, at some point in the statute, you will have to put what kind of bond you are guaranteeing, and what is the underpinning of that bond.

Mr. CAPUTO. The Members of Congress will want to know what protects the Federal Government in the event of insolvency.

Mr. ROHATYN. I am not at the point where I can answer you.

Mr. CAPUTO. But we will be there in time to get it in the bill?

Mr. ROHATYN. Yes.

Mr. CAPUTO. You probably understand the Federal regulations of financial institutions better than most of us. As I understand it, the Proxmire thesis; with or without Federal guarantees, including without Federal guarantees, the City should be able to arrange seasonal financing through the banks.

Now, the banks. First National City Bank and Chase National Bank are regulated by the Comptroller of the Currency, and therefore, all the banks are subject to Federal requirements that banks only invest in investment-grade securities.

Now, the last City note issue was a MIG 4, Moody investment grade 4, which is the lowest permissible investment for either type of bank under Federal requirements.

Now, if the Federal Government will say, “Go get your seasonal financing,” and then turn around and say, “The notes are below what banks can buy according to Federal requirements,” doesn’t that seem to create a compelling case for standby authority for seasonal lending with the Treasury Secretary?

Mr. ROHATYN. Mr. Caputo, we agree with you on that point. We, as you know, have taken rather strong exception to Senator Proxmire’s report, since we don’t think it is in the real world.

Second, we do think standby authority is needed.

On the other hand, we don’t despair of the possibility of the City actually coming to the market with some notes if this whole program is in place. We have also been exploring the possibility of issuing MAC notes.

We are beginning to talk with Moody’s about what kind of credit rating we might obtain, and hopefully to have somewhat better than the City’s present C ratings which would qualify in terms.

Mr. CAPUTO. Has MAC ever issued notes before?

Mr. ROHATYN. No; we have not; but we are endlessly flexible, as you know.

Mr. CAPUTO. Let me ask one more last question, mostly to the Governor.

Mr. Blumenthal’s recommendation was predicated on some pretty extraneous assumptions, like no wage increases, no increased subsidies to the transit system, no increase to the hospitals by the City.

I would presume that means the State would have continuing obligations now, or newer obligations, and increased obligations to help the transit fare and the hospitals. Is that your view of what is contemplated by the Treasury Secretary?
Governor Carey. The question of wage negotiations. It has been said by the mayor that any of the current wage negotiations in the collective bargaining process can sustain wage increases only if the increases come from savings, productivities, or other such sources of revenue. That is the temper of the current negotiations.

Insofar as health and hospital corporations are concerned, here the mayor just replaced the chief executive officer. That agency, during the course of the past 3 years, was generating deficits that are with an impact on the City budget.

Mr. Kummerfeld, then deputy mayor, headed a task force that realigned the management and systems in that hospital system, hospital corporation, and the Control Board actually penetrated what was the cover, so we could move in the City there and take a handle on the health and hospital corporation deficit system.

So that has to be brought under control. That is part gain.

However, the State plan to reduce hospital costs, get rid of excess beds, and still maintain the level of service necessary for those who depend upon City hospitals because they are poor—that is under a constant management improvement system, and a clear-cut direction to contain that deficit, and not have it impact virtually on the City budgets.

As far as the transit is concerned, every evaluation we have of the transit budget is for the year instant, the fare system can be and will be maintained, and the transit budget in the year that we plan for now, the 1978-'79 budget year, is one that can be handled, assuming again, a wage negotiation that will not be outside the guidelines and policies laid down by the Control Board, the financial plan.

Let me be fully candid with you and say in the years ahead, in order to maintain transit service and other kinds of transit around the State, not only in New York City, but throughout the other transit systems in the State, central States, Niagara frontier authority, and others, we apprehend by reason of the cost of maintaining service and everything from fuel to maintenance to acquisition of equipment, there will be required an additional State subsidy to the transit system, and we are planning for that.

That will probably be in the neighborhood of some $30 million.

Mr. Caputo. That is statewide?

Governor Carey. Statewide.

We are planning in that direction at this time.

Chairman Moonread, Mr. Steers.

Mr. Steers. Governor, I grew up in White Plains, N.Y., so I am sympathetic to the problems of New York State and of the city in which I spent a great deal of time. But I alert you, which is hardly necessary in view of your experience, to the fact you don't only have to sell your proposal to me, but if you could possibly sell it to my constituents, it would be a wonderful thing. In addition to what you are very ably doing here today and on many other occasions, I would urge you to try to communicate with the cities and counties across America. It seems to me that your story should get to them in some other fashion than just through the media, which, of course, do give you a lot of publicity. You could add to the understanding by the localities in this country if you went through the Association
of Counties and so on; maybe you have, but I urge more of it if you possibly can.

Now, my next comment is purely one that asks you for clarification. I noted that the chairman of this subcommittee, Mr. Moonhead, mentioned that you have a State constitutional prohibition against lending State credit to the City. What I don’t know is whether that prohibition would have any bearing on a State guarantee of the City’s notes, bonds, whatever kinds of debt obligation it would issue.

Perhaps implicit in all of this is the notion that the State will also guarantee what you are asking the Federal Government to guarantee.

Can you clarify that?

Governor Carey. One, the constitutional limitation on extending credit is explicit. Furthermore, my interpretation, a guarantee would be considered a gift of credit. It is a creditworthy instrument so that would fall under the constitutional prohibition. Candidly, any guarantee would be no better than the source of the guarantee, and as has been said by many observers the City budget is larger than the State budget and the resources available to the State are not unlimited and therefore the source of the guarantee would not be without limitation.

So the notion of a guarantee absent the constitutional limitation, to be provided by the State, is not really a tenable one. We do and we have done what we can. The MAC organization, MAC agency, is a State agency, and operates with a moral obligation, technical moral obligation power within itself. You know the moral obligation is sometimes used as a similitude for moral makeup. So the extent it can do so under law is morally bound, and more than this, is doing everything within its power to secure the credit of the City.

Mr. Strees. You feel the constitutional prohibition or limitation absolutely bars the State from directly guaranteeing in the same fashion that the Federal Government is being asked to guarantee the City debt?

Governor Carey. That is correct. That doesn’t mean we couldn’t do something in the way of setting up some reserves of some kind so we could participate in some fashion in the guarantee system.

Mr. Strees. No, it doesn’t. And it also doesn’t explain whether it would be possible for the State constitution to be changed. I know it is a long and arduous process, but it would certainly seem to me that a Federal guarantee would be far more acceptable if the State were jointly liable for the debt payment.

I recognize that New York State’s budget and resources are limited. But that doesn’t mean that changing the constitution would not be of value if for no other reason than selling the program to the public. Americans have a right to know that what is being asked of the Federal Government is also being provided by your State.

Governor Carey. Let me point out, there is a physical that is in effect. By the language of the seasonal borrowing, and the State statute, the Control Board actually controls the flow of money, and any attempt to borrow, any expenditure in the City.

So in effect it is a physical. Maintenance by the State that is actually the custodian of all funds and is in place as a monitor on the affairs of the City.
Mr. Steers. I should have clarified—my question wasn’t confined to the seasonal aspect but to the long-term guarantees. But I think you have answered to the extent possible and I suppose that maybe it is now too late to amend the Constitution.

I have one final question which you may want to answer in writing. In this City’s 4-year financial plan, there are 5 pages of State actions included in the budget proposal which include increased State sharing of the welfare costs, State health programs, criminal justice, housing and so forth. In the appendix to your statement you just delivered, you had a list of actions which the State has taken. I would like to ask you either now or in writing, whichever you prefer, to provide us with a matching up of these two lists. Please indicate which of the actions the City is saying the State will do, you are asserting the State will do.

Governor Carey. First of all, for the instant years and the balancing budget for the 1978-79 period, we are in total agreement as far as the State is concerned. That agreement is shared by the leadership of the legislature. The leaders of that legislature will be before this subcommittee at a later time today.

As far as the future guarantees, to the extent we can predict what future legislators and Governors will do, we do show, particularly in the field of health and education and incentives in welfare, that there would accrue to the City sufficient sums to balance the projected deficit that is shown in the City’s 4-year financial plan. That is the detail day by day in the normal process. That will be worked out by the interchange between the leadership of the City and the leadership of the State.

But let me say this. You have made a very fine point, I believe you succeeded Representative Gude, who was an able Representative from Montgomery County, when I was in the Congress, and he had a very constructive attitude toward the metropolitan problems and he took great interest in the affairs of Metropolitan Washington and did so very effectively.

And Mr. Mathias of your State was highly supportive on the Senate side of the need to help out the New York City condition.

Representing as you do, Bethesda, I know you have a highly enlightened constituency, and I am sure your constituency would be favorably inclined to do whatever you can to help us.

Chairman Moorhead. The Chair would now like to recognize two members of the full committee who are not members of the subcommittee, unless any member of the subcommittee has objection.

Mr. Garcia.

Mr. Garcia. Thank you, Mr. Chairman.

Mr. Chairman, members of this subcommittee, I would just like to make it clear that in 1975 I was a member of the New York State Legislature, when that part of the triangle was very much involved in saving the City of New York.

During the creation of MAC, and during the creation of the Emergency Financial Control Board, we worked very hard. I would just like the members of this panel to know, and to have it placed on the record, that the principal in terms of saving the City, when many
of us were in doubt whether it could be saved, was the Governor of the State of New York, who had just come into office. His first crisis was that of our Urban Development Corp., which was in financial trouble, and that was followed, of course, by the city of New York not being able to go to the market to sell its paper. I am personally delighted that the Governor played that role.

I would just like to say that I have been sitting through the hearings with the Secretary of the Treasury, and, as the new kid on this block, Governor, it is all new to me, and I am learning. And one thing that I have learned, Governor, is that, generally speaking, here in Congress, we very seldom act on any legislation without a bill before us so it can be examined. This is the first time that legislation is not actually before us and we have to wait the outcome of these hearings. But when the Secretary spoke, and when the mayor spoke yesterday along with the other members of the City administration, Carol Bellamy and J. Goldin, it seemed that one of the problems is the question of the present labor negotiations. It seemed that the Secretary referred to them on several occasions, in terms of waiting for the outcome of those negotiations before he sent a bill to the committee.

I tried to ask the Secretary if, in fact, he was going to draw up legislation, and he had a dialog with the chairman as to who would be responsible for the drafting of that legislation. And, it seemed that it all went back to those labor negotiations.

I say that to you, Governor, only as a fact. It doesn't have to be responded to. It seems that the Congress is concerned about those negotiations, and I guess the outcome of those negotiations is going to have a bearing on what actually takes place.

Governor Carey. There is no question about that. Congressman Garcia, and I think you will find the leadership of the local municipal unions are as realistic about the level of negotiations as anyone else. It has been said here they are investors as well. They have a stake in the future of the City that is far in excess of what they may have had in 1975.

Nevertheless, the negotiations are such that the mayor has indicated that he supports collective bargaining, but on a realistic basis; anyway changes, any change in benefit systems, can only come from definitely ascertained resources that will result in savings and changes in work systems and all things of that kind. A very able deputy mayor, Mr. Patterson, is conducting those negotiations for the City, supported by others I think, as times goes on.

To the extent that we can do so as a State, we will be participating through the control board and do whatever we can to bring those negotiations to a successful conclusion without a work cessation. I need not say that the key negotiation now going on between the MTA, the Transport Workers Union, is one that is regarded as a bellwether. If we were dealing with irresponsibility here, the unions could well let the transit negotiations come to a conclusion and noting their contracts would not expire in most cases until July 1, could buy time and use that for bargaining.

But they have chosen to indulge what they call tandem or coalition bargaining, so their efforts will be undertaken at the same time with
a clear relevance, I may say, to whatever is done in the transit negotiations.

So efforts are being made by all parties to get to a successful negotiation because we are mindful that we are under surveillance by the Congress to produce the kind of negotiation that is consistent with the financial plan of the City.

Mr. Garcia. Thank you, Governor. Thank you, Mr. Chairman.

Mr. Green. Just a couple of questions, Mr. Chairman.

I gather in the original MAC plan there was $2.25 billion Federal guarantee contemplated. In his testimony yesterday Mayor Koch still seemed to have a strong preference for that level of Federal guarantee, whereas Secretary Blumenthal—and I gather you in your testimony today—seem to be accepting the $2 billion level more readily. I was wondering if either of you could tell me what that gap consists of.

Mr. Rohatyn. In a $5-billion plan, I can't come within 5 percent, which is what $250 million is. I think it is worth pointing out we were talking $2.25 billion dollars of bonds that would be 90 percent federally guaranteed, and that 90 percent is just a shade over $2 billion. The Secretary has come in with a proposal of $2 billion of 100 percent guaranteed bonds. That means that the Federal commitment is the same. We can use these on kind of an accordion basis, depending upon the level of guarantee, but the number is so close it didn't seem worth making a big fuss over it.

We have other things to fuss about.

Mr. Green. My other question deals with the issue that Mr. Steers raised earlier, and I would like to take his question on State constitutionality one step further.

Secretary Blumenthal indicated he had had consultations with lawyers as to the State constitutional issue and that he had been advised that there was no substantial problem.

Inquiries afterwards by me disclosed that there is no formal opinion, but that there was simply an informal inquiry on his part.

Have you done any consultation on the question of whether dedication of some stream of Federal revenues flowing to the State to a potential debt reserve, or a contingent dedication of those to a debt reserve, would pose any constitutional problems?

Mr. Rohatyn. I thought what the Secretary was talking about was any constitutional problems with respect to seasonal financing. Again, I want to correct a little bit of the record. What I said to Mr. Caputo was incorrect; we did sell a $250-million MAC note to the State in 1975, which was the State giving us short-term credit. There are still a lot of legal problems with that. As far as we can tell, the issue is by no means clear.

With respect to funding a capital reserve, having the State fund it, or assigning revenues sharing as a pledge for a capital reserve fund, that seems to be in the realm of being doable, and we are still investigating that.

Chairman Mooney. The Chair would like to adjourn this hearing by no later than noon. I suggest we try to divide the remaining time
among the three members of the subcommittee present to about 9 minutes per member. I will start out.

Mr. Hokaty, in today's paper there was mentioned that a chairman of the subcommittee of the Senate Finance Committee questioned the continuing exemptions of New York Pension Fund trustees from requiring laws—laws requiring pensions to be administered solely for the benefit of the pensioners.

Would you care to comment on that?

Mr. Hokaty, Mr. Chairman, I saw reports of the Benson committee's proceedings. I think—first of all, I do not quarrel with the principle that pension fund investments have to be prudent and safe, which is where I disagreed with the Proxmire committee's suggestions that the pension systems be required to buy large amounts of unguaranteed City paper.

I think for pension funds to buy unguaranteed paper would require that paper to have credit ratings of at least investment grades, such as existing MAC bonds, for instance, but not City bonds which don't carry such a rating.

I, however, share Secretary Blumenthal's view that these are extraordinary times, and provided a satisfactory level of guarantee is provided, there is really no way to put this plan together without the State and City pension systems. Therefore, we have another possibility of bankruptcy if that particular Senate committee does not grant the authority to the systems to make the investment.

I would like for the record to strongly disagree, I guess, with another Senate committee chairman, Senator Bentsen, on his statement having to do with the investment by the pension system in worthless City and MAC bonds. MAC bonds are not Russian czarist bonds; they do have credit ratings, and they do sell in the market. I think Senator Bentsen misspoke to some extent. I don't disagree with the principle of prudence, which is why we have always supported Federal guarantees on pension system investments.

I see no way for any plan to succeed without major participation of the pension systems.

Chairman Mooney, Mr. Kelly,

Mr. Kelly, Governor, the city of New York is part of the State of New York, and it is an instrument of New York. It belongs to you. Now it belongs to the rest of us in spirit, but financially it belongs to you.

We don't want to deprive you of the privilege of helping New York.

Now, if the Federal Government is going to loan any more money to support this situation in New York, why wouldn't it be a better system for us just to loan the money to New York and then let you people up there work it out among yourselves? It would seem to me as though the people of the United States would have a cushion between us and New York called the State of New York. You people put your credit on the line and you worry about it and you work it all out and pay any kind of wages you want, do whatever you want. But if we are going to loan money, let us deal with the State so we don't get in a very tenous situation of dealing directly with an instrument of the State by going around the State, which is really the principal instrument involved.
If a plan that is legal could be devised, would you have any objection to that?

Governor Carey. I think if you look at it realistically, the seasonal loan agreement directed to the borrowing to the city of New York actually flows through the State, and borrowings are only made pursuant to resolutions passed in the Emergency Financial Control Board, a State-created agency. That was one of the careful requirements laid down by the previous administration.

Mr. Kelly. In a word, if a legal plan could be devised where we would just deal with you, and then you and the people of New York will deal with New York City, would you have any objection to that?

Governor Carey. I believe that is what is contemplated here: that the guarantees would flow to the MAC instruments and other instruments and the State involvement is total. That is why I am here today.

Mr. Kelly. There are too many words in there for me. Can we go directly to the State, not to MAC, an instrument of the State, but can we deal directly with the State of New York?

Governor Carey. You don’t want to violate States rights and say we can’t create an agency to deal with the Federal Government that is our own child. I believe you uphold the principles of States rights.

Mr. Kelly. I am talking about in the grim eventualities that the Congress would go ahead with this thing.

Mr. Rohatyn. The real question is whether it can be done legally, Mr. Kelly, and as far as I know, the constitutional provisions the Governor referred to would prevent it.

I think we can study it again, but the direct extension of credit—in fact, the direct assumption by the State of credit from the Federal Government on a long-term basis I think is prohibited by the State constitution, but we will look at it again.

Governor Carey. Speaking for a leading consumer of Tropicana orange juice, just be aware that you don’t do something in the Federal Government to offset your crop losses.

Mr. Kelly. There is no way in the world you are going to threaten me into doing something dumb.

Chairman Moorhead. Mr. Barnard.

Mr. Barnard. Mr. Chairman, Governor, when Mr. Levitt was before us we discussed the matter of the New York guarantee, and he gave me the impression that he didn’t believe this could pass the legislature of New York State.

Could you comment on that?

Governor Carey. I am not sure he addressed the question as to what might pass or not pass.

One thing is clear: We cannot mandate by State law the investment of pension funds. That effort was made, but the court of appeals indicated such a mandate was not legal.

Mr. Barnard. Do you think the New York State Legislature would put in motion a constitutional revision to permit the State to guarantee the New York City indebtedness?

Governor Carey. It would have to be passed by two succeeding legislatures and then be put before the people. And I cannot speculate as to what the referendum might produce.
Mr. Barnard. Governor, having been a very distinguished Member of the U.S. Congress, and knowing what is in the minds of lawmakers concerning a matter of this kind, what type of precedent do you think we would be establishing by coming to the aid of New York City?

Governor Carey. It is a very appropriate question, because I have been trying since I became involved to put myself in the place of every member of this body who would have to vote on this kind of a plan and explain it to his constituents. And I can only say this is a rare and unique situation; a condition that came about because of a long succession of practices that are properly identified now as practices that should not be indulged in by any government, city or State; that there are all kinds of rationales as to why it came about. But the clear condition is that unless corrective action is taken, severe corrective action by the City and State to avert bankruptcy, the same thing would happen throughout the country that did happen within the borders of New York State and surrounding areas of our region during the time when there was uncertainty as to the outcome of the New York City condition and crisis in 1975. Borrowing rates escalated enormously. Solvent districts were foreclosed from markets, school districts, and localities that normally would have been entitled to good credit ratings and access to markets and good credits because of the lack of resolution of the New York City condition.

In fact, it happened that the International Monetary Fund ministers were meeting in Washington during the questionable time as to the outcome of the New York City condition and there were world reverberations. Why this rises to the level of congressional consideration is because it is so grave that the results that would ensue if the condition is not cured would be felt in every locality and State in your country in terms of higher interest costs and lack of acceptability of municipal issues. We don't want that to happen. That is why in a sense by voting to cure this condition you are preventing the spread of an epidemic that could reach your community in some form in terms of higher interest rates and lesser opportunities to do the needed borrowing that we all must do to sustain capital requirements, and to complete facilities and hospitals and schools and public works.

That is what we are talking about here: shoring up the credit in particular; that the credit of the whole will not suffer unduly.

Mr. Barnard. Thank you.

Mr. Kelly. Mr. Chairman, we do have a few more minutes, and I have another question if you have the time.

Chairman Moorhead. How much time do you need?

Mr. Kelly. Not more than you establish.

Chairman Moorhead. I would like to ask unanimous consent to insert at the appropriate place a letter from Mr. Robert V. Roosa, former Under Secretary of the Treasury, on the subject of a hypothetical case of bankruptcy. And the Governor referred to some letters from the records from the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

I would also like to insert a letter to me from the Comptroller. Without objection they will be made a part of the record.

[The letters referred to by Chairman Moorhead follow:]
Dear Bill,

This letter is a delayed reply to your letter of February 17 concerning the New York City situation. In the purely "hypothetical case of a city bankruptcy or insolvency," the destabilizing influence throughout the markets for municipal securities would be difficult to gauge, but certainly would be even more extreme than those occurring during the 1975 City crisis.

You ask specifically, though, that I concern myself with the implications for the foreign exchange markets. I have been canvassing a number of my contacts during the period since your letter arrived. The almost universal response is to say that this would rank in significance -- as a further depressing influence on the dollar in the principal foreign exchange markets -- with the impact of the enormous balance of payments deficit the United States has already incurred, so largely as a consequence of the country's $45 billion bill for imported oil last year. Various elements of a possible attack on the energy problem are, of course, of key importance. But I would stress that the impact of a collapse of New York City's finances could reopen the wounds in our external economic position even if real gains were to have been achieved in legislation and in physical results on the energy front.

As you suggested, I am excluding any reference to the question of Federal aid, but am commenting only on the "financial impact of a New York bankruptcy." The foreign exchange markets have become infused with fear, partly because the country has not taken strong measures to cope with the dollar problem. The disillusionment with American performance would become outright despondency in the event of a New York bankruptcy. The markets have reached a stage now where they have produced exchange rates for the dollar that are far beyond any relationship that would be indicated by comparative economic performance either in real or in price terms. Because of this overlay of confidence factors that has developed, a financial collapse in New York would have greatly
magnified results, far beyond those that might otherwise be associated with such an event. It would imply to foreign observers, as it has to the dozens of financial and business figures abroad with whom I have now spoken, that even the "financial capital of the United States," cannot avoid insolvency.

I realize that this is not an expression in specific numerical terms. But in the present circumstances only the qualitative judgments of rather close observers can be meaningful. If there are aspects of this broad question on which any further comment of mine might possibly be useful, I hope you will ask Mr. Dale to get in touch with me again.

Meanwhile, with all good wishes in your endeavor,

Sincerely,

[Signature]

The Honorable William S. Moorhead, Chairman
SubCommittee on Economic Stabilization of the
Committee on Banking, Finance and Urban Affairs
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, D. C. 20515
Honorable William S. Moorhead  
Chairman  
Subcommittee on Economic Stabilization  
Committee on Banking, Finance and Urban Affairs  
House of Representatives  
Washington, D. C. 20515

March 2, 1978

Dear Mr. Moorhead:

It is a pleasure to provide you with an assessment of the consequences for the nation's banking system of a bankruptcy or default by New York City as requested in your February 22, 1978, letter.

The FDIC, the Comptroller of the Currency, and the Federal Reserve recently resurveyed 954 banks which were surveyed in 1975 and held New York City, New York State and New York State agencies obligations equal to 20 percent or more of their capital. A copy of the results of this resurvey is attached.

It is our understanding that the Federal Reserve is providing a discussion of the results of this resurvey. The recent combined survey shows that as of December 31, 1977, 236 of the 954 banks now hold total New York obligations equal to 20 to 50 percent of their equity capital and 76 hold obligations equal to 50 percent or more of their equity capital. With respect to insured state nonmember banks supervised by the FDIC, 92 banks held New York obligations equal to 20 to 50 percent of equity capital and 22 held obligations equal to over 50 percent of their equity capital.

Five insured nonmember banks held New York City obligations constituting over 50 percent of their capital, but all were small. Two of these had less than $5 million in total assets, two were in the $5 to $10 million asset size range and one was in the $25 to $50 million asset size range. None of the insured nonmember banks held MAC obligations in excess of 50 percent of their capital.

While 50 insured nonmember banks held New York City obligations equal to 20 to 50 percent of their capital, only 3 had total assets exceeding $100 million. Only one of the seven insured nonmember banks holding MAC bonds equal to 20 to 50 percent of their capital had total assets exceeding $100 million.
Regarding your inquiry about the geographical distribution of banks holding New York City and MAC securities, we found that the five insured nonmember banks holding New York City obligations exceeding 50 percent or more of their capital were located in Alabama, Illinois, Missouri, North Dakota, and Wyoming. Of the 50 insured nonmember banks holding New York obligations equal to 20 to 50 percent of their capital, there were nine banks in Arkansas, eight in Florida, seven in Missouri, five in New York and fewer than five in several other states. There were no more than three insured nonmember banks holding MAC obligations equal to 20 to 50 percent of capital in any state.

The 114 insured state nonmember banks which held total New York obligations (New York City, New York State, New York State Agencies and MAC) constituting 30 percent or more of their capital held a total of $101 million of New York City obligations which equals about 2 percent of the $4.6 billion of city debt held outside the City’s own pension and sinking funds. These banks held $19.2 million of MAC debt, which is less than 1 percent of that Corporation’s total outstanding indebtedness. Total holdings of New York City, New York State, New York State Agencies and Municipal Assistance Corporation obligations for the 114 insured nonmember banks amounted to $147 million.

The data collected in the FOTC’s resurvey indicate that the amounts of New York obligations held by insured nonmember banks are small. Default by New York City, while posing some difficulties for those banks holding New York City obligations, is not a matter of overriding supervisory concern. While default will result in a temporary loss of income and liquidity, it is unlikely that loss of principal would be substantial. The default experience with respect to New York City, State, and local securities indicates that loss of principal is minimal. However, it is possible that some banks, particularly those with larger holdings relative to capital, could be faced with liquidity problems during the time period required to work out a resolution of the default.

Moreover, it is impossible to predict the precise reaction of the public and financial markets to a New York City default. If confidence is shaken, the impact of default could extend beyond holders of New York City obligations and adversely affect other New York securities and perhaps the national economy as well.

It is my view that all concerned parties should continue to work toward developing a suitable resolution of New York City’s financial problems. This matter continues to be of concern to the FDIC both as supervisor of insured state nonmember banks and as insurer of commercial banks and mutual savings banks. You can be assured that the FDIC will continue to monitor the situation as it pertains to our nation’s banks and stands willing to provide further assistance.

With appreciation for the opportunity to present this material to you, I am

Sincerely,

Enclosure

[Signature]
George A. LoMauro
Chairman
### Distribution by State of Significant Holdings (Par Value)
#### by Commercial Departments of Banks of New York Obligations

(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Banks</th>
<th>New York City Deposits</th>
<th>New York State Obligations</th>
<th>New York State Agencies Obligations</th>
<th>Municipal Assistance Obligations</th>
<th>Total New York Obligations</th>
<th>Total Capital</th>
<th>20 - 50% of Capital</th>
<th>Over 50% of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>10</td>
<td>316,096</td>
<td>4,425</td>
<td>1,529</td>
<td>3,925</td>
<td>1,215</td>
<td>11,094</td>
<td>26,125</td>
<td>8</td>
</tr>
<tr>
<td>Arkansas</td>
<td>16</td>
<td>422,195</td>
<td>7,853</td>
<td>1,103</td>
<td>1,350</td>
<td>100</td>
<td>10,620</td>
<td>31,137</td>
<td>15</td>
</tr>
<tr>
<td>Florida</td>
<td>45</td>
<td>2,999,476</td>
<td>36,930</td>
<td>6,390</td>
<td>29,013</td>
<td>6,350</td>
<td>70,733</td>
<td>225,218</td>
<td>38</td>
</tr>
<tr>
<td>Illinois</td>
<td>15</td>
<td>667,153</td>
<td>8,419</td>
<td>1,089</td>
<td>3,225</td>
<td>0</td>
<td>14,133</td>
<td>56,027</td>
<td>14</td>
</tr>
<tr>
<td>Indiana</td>
<td>4</td>
<td>122,318</td>
<td>1,280</td>
<td>1,050</td>
<td>1,000</td>
<td>0</td>
<td>3,330</td>
<td>11,133</td>
<td>6</td>
</tr>
<tr>
<td>Louisiana</td>
<td>6</td>
<td>259,316</td>
<td>4,670</td>
<td>650</td>
<td>3,335</td>
<td>0</td>
<td>8,455</td>
<td>23,505</td>
<td>6</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>5</td>
<td>413,099</td>
<td>6,060</td>
<td>150</td>
<td>3,610</td>
<td>200</td>
<td>12,020</td>
<td>27,376</td>
<td>4</td>
</tr>
<tr>
<td>Missouri</td>
<td>13</td>
<td>177,547</td>
<td>4,253</td>
<td>250</td>
<td>1,110</td>
<td>0</td>
<td>5,918</td>
<td>17,702</td>
<td>12</td>
</tr>
<tr>
<td>New Jersey</td>
<td>4</td>
<td>165,449</td>
<td>705</td>
<td>1,250</td>
<td>3,865</td>
<td>200</td>
<td>6,000</td>
<td>16,757</td>
<td>4</td>
</tr>
<tr>
<td>New York</td>
<td>99</td>
<td>219,351,864</td>
<td>442,172</td>
<td>1,880,481</td>
<td>1,391,019</td>
<td>1,695,365</td>
<td>5,209,977</td>
<td>14,642,939</td>
<td>51</td>
</tr>
<tr>
<td>North Dakota</td>
<td>5</td>
<td>62,370</td>
<td>1,335</td>
<td>645</td>
<td>145</td>
<td>0</td>
<td>1,925</td>
<td>6,301</td>
<td>3</td>
</tr>
<tr>
<td>Ohio</td>
<td>10</td>
<td>356,948</td>
<td>0</td>
<td>7,235</td>
<td>1,380</td>
<td>0</td>
<td>8,455</td>
<td>29,552</td>
<td>10</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>15</td>
<td>733,219</td>
<td>7,200</td>
<td>3,925</td>
<td>6,305</td>
<td>450</td>
<td>17,880</td>
<td>62,009</td>
<td>14</td>
</tr>
<tr>
<td>Tennessee</td>
<td>9</td>
<td>215,088</td>
<td>3,555</td>
<td>180</td>
<td>1,655</td>
<td>550</td>
<td>5,960</td>
<td>19,459</td>
<td>8</td>
</tr>
<tr>
<td>Texas</td>
<td>8</td>
<td>131,701</td>
<td>3,415</td>
<td>250</td>
<td>200</td>
<td>225</td>
<td>4,090</td>
<td>11,142</td>
<td>6</td>
</tr>
</tbody>
</table>

February 20, 1973

Number of Banks with Total New York Obligations Equal to 20 - 50% of their Capital

*Column 1 shows the number of banks in each state.*

*Column 2 shows the total amount of deposits held in the state.*

*Column 3 shows the total amount of New York City obligations.*

*Column 4 shows the total amount of New York State obligations.*

*Column 5 shows the total amount of New York State Agencies obligations.*

*Column 6 shows the total amount of Municipal Assistance Obligations.*

*Column 7 shows the total amount of New York Obligations.*

*Column 8 shows the total amount of Capital.*

*Column 9 shows the percentage of banks with Total New York Obligations Equal to 20 - 50% of their Capital.*

*Column 10 shows the percentage of banks with Total New York Obligations Equal to Over 50% of their Capital.*
<table>
<thead>
<tr>
<th>State</th>
<th>Number of Banks</th>
<th>Total Deposits 1/</th>
<th>New York City Obligations</th>
<th>New York State Obligations</th>
<th>New York State Agencies Obligations</th>
<th>Municipal Assistance Obligations</th>
<th>Total Obligations</th>
<th>Municipal Assistance Capital 1/</th>
<th>Number of Banks with Total New York Obligations Equal to 20 - 30% of their Capital</th>
<th>Number of Banks with Total New York Obligations Equal to Over 50% of their Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Virginia</td>
<td>11</td>
<td>$301,374</td>
<td>$8,701</td>
<td>$670</td>
<td>$1,285</td>
<td>$40</td>
<td>$10,696</td>
<td>$26,668</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>5</td>
<td>$315,793</td>
<td>1,815</td>
<td>3,500</td>
<td>271</td>
<td>0</td>
<td>5,585</td>
<td>19,612</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>All Other</td>
<td>27</td>
<td>1,890,741</td>
<td>10,143</td>
<td>10,780</td>
<td>21,270</td>
<td>2,675</td>
<td>60,870</td>
<td>135,709</td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td>TOTALS</td>
<td>306</td>
<td>$2,577,818.407</td>
<td>$156,009</td>
<td>$112,012</td>
<td>$1,576,663</td>
<td>$61,707,310</td>
<td>$51,459,681</td>
<td>$145,267,621</td>
<td>236</td>
<td>70</td>
</tr>
</tbody>
</table>

1/ As of December 31, 1971.
March 2, 1978

Honorable William S. Moorhead
Chairman, Subcommittee on Economic Stabilization
Committee on Banking, Finance & Urban Affairs
Washington, D. C. 20515

Re: Bankruptcy of the City of New York and the Banking System

Dear Mr. Chairman:

You have asked me to provide an assessment of the consequences for the nation’s banking system of a bankruptcy or default by New York City. Specifically, a geographic summary report was requested on the impact on bank holders of New York City securities.

The Comptroller of the Currency, in conjunction with the Federal Reserve System, recently completed a survey of commercial bank ownership of certain New York securities. The obligations covered were those issued by New York City, New York State, New York State agencies, and the Municipal Assistance Corporation (MAC). The institutions surveyed were 954 banks that had reported holdings of New York securities amounting to at least 20 percent of capital in our November, 1975 survey.

At that time, 718 banks held New York obligations totaling from 20 to 50 percent of their capital. Of these banks, 236 had holdings in excess of 50 percent of capital. The recently completed survey reflects that 236 banks now hold New York obligations amounting from 20 to 50 percent of capital and only 70 over 50 percent of capital.

Among the 306 banks which presently hold New York securities (state as well as city) amounting to more than 20 percent of capital, the holdings of New York City obligations total to only 3.6 percent of the total capital of those banks. We note that 80 percent of the outstanding city securities in the survey are held by institutions in New York State, with almost 60
percent held by the New York Clearing House Association (NYCHA) banks alone. However, this concentration of city paper held by the NYCHA banks totals only 2.5 percent of their capital. Based on this data, only a handful of (relatively small) commercial banks might suffer potentially severe capital or liquidity problems.1

Certainly a default by New York City would have some impact on the capital, liquidity and earnings on a larger number of banks. The extent of that impact would depend upon presently unknown circumstances including, for example, the city's financial position at that time; the degree of confidence in the city's future; the existence of any MAC exchange offer at that time; other conditions in the economy and the banking system; and the nature and extent of state and federal actions taken to restore New York City's financial strength. In any event, from the perspectives of both the banking system and individual banks, the impact of a New York default would be manageable.

Before proceeding further, I should acknowledge a potential bias. I am a New Yorker, and proud to be one. It has been my home, where I have voted and paid taxes. Despite these ties, I have attempted to be objective and speak as a bank regulator who has spent virtually all his working life associated with financial markets.

From that vantage point, it seems that the most important question is a systemic one. In my judgment, we must address the impact of the city's failure on the capital markets of the nation and the world. Certainly, the securities of other municipalities and states would be questioned. And notwithstanding facts, confidence in some major financial institutions might also be questioned. This country is one of the centers of world capital markets, and New York City is its financial heart. As such, our handling of the city's financial problems will significantly influence all those who trade with or invest in our nation.

Certainly, a default by New York City would be poorly received in the international capital markets. This is not because they are awash with New York City paper. Rather, the impact would be attitudinal, engendering the belief that our strong and diversified

1 Information concerning the asset size and location of national banks holding New York securities in excess of 50 percent of capital is presently being compiled. We will provide it to you within the next day or two under separate cover.
nation is unable to come to grips with its own problems. Foreign
capital would demand increasingly greater levels of protection
as the price for entering segments of our economy. From the
foreigners' point of view, that would be an apparently responsible
course of action.

In short, it is my view that a New York City default or bankruptcy
would result in an unfortunate loss of confidence in our system.
Our economy and capital markets could ill afford that loss.

The problems of New York City are of concern to this Office
and to me personally. Please be assured that we will continue
to monitor closely the impacts of these problems, especially on
our commercial banking system, and we stand ready to provide further
analysis and assistance as necessary. I trust that this will prove
useful to you and the Subcommittee, and remain

Very truly yours,

[Signature]

John S. Young
Comptroller of the Currency

Enclosure
February 28, 1978

HOLDINGS OF NEW YORK OBLIGATIONS
BY THE NEW YORK CLEARING HOUSE BANKS

(Dollar amounts in Millions)

<table>
<thead>
<tr>
<th></th>
<th>*Gross Capital 1/</th>
<th>Total Deposits 1/</th>
<th>New York City Obligations</th>
<th>Municipal Assistance Obligations</th>
<th>New York State Corporation Obligations</th>
<th>New York State Agencies Obligations</th>
<th>New York City Obligations</th>
<th>Total Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clearing House Banks</td>
<td>$13,319</td>
<td>$112,601</td>
<td>$328</td>
<td>$1,662</td>
<td>$1,316</td>
<td>$912</td>
<td>$4,218</td>
<td></td>
</tr>
</tbody>
</table>

Source of data: The data were obtained from a survey of all member banks located in New York State conducted as of December 31, 1977, by the Federal Reserve Bank of New York.

1/ As of December 31, 1977.

*Includes reserve for possible loan losses for member banks.
### Distribution by State of Significant Holdings (Par Value) by Commercial Departments of Banks of New York Obligations

(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Banks</th>
<th>Total Deposits</th>
<th>New York City Obligations</th>
<th>New York State Obligations</th>
<th>New York State Agencies Obligations</th>
<th>Municipal Assistance Obligations</th>
<th>Total New York Obligations</th>
<th>Total Capital</th>
<th>Number of Banks with Total New York Obligations Equal to 20 - 50% of their Capital</th>
<th>Over 50% of their Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>10</td>
<td>$356,096</td>
<td>$4,425</td>
<td>$1,929</td>
<td>$3,925</td>
<td>$1,215</td>
<td>$11,094</td>
<td>$26,125</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Arkansas</td>
<td>16</td>
<td>$422,155</td>
<td>7,865</td>
<td>1,103</td>
<td>1,350</td>
<td>100</td>
<td>10,420</td>
<td>21,157</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Florida</td>
<td>45</td>
<td>$2,869,676</td>
<td>36,980</td>
<td>6,350</td>
<td>29,013</td>
<td>6,350</td>
<td>78,733</td>
<td>125,010</td>
<td>38</td>
<td>7</td>
</tr>
<tr>
<td>Illinois</td>
<td>15</td>
<td>$667,153</td>
<td>8,419</td>
<td>1,849</td>
<td>3,725</td>
<td>0</td>
<td>24,133</td>
<td>54,427</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>Indiana</td>
<td>6</td>
<td>$128,010</td>
<td>1,280</td>
<td>1,050</td>
<td>1,000</td>
<td>0</td>
<td>3,330</td>
<td>31,129</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Louisiana</td>
<td>6</td>
<td>$269,514</td>
<td>4,670</td>
<td>630</td>
<td>3,335</td>
<td>0</td>
<td>8,455</td>
<td>23,505</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>5</td>
<td>$413,609</td>
<td>6,060</td>
<td>150</td>
<td>5,610</td>
<td>200</td>
<td>12,020</td>
<td>23,276</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Missouri</td>
<td>13</td>
<td>$177,547</td>
<td>4,250</td>
<td>520</td>
<td>1,110</td>
<td>0</td>
<td>5,918</td>
<td>17,202</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>New Jersey</td>
<td>4</td>
<td>$165,449</td>
<td>705</td>
<td>1,250</td>
<td>3,965</td>
<td>200</td>
<td>6,000</td>
<td>16,757</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>New York</td>
<td>98</td>
<td>$218,151,864</td>
<td>461,372</td>
<td>1,280,481</td>
<td>1,191,019</td>
<td>1,695,305</td>
<td>5,205,977</td>
<td>14,642,939</td>
<td>52</td>
<td>47</td>
</tr>
<tr>
<td>North Dakota</td>
<td>5</td>
<td>$62,370</td>
<td>1,135</td>
<td>465</td>
<td>145</td>
<td>0</td>
<td>1,925</td>
<td>6,201</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Ohio</td>
<td>10</td>
<td>$356,948</td>
<td>0</td>
<td>7,235</td>
<td>1,380</td>
<td>0</td>
<td>8,615</td>
<td>29,552</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>15</td>
<td>$733,219</td>
<td>7,200</td>
<td>2,925</td>
<td>6,305</td>
<td>450</td>
<td>17,800</td>
<td>62,099</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>Tennessee</td>
<td>9</td>
<td>$215,688</td>
<td>3,555</td>
<td>180</td>
<td>1,655</td>
<td>550</td>
<td>5,940</td>
<td>19,499</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Texas</td>
<td>8</td>
<td>$151,701</td>
<td>3,415</td>
<td>250</td>
<td>200</td>
<td>225</td>
<td>4,000</td>
<td>11,142</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>
Distribution by State of Significant Holdings (Par Value)  
by Commercial Departments of Banks of New York Obligations (Continued)  
(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Banks</th>
<th>Total New York City Obligations</th>
<th>New York State Obligations</th>
<th>New York State Assistance Obligations</th>
<th>Municipal Obligations</th>
<th>Total New York Obligations</th>
<th>Capital 1/ of Total Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Virginia</td>
<td>11</td>
<td>$301,574</td>
<td>$6,758</td>
<td>$1,186</td>
<td>$40</td>
<td>$10,658</td>
<td>$26,038</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>5</td>
<td>317,715</td>
<td>1,615</td>
<td>3,500</td>
<td>630</td>
<td>5,565</td>
<td>19,012</td>
</tr>
<tr>
<td>All Other 2/</td>
<td>27</td>
<td>1,638,761</td>
<td>10,155</td>
<td>10,782</td>
<td>21,270</td>
<td>44,870</td>
<td>133,705</td>
</tr>
<tr>
<td>TOTALS</td>
<td>396</td>
<td>$2,287,963</td>
<td>$54,000</td>
<td>$32,312</td>
<td>$1,276,612</td>
<td>$41,307</td>
<td>$133,705</td>
</tr>
</tbody>
</table>

1/ As of December 31, 1977.

2/ All Other represents an aggregate of states with 3 or less banks with holdings in excess of 20% of their capital structure.
March 6, 1978

Honorable William S. Moorhead
Chairman, Subcommittee on Economic Stabilization
Committee on Banking, Finance & Urban Affairs
Washington, D.C. 20515

Dear Mr. Chairman:

As indicated in our letter of March 2, 1978, please find two tables enclosed showing the distribution by size and location of national banks holding New York securities in excess of 5% of their capital. These tables should be read in conjunction with those enclosed with our March 2 letter.

If we may be of any further service, please feel free to contact us.

Very truly yours,

John C. Heimann
Comptroller of the Currency

Enclosures
### Distribution by Bank Location

Number of national banks that hold New York City, New York State, New York State Agencies, and Municipal Assistance Corporation obligations in excess of 50% of their capital.

<table>
<thead>
<tr>
<th>State</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>District of Columbia</td>
<td>1</td>
</tr>
<tr>
<td>Florida</td>
<td>6</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1</td>
</tr>
<tr>
<td>New York</td>
<td>32</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1</td>
</tr>
<tr>
<td>West Virginia</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

### Distribution by Bank Size

Number of national banks that hold New York City, New York State, New York State Agencies, and Municipal Assistance Corporation obligations in excess of 50% of their capital.

<table>
<thead>
<tr>
<th>Asset Size (as of 12-31-77)</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 25 million</td>
<td>10</td>
</tr>
<tr>
<td>25-100</td>
<td>17</td>
</tr>
<tr>
<td>100-500</td>
<td>11</td>
</tr>
<tr>
<td>500-1 billion</td>
<td>2</td>
</tr>
<tr>
<td>over 1 billion</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>
Chairman Moorhead. Mr. Kelly.

Mr. Kelly. Governor, I would just like to go back to the question that I asked before because Mr. Rohatyn is not a person of authority—being elected, and you are; you are the man—

Governor Carey. I am the Governor.

Chairman Moorhead. It is the same thing.

Governor Carey. Some days it is.

Mr. Kelly. What I am asking you is: If there are no legal impediments to the Federal Government dealing directly with New York State, and just a straight credit arrangement, would you accept that?

Governor Carey. If it is a workable arrangement and the Federal Government happens to agree, then there is no reluctance on the part of the State to do what it must do.

We have shown by our record all along total involvement by the State is a condition that we have had. My presence as chairman of the control board is the answer to your question. Public officials, not only the State government, but the comptroller of the State serve on that board along with elected officials. It is created by State statute; its reports are submitted according to State law and according to Federal law to the appropriate agencies of the Federal Government.

Chairman Moorhead. Being entirely fair, I should ask Mr. Barnard if he has any further questions.

Mr. Barnard. No, thank you.

Chairman Moorhead. I think it is appropriate to consider adjourning. We will adjourn, to meet at 1:15 in this room where we will hear on a bipartisan basis from the leaders of the New York State Senate and New York State Assembly.

I want to take this opportunity to thank you, Governor, and Mr. Rohatyn, for an excellent presentation. I appreciate your taking the time.

[Whereupon, at 12 n. the hearing was adjourned, to reconvene at 1:15 p.m. this same day.]

AFTERNOON SESSION

Chairman Moorhead. The Subcommittee on Economic Stabilization please come to order.

Today the subcommittee is honored with the distinguished panel of leaders of the New York State Legislature.

We have the Honorable Warren M. Anderson, majority leader, New York State Senate; the Honorable Stanley Steingut, speaker, New York State Assembly; the Honorable Manfred Ohrenstein, minority leader, New York State Senate; and the Honorable Perry B. Duryea, Jr., minority leader, New York State Assembly.

We might say it is very impressive and also impressive is the fact this is a 50–50 bipartisan panel of representatives and senators.

I think we will start in the order I called the names, with Senator Anderson.
STATEMENT OF HON. WARREN M. ANDERSON, MAJORITY LEADER, NEW YORK STATE SENATE

Mr. Anderson. Mr. Chairman, I have filed a statement with the subcommittee and rather than take the time to go over it all, I have a very brief resume of that statement and I would give that.

Chairman Moorehead. Without objection the entire statement will be made part of the record.

Mr. Anderson. Mr. Chairman, members of the House Subcommittee on Economic Stabilization, it is a pleasure for me to be here.

I believe the role that this body will play in the coming months will be useful as we move together to solve the fiscal crisis facing the country’s greatest city.

New York is truly a national city. It has opened its doors to the country’s poor and underprivileged. It has welcomed millions of immigrants from around the world.

But just as New York City has nurtured this country’s commercial and human resources, so it has inherited the Nation’s problems.

There should be no question in anybody’s mind that we are again facing a crisis in New York City this year. A crisis exacerbated by the impact of national problems with inflation and recession. It is basically a credit crisis, with the City unable to borrow from the private market for either its seasonal or long-term needs.

I want the people in this room to know that I stand ready to work with my colleagues in the senate, members of the assembly, the Governor, to develop appropriate State actions within our capability to help solve this current problem.

On occasion one hears loose talk about letting the City go bankrupt. New York City’s fiscal situation, financial situation, is not in my view one that can be compared to bankruptcy in the private sector, where people who were once perhaps buying Studebakers can switch over to Chevrolets.

Whatever happens, children in New York will still have to go to school, garbage would still have to be picked up, police and fire service would still have to be maintained and the other civic services maintained.

Perhaps more importantly the financial obligation on both the Federal and State governments under that circumstance would be far greater than the modest steps that are now open to prevent such a catastrophic occurrence.

I am proud that the Republican-controlled Senate, through all the crises of 1975, was willing to do what had to be done, because bankruptcy for New York City in what has become a hackneyed phrase is unthinkable.

Every town, village, city, county and school district in the State had and has a stake in the City’s future.

And the impact of the City’s bankruptcy would soon infect the rest of the Nation.
I am encouraged by last week's testimony by Secretary Blumenthal before this subcommittee. Hopefully it represents a first step by President Carter toward redemption of his campaign pledges.

But it might be recognized that it is only a first step and may well not go far enough. A program must be put in place that will indeed provide the City with the real opportunity to put its house in order, not simply to postpone a solution for another few years.

It must be a program that will permit the City to continue to function.

At the same time nothing is gained by overcommitting the resources of the State of New York, for it is upon the State's financial liability that its towns, villages, and cities, including the city of New York, ultimately will rely.

I am confident that the State legislature, including my colleagues in the senate, will act responsibly as they have in the past.

In the last analysis, the Nation, as well as New York State, has a responsibility and a stake in the well-being of our greatest city.

The Federal Government was formed to add strength to the sovereign States, to provide, as you all know, for domestic tranquility, and to promote general welfare.

New Yorkers believed in that document. Our forebears ratified that Constitution, and along with 12 other States, formed this Nation, and we ask you now, as Representatives of the whole country, to assume a responsibility, not through paying our bills, but through Federal backing of the City's credit so we can put the City's house back in order with our own resources. We are not asking for a handout, we are asking for a guarantee from the Federal Government that will help the City gain access to money markets so we can accomplish this task.

Thank you.

[State Senator Anderson's prepared statement follows:]
Chairman Moorhead, members of the House Subcommittee on Economic Stabilization: It's a pleasure for me to be here with you today. I believe the role this body will play in the coming months will be crucial as we move to solve the fiscal crisis facing this country's greatest city -- a city that contains a substantial amount of our Nation's commercial and human resources.

New York is truly a national city that has opened its doors to this country's poor and underprivileged and welcomed millions of immigrants from around the world.

Despite the problems that have evolved over the past few years, it has continued to maintain its place as the corporate, cultural and financial capital of the United States.

But just as New York City has nurtured this country's commercial and human resources, so it has inherited the nation's problems.

When inflation sweeps the country, its impact is severe in New York City.

When the country is hit with a recession, New York City faces dire economic difficulty.

When it comes to providing for the necessities of life for the poor and underprivileged, New Yorkers pay far more than their fair share of this national cost.
There should be no question in anybody's mind that we are again facing a crisis in New York City this year -- a crisis exacerbated by the impact of these national problems. It is a credit crisis -- with the City unable to borrow from the private market for either its seasonal or long-term needs. And the end of the limited federal help is looming ominously in the near future.

Many people have asked why New York City itself doesn't do something about its predicament and why New York State doesn't bail the City out.

I want you to know that the City -- with State help -- has done something about its problems. Its payroll contains 60,000 fewer persons than it did just three years ago. There is no more free tuition at the City University. The State has increased its support of the City University Senior colleges from 50 percent to 75 percent. The State has imposed stringent accounting and budgetary controls on City officials through the Emergency Financial Control Board, (which will be referred to as the EFCB), has advanced hundreds of millions of dollars to help the City, is assuming the responsibility for traditional City charges such as the court system, and created the Municipal Assistance Corporation (which will be referred to as MAC) to finance the City's needs with the State's moral obligation behind the bonds.
Those actions took place in 1975 and after, as a result of a cooperative spirit that existed among most leaders of the State -- because we know that as the City goes, so goes the State. I want the people here in this room to know that I stand ready to work with my colleagues in the Senate, members of the Assembly, and the Governor to develop the appropriate State actions within our capability to help solve this current problem.

But there also is a congressional responsibility -- a responsibility not to undermine New York's efforts to help itself, as well, as to pass needed legislation here in Washington.

An example of what is not helpful was the letter to the President released late last year by the Chairman of the U.S. Senate Banking Committee.

At the same time that Senator Proxmire was telling State and City officials that the Municipal Assistance Corporation could float the necessary billions in bonds to help the City on its own, he released a devastating "drop dead" letter that undermined MAC's credibility in the market place. This unfortunate gratuitous action served no purpose other than perhaps to pander to some parochial interests outside New York. MAC's chairman has estimated this letter alone depressed the price of MAC bonds by $400 million and had a severe impact on the marketing of a $250 million MAC issue which was then underway.
I sincerely hope this approach is not shared by members of this House or a majority of the members of the U.S. Senate.

On occasion, one hears loose talk about letting the City go bankrupt, with comments to the effect that there might be something therapeutic about such a process.

New York City's financial situation is not one that can be compared to bankruptcy in the private sector -- where people who were buying Studebakers could switch to Chevrolets.

Children in New York City would still need to go to school.
Garbage would still have to be picked up.
Police and Fire services would still have to be maintained.

Perhaps more importantly, the financial obligation on Federal and State Governments would be far greater in that situation than in the modest steps that are now open to prevent such a catastrophic occurrence.

But I sense a personal frustration, not unlike the initial New York City crisis of 1975 -- frustration based upon the recognition that a lot of work must be done to assure New York City's financial viability, and that the "zero-hour" is less than four short months away.

It is easy to recall the events of early 1975. Some of us recognized that what was happening to New York City was not simply the annual Mayor's budget waltz involving just a little more State aid, just a few more taxes, a sampling of threats and promises,
and much more borrowing. Some of us realized back then that there would be a lot less lending, because the City faced a *liquidity* problem, not merely a *budget gap* problem.

But Governor Carey seemed content during winter, spring and summer of that year to let nature take its course, until the well ran dry and the first crisis developed.

He drew back from doing in June of 1975 what eventually had to be done in September. You'll recall that when the City finally ran out of cash, the Governor asked Felix Rohatyn, Judge Rifkind, Richard Shin and Donald Smiley to suggest a course of action. Their initial suggestion was for a MAC with *Emergency Financial Control Board* type powers. But when Mayor Beame balked, the Governor equivocated, and MAC was created with monitoring and financing powers only.

Three precious months and another crisis later, the *Emergency Financial Control Board* had to be created anyway. Who can say what those three months cost the people of the City and the State? Would a *moratorium* on payment of New York City notes have been urged by the Governor with its devastating impact upon all public borrowers throughout the State? Would the additional $200 million in City taxes have been necessary?

I'm proud that the Republican-controlled Senate, through all of these crises, was willing to do what had to be done -- the advances, loans and new taxes to keep the City in business, the creation of MAC and the EFDB. We realize that New York City
is an integral part of our State. That bankruptcy for that City -- in what has become a hackneyed phrase -- is unthinkable, and that every town, village, city, county and school district in the State has a stake in the City's future. And the impact of the City's bankruptcy would soon infect the rest of the Nation.

I am encouraged by last week's testimony by Secretary Blumenthal before this Subcommittee. Hopefully, it represents a first step by President Carter toward redemption of his pledges to the effect that bankruptcy is not an alternative for New York City. But it must be recognized that it is only a first step and it may well not go far enough. A great deal of work lies ahead by the City and by the State, by Congress and by the President.

A program must be put in place that will indeed provide the City with a real opportunity to put its house in order and thus regain the full confidence of the municipal money market -- not simply to postpone solution for another few years and once again return to the Congress as a supplicant.

It must be a program that will permit the City to continue to function as it works its way out of its debt and credit problems. At the same time nothing is gained by overcommitting the resources of the State of New York, for it is upon the State's financial viability that the eighteen million people who live in its towns, villages, and cities -- including the City of New York -- must ultimately rely.
I am prepared to work with all those involved at the City, State and Federal levels to help the city -- to the extent of our capabilities -- to help itself.

I am confident that the State legislature -- including my colleagues in the Senate -- will act responsibly as they have in the past.

However, I wish I could say that the same spirit of cooperation that eventually emerged in the crisis of 1975 existed again this year in Albany. Unfortunately, the Republican Majority in the Senate has simply been left out of the City-State discussions on the current problems.

This situation has become so bad that the Senate less than three weeks ago was forced to initiate a joint Senate-Assembly hearing just to find out what kind of deal the Governor of our State and the Mayor of New York had consummated to provide an additional $200 million for the City in the coming year. That deal, as you know, is subject to legislative review and changes. But the failure to include all parties in the negotiations this year has left me in a position where it is difficult, if not impossible, to speak to specific proposals today.

Nevertheless, the Nation, as well as New York State, has a responsibility and a stake in the well-being of our greatest city. Apart from New York City's importance to the fabric of American society, that City's viability will have an impact on the municipal credit market and the banking system nationwide.
We at the City and State levels, acting alone, simply do not have the capacity to reestablish the confidence of the leading community in New York City.

The Federal Government was formed to add strength to the sovereign states. To provide, as you all know, for Domestic Tranquility -- and to promote the General Welfare. New Yorkers believed in that document. We ratified that Constitution, and with twelve other States, formed this Nation and we ask you now as representatives of the whole country to assume a responsibility -- not through paying our bills -- but through Federal backing of the City's credit so that we can put the City's house back in order with our own resources. We are not asking for a handout -- we are asking for a guarantee from the Federal Government that will help the City gain access to money markets so we can accomplish this task.

We need your support both in words and in deeds. Without it, we all -- in or out of New York City, in or out of New York State -- face a catastrophe.

Thank you.
Mr. Steingut. Thank you for the opportunity to testify at this hearing.

I come before this subcommittee today as both a lifelong resident of New York City, and as the speaker of the New York State Assembly. From that unique perspective, I approached the preparation of this testimony with a deep sense of responsibility.

I wondered, from the hundreds of thousands of words written about the New York City problem, what picture emerges? What does New York City now mean to you, as well as to the nation? Does it conjure an image of notes and bonds, seasonal loans and pension funds, budgets and balance sheets—a confusion of complex statistics and formulas?

Have we abstracted the City and its problems to such a degree that we have stopped thinking of it as the place where 1 out of every 30 residents of this Nation reside—as a place where 7 million people live and work and strive to maintain neighborhoods—as home for almost 1 million elderly Americans, and for almost 1 million others who struggle there to subsist on incomes below the poverty level—as home for more than 1½ million families who bear the highest tax burden in the Nation and yet are determined to stay and share the responsibility of rebuilding our town and making it work?

I would like you to keep that picture—of people—in mind while I address myself to the more abstract issues before us.

Senators Anderson and Ohrenstein and Assemblyman Duryea will cover other subject areas, but I would like to present the following four points which I believe are essential to your determination of the proper Federal role in the New York City plan.

**POINT 1**

The City's need for Federal assistance will end only when economic growth and health are restored to both the State and the City. This can only be accomplished by reducing the burdensome level of taxation in the State.

**POINT 2**

The commitment by the State to aid New York City beyond the additional $208 million during 1978-79 is contingent upon that economic growth and the consequent ability of the State to provide additional aid.

**POINT 3**

The objective in seeking up-front long-term Federal guarantees of City securities is to reduce uncertainty with respect to New York City finances. The application of various conditions to the provision of guarantees will undermine that objective.
New York City is the urban core of a sprawling regional economy, much of which lies outside New York State. Many of the City's problems are, in fact, regional and their resolution requires Federal participation.

Let me cover these points in greater detail.

First, there has been much controversy over the State's role in assisting New York City, with particular attention drawn to proposed State tax reductions.

The recent report of the Proxmire committee found no urgency to Governor Carey's proposed tax reductions and expressed the position that they could and should be sacrificed in order to provide additional aid to New York City.

Gentlemen, I can only express my belief that a delay in reducing New York State taxes cannot be tolerated. Business location decisions that are being made right now will have a decided impact on the long-term economic well-being of the people of the State and City of New York, as well.

New York State has yet to recover from the 1974–75 recession. There are 300,000 fewer private sector jobs in New York than existed prior to the recession. The lesson we have learned from our recent experience is that we in New York cannot expect automatic restoration of economic health due to improvements in the national economy. We must accept the fact that our loss of jobs will not easily be reversed; that much of what has been lost will not be regained. It is for this reason that no further loss can be tolerated.

We are fully aware of the impact which our high level of taxation has had on the State, as well as the City's economy. New York taxpayers bear the greatest per capita State and local tax burden in the Nation. Even if the proposed tax cut is adopted, we will maintain that distinction. At the same time, the State's unemployment rate looms nearly two full percentage points above the national average, 8.8 percent as of January. New York City's unemployment rate remains well above 10 percent—10.5 percent as of January.

The long-term hope for restoring economic and fiscal wellbeing in New York is conditional upon halting the erosion of our economic base. This cannot be sacrificed for short-term expediency. Any delay in the implementation of Governor Carey's tax reduction proposal will mean fewer jobs, more unemployment and even greater obstacles to overcome in the future.

It would be counterproductive in restoring the fiscal integrity of the city of New York.

The economies of New York State and New York City are, of course, interrelated and interdependent. Similarly, the fiscal health of the State is contingent upon our ability to resolve the City's financial problems.

As to my second point, regarding State aid, you should know that in furthering our efforts to improve New York State's business climate, we have not neglected our responsibility to provide substantial additional financial assistance to New York City. We are committed
to an additional $250 million in direct aid during the 1978-79 fiscal year. We are also committed to the maintenance of that level of assistance in future years and to insuring that the growth inherent in our State-aid programs will not be limited or restricted.

Again, this growth is predicated upon the future viability of the State's economy. However, it must be kept in mind that the future is uncertain and largely beyond the State's control. The condition of the national economy over the next 4 years will have a decided impact on the availability of State revenues. Regardless of circumstance, however, we will still be required to live within our means and present balanced State budgets.

My third point relates to long-term Federal guarantees.

Just as we look for a long-term solution to our economic problems, we look to a permanent solution of New York City's.

In order to accomplish this we request your assistance in overcoming the uncertainty that many feel toward NYC's finances. Long-term guarantees of City bonds and an extension of the seasonal loan program will provide the means.

I would hope that the program you adopt will achieve our common goal. Whatever conditions are required of New York City should be clearly stated and understandable. It should be known exactly what must be done and when. Uncertainty about the nature and timing of Federal assistance will be as detrimental as the uncertainty over New York City's ability to meet its own requirements.

My fourth point relates to the importance of viewing the City as part of a broad, metropolitan region.

The report of Senator Proxmire's committee largely bases its rejection of continued Federal assistance to New York City on the principles of federalism and absence of urgency. I too support our system of federalism and recognize the responsibility of the State with respect to its localities. However, the State's responsibilities are limited by the means available to control our resources.

We know that the region surrounding New York City benefits greatly from its proximity to the City. However, a great part of the urban region is not within New York State and is beyond State control. The State is not able to insure that all who benefit from the City share the burden of maintaining the City. It is an interstate and therefore a Federal problem and responsibility.

We can control neither the flow of commerce nor people into and out of the State. We cannot prevent the concentration of the poor and elderly in our cities.

As employers and jobs leave the State and City, people leave. However, many of the people who do leave are employable and productive. Of those remaining the percentage requiring public services increases and there are fewer left to pay for it. A full 12 percent of the City's population is age 65 or over. Nearly 12 percent of all families in New York City earn incomes below the poverty level and 10 percent of all families receive public assistance. The problems that result must in great part be accepted as the responsibility of the Federal Government, or we must be given the tools to act on our own behalf.
I share your belief in the sanctity of our federalist system, but the complexities of our present-day society require a more flexible system than was required at the time of the founding of this great Nation.

In closing, gentlemen, I want to say a word about the national urban policy which you will shortly be developing. It will be, I am sure, a policy designed to revitalize our Nation's cities—to provide jobs and improve the quality of life for city dwellers. You now have the opportunity to take that very important and necessary first step—to insure the solvency and viability of our Nation's greatest city—to give a measure of confidence and hope to the 7 million people who, after all, are the city of New York.

Chairman Moorhead. Thank you, Mr. Speaker.

Now, we would like to hear from Manfred Ohrenstein, minority leader, New York State Senate.

STATEMENT OF HON. MANFRED OHRENSTEIN, MINORITY LEADER, NEW YORK STATE ASSEMBLY

Mr. Ohrenstein. Mr. Chairman, members of the subcommittee, Democratic members of the senate and all the members of the legislature, I want to thank you for this opportunity to discuss the respective roles of the New York State Legislature and the Congress in contributing to the restoration of fiscal integrity to New York City.

Fiscal crisis has dominated much of the State legislative agenda since 1975. The New York City fiscal crisis was preceded by the near collapse of several State authorities and was accompanied by the temporary loss of credit of the cities of Yonkers and Buffalo. When the credit of the city of New York was lost, the credit of the State itself was severely affected.

The State acted swiftly to confront each of these problems. With regard to New York City, the State has provided a total of $3.3 billion in short-term advances since 1975, thereby alleviating a portion of the City's need for seasonal borrowing. The legislature also created the Municipal Assistance Corp., also known as Big MAC, to finance and restructure $5.8 billion of City debt. Because MAC debt is serviced from the expense budget revenues, rather than from the property tax revenues outside of the regular tax limit, MAC borrowing severely limits the funds available to the City for the delivery of essential services. Moreover, in 1975 the State purchased City and MAC bonds and notes amounting to $750 million.

May I say at the instance of the Federal Government, we also created the Emergency Financial Control Board and imposed $200 million of personal and business taxes on the citizens of New York City.

Since then, the legislature has authorized the State to assume 75 percent of the operating costs of the city university; has enacted pension reform; has assumed $15 million in annual City court costs; has pledged $120 million as the State's share in the phaseout of the counterproductive stock transfer tax; has passed through to the City/Federal countercyclical funds; and has enacted numerous other measures to enlarge City revenues.
In addition, we reduced the costs of State government, limited its rate of growth, and enacted management reforms that have produced substantial savings for the City and the State.

The legislature will continue this difficult effort. But there is much that lies beyond our purview.

We agree with the mayor and the Governor that the City's most pressing fiscal need is the requirement for long-term financing. The City must preserve its physical plant; it cannot deny future generations the right to inherit a structurally sound City, nor can it endanger the health and welfare of its current citizenry.

Furthermore, to the extent that the City can achieve capital financing, it probably can secure seasonal financing. But the reverse is not true.

Of course, the City should find local sources of long-term financing where it can, as the Treasury and the Congress have observed. One such source is the assets of the City and State retirement systems. Another is local financial institutions.

To facilitate potential financing, the State will increase the borrowing authority of the Municipal Assistance Corporation and will enact appropriate security and legal authority for that debt.

However, the legislature cannot legally or morally compel the State- and City-employee pension funds to purchase New York City debt. We cannot constitutionally guarantee City securities. We cannot compel the New York City banks to purchase City debt. Rather, we can only argue the case and make the investment as attractive as is legally possible.

Thus, we will extend the Emergency Financial Control Board or create some other fiscal monitor that will, within constitutional bounds, regulate City expenditures, control City debt, mandate balanced budgets, require extensive and regular financial reporting, and place fiscal prudence and social consciousness upon an equal footing.

But these measures by themselves cannot restore the City's credit.

We are encouraged, therefore, by Secretary Blumenthal's statement that the administration will ask the Congress for authority to guarantee up to $2 billion in aggregate principal amount of City and MAC long-term debt during the period ending June 30, 1982. It is the correct approach. With certain modifications, we urge you to give the Treasury this authority.

The most important modification we urge is that the Congress authorize direct guarantees of City and MAC debt. These guarantees should not be contingent upon the City's inability to attract capital funds on an unguaranteed basis. The objective we all share, I hope, is to enable the City to regain its credit.

In our view the best way to attain this end is to assure the City's potential public investors that the City's essential capital needs are provided for and that the risks of lending to the City are perceived to be reduced. A Federal guarantee in place can provide that assurance. In contrast, standby guarantees may not contribute to the City's credit, since a lack of credit is a prerequisite for receiving them. We, of course, would not reject standby guarantees.
But we emphasize that the most efficient way to use the guarantee authority is to use it directly. The City can demonstrate that it is a good capital debt risk if it can attract lenders. It can attract lenders more readily if 40 percent of its financing is assured. To the extent that debt needs are reduced, debt risks are reduced.

Moreover, we do not believe that Congress needs to be assured that New York will exert its best efforts to recover.

As Secretary Blumenthal indicated in his statement, because I believe in what I have already set forth in the statement we have, in fact, demonstrated that both the State and City are using their best efforts.

The City believes that its 4-year capital needs are about $5 billion. This means that MAC and the City will be required to appeal to the same markets in an effort to sell their debt. The marketability of MAC debt, which must be sold in any event, could be adversely affected by the lack of a direct guarantee on certain City debt. The adverse impact would also affect the interest rates borne by both the City and MAC.

We urge a second modification. To the extent that a guarantee is authorized, it should extend both to State and City pension fund borrowings. The strictures placed upon a fiduciary are the same regardless of whose assets are involved. The guarantee we seek could be limited only to our pension funds; it would not be transferable.

More important, we are committed to the concept that the guarantee would be without cost to the Federal Government.

Thus, we are endeavoring to devise a mechanism that would eventually provide full reimbursement to the Federal Government if there were to be an unlikely event of default while the guarantee was outstanding. The financial risks we ask you to undertake would be minimal at most. Ultimately, there would be no risk and no cost whatever.

Finally, we urge that the seasonal loan authority be continued for a limited period. The current loan program presents no risk to the Federal Government; it has paid a profit well above the costs of administration. The City has complied with all requirements of the credit agreement and has reduced its seasonal needs each year since 1975.

Moreover, the seasonal authority requested to be extended would be significantly less than that of the current year.

Continuation of seasonal authority is requested because the City is still excluded from the short-term credit markets and because some seasonal needs are unavoidable. Within our federal system of intergovernmental dependence, no modern government can function without seasonal borrowing capacity. It would be tragic if the City were to fail for lack of operating funds it could secure and repay within months of the time they were borrowed.

Members of the subcommittee, legislation to assist New York City is only one part of our urban agenda. Soon you will have before you the President’s urban program. Then there will be many cities in this house arguing for relief, asking for your consideration.
The city of New York will stand among them as a leader. The narrow limits of the assistance we seek today are realistic only in the context of the administration's broader promise to address the problems of urban America in comprehensive fashion.

The Congress cannot save New York City alone nor can New York City survive alone if national, urban injustice is unattended. So I urge you to see today's legislation as just one piece of a national solution to a national problem.

Thank you. Thank you very much.

Chairman Moorhead. Thank you, Senator Ohrenstein, for a very cogent statement.

The subcommittee would now like to hear from the Honorable Perry B. Duryea, minority leader, New York State Assembly.

STATEMENT OF HON. PERRY B. DURYEA, MINORITY LEADER, NEW YORK STATE ASSEMBLY

Mr. Duryea, Chairman Moorhead, members of the subcommittee, I appreciate the opportunity to testify before this subcommittee.

My name is Perry B. Duryea. I am the minority leader of the New York State Assembly. I was elected speaker of the assembly in 1969, and since that time have deeply engaged in the fiscal relationship between New York State and its largest city.

On the basis of that experience, I appear today to advocate continued Federal financial support to New York City in the form of long-term guarantees as well as a seasonal loan program.

In my judgment, New York City cannot survive financially if Federal help is withdrawn. If the seasonal loan program is ended on June 30, and no further Federal assistance is forthcoming, I believe the City will surely fail.

The long-term financing needs of New York City over the next 3 years total some $4.5 billion. New York cannot borrow money on its own to meet those needs. There has been no market for City paper since the 1975 crisis. Thus the question would be not whether the City will default without Federal assistance, but rather when that would occur.

The consequences of failure will not stop at the New York City limits. A City collapse will make it impossible for the State to borrow money except at exorbitantly high interest rates. The same will be true for every one of the 2,000 or so governmental bodies in our State with bond-issuing powers. Those governmental units range from school districts to local housing authorities.

The ultimate result may be to endanger the credit and raise the interest rates charged governmental subdivisions all over the country. It almost happened during the 1975 crisis. It could in fact happen this year.

I make this forecast with some assurance because I was there in 1975. I saw firsthand what a threatened New York City bankruptcy did to the rest of New York State.

In fact, I helped to find emergency financing for a small school district on Long Island during that crisis. It was not a major episode.
I simply helped members of the school board to obtain a short-term loan from a local bank.

The incident is important, I believe, as an illustration of how the threatened default of New York City caused serious problems for small governmental units all across the State.

With that introduction—I want to say the administration’s plan presented by Treasury Secretary Blumenthal has taken an important first step toward resolving New York City’s continuing financial problems.

The idea involved in the plan is basically sound. It moves in the right direction by placing the major emphasis on long-term rather than seasonal help. It is a relief from the apparent position of some in the Senate that the City needs no further Federal assistance.

There are those who have advocated the wholesale use of pension funds to purchase City securities. It should be remembered that pension funds are not public funds, but are a public trust. They belong to those who are retired and to present employees. The integrity of pension funds, both in the private and public sector, is paramount.

Congress recognized this in addressing pension reform in the private sector.

The administration’s plan appears to assume additional State assistance to the City. That assumption also should be examined.

I believe I can be an objective witness in this area because I have opposed New York City officials when I thought they were wrong. And I have supported the City whenever it made a legitimate case for additional help. During the 6 years I served as assembly speaker, the level of State financial aid to New York City increased by $1 billion annually.

It was the biggest increase ever.

We also adopted the first State revenue-sharing plan in the Nation, with New York City the primary beneficiary.

The State gave strong and unprecedented support to the City in its time of need. We set up, as has been said this afternoon, the Municipal Assistance Corp. to help finance almost $5 billion in city borrowing. We bought $750 million in MAC and City obligations. We have loaned the City $800 million every year since the crisis.

During the same period, we advanced $30 million to the cities of Buffalo and Yonkers to help them through their financial crises.

Finally, the State set up the Emergency Financial Control Board to monitor the fiscal and budgetary practices of the City government. I am sure we on both sides of the aisle in the legislature will do whatever is required of us to prevent the bankruptcy of New York City where almost half of the all New Yorkers live.

I am equally sure that we will be asked to forge any tax cut legislation in order to conserve those revenues for more financial aid to New York City.

I do not believe it would be in the best interests of either New York City or New York State to postpone tax reduction. For a major tax reduction is absolutely essential to the economic revival of both City and State. Without improvement in our economy—which means more jobs throughout the State—there can be no lasting improvement in the financial condition of New York City.
Consider these facts:

New York is one of only two States that has not recovered from the 1973-74 recession. We have lost more than a quarter million private sector jobs in just the last 3 years.

Many of the jobs followed the business exodus into the States of Connecticut and New Jersey. In States adjacent to New York, the owners of businesses pay, on the average, one-sixth of the income tax they previously paid in New York.

More than half of the manufacturing firms to leave New York State have gone to adjacent States, where the corporate taxes on both incomes and corporations are lower than in New York.

In short, to stop the flight of business and jobs, we have to reduce personal and business taxes. There is no other way. We had better do it now rather than later, because in the case of New York City, which has been most heavily hit by the business exodus, later may be too late. Since 1969, New York City has lost more than 500,000 jobs, some 400,000 of them alone south of 59th Street in Manhattan.

My final comment is this: I believe the precedent for Federal guarantees of loans to New York City is both ample and persuasive.

For the Federal Government has been, and continues to be, an insurer of loans on a wide scale. In fact, an analysis of the administration's budget for fiscal 1979, prepared by the staff of the Congressional Budget Office, reads as follows:

Federal lending and loan guarantees are a large and growing means of providing Government services. The total volume of new loans and loan guarantees by the Federal Government, including off-budget entities such as the Federal Financing Bank, is expected to be $98 billion in fiscal year 1979.

This will bring the total level of outstanding loans and loan guarantees at the end of fiscal 1979 to $388 billion.

In other words, the maximum $2 billion in Federal guarantees now proposed for New York City represents only a little more than 2 percent of the new Federal loans and guarantees planned for the next year starting July 1.

The planned New York City guarantee represents only about seven-tenths of 1 percent of the loans and guarantees the Federal Government will have outstanding in fiscal 1979. That is not what I would call going overboard to help New York.

The Federal Government insures bank accounts up to $40,000. It has insured billions of dollars worth of FHA home mortgages. It insures crops. For the next fiscal year, the Commodity Credit Corporation plans to borrow about $4 billion, a large portion of which will finance farm price support programs.

And the money we provide to international financial institutions for overseas loans is about $3.5 billion.

It seems to me that against that backdrop, a relatively small, and cost-free, guarantee of loans to the Nation's largest city appears to be reasonable, indeed. Moreover, as I am sure others have reminded you, the Federal Government has earned some $90 million in "profit" on its loans to New York City.

In conclusion, I submit that the continued solvency of New York City is in the national interest, deserving continued assistance from Congress.
We in the legislature will do our best to make an assistance plan work, although many of us represent districts far removed from the City itself.

I believe most Members of Congress will do their best, too. Because although New York City was the first city to face bankruptcy, it almost certainly will not be the last. What ails New York ails almost every city, and a great many towns.

I believe it makes sense to deal with the financial ills of New York, and other cities to come, on a sound, businesslike basis. It is wiser to insure and guarantee loans now than to pick up the bills for essential services later, as cities collapse under the weight of soaring expenses as their town bases erode beneath them.

That could happen. It is conceivable that in the future, some cities could go broke and be unable to provide essential services such as police and fire protection. In that event, those cities might become wards of the Federal Government.

Accordingly, the action Congress takes this year on New York City may prove to be a precedent for national policy on the cities in the years to come.

Thus, it is better for all of us, I believe, that New York City continue as a city in honest debt rather than become a city on an endless dole.

Thank you very much.

Chairman Moormaid, Thank you.

In Senator Anderson's statement and Mr. Duryea's statement, there were the words "first step" used. I think I understand that to mean the administration's proposal was merely the first step in putting together an entire package. It is not merely the first step that you are asking the Congress to do, and you will be back in a few years with more?

Mr. Anderson. That is correct, Mr. Chairman.

I can't remember the context of where I said it, but if it was in reference with what Secretary Blumenthal said, I would hope we could have something beyond the guarantee. I would hope some type of seasonal loan would also be considered by Congress.

Mr. Sweeney. Mr. Chairman, if it is appropriate at this time without being asked a question, I would like to know—I would just like to join in what Senator Anderson and Assemblyman Duryea refer to, and emphasize in my viewpoint the first step of the administration is recognizing that Federal intervention of some kind is necessary.

What I believe to be the ultimate step, so we can have a comprehensive plan, so that we know with certainty and assuredness where we are going and when we will come out of it, the ultimate seasonal loan and up-front guarantee I think would be the solution in that direction.

So the first step by the administration is recognition and suggestion of a triggered guarantee.

Chairman Moormaid. Governor Carey testified before the subcommittee today. And as I understood him, he gave his personal commitment, as far as a Governor can, to increase the aid to New York City
from the $200 million that you mentioned, Mr. Speaker, up to $400 million by the end of the fourth year of the plan.

I understood him to say he had commitments from the leadership of the legislature to make that announcement to this subcommittee, but I wasn't clear from the testimony whether you gentlemen are making that commitment, or qualifying it, or where you believe the legislature will stand.

Mr. Anderson. I would say, Mr. Chairman, that what I think the Governor said, or should have said, is that we would be putting in place formulas that would be in the range of $200 million this year that would self-activating if the economy moves along, because one of them is per capita aid that would produce that in the year 1982, or thereabouts.

The problem that you pose, which is one that I am sure you understand as a member of a legislative body, we all know that our tenure is at the whim and caprice of the public for 2 years. So to say what is going to happen as far away as 1984, you know, is left a little bit to someone beyond those here.

But certainly what we have in mind, at least so far as discussions that I have had—although I haven't been party to a direct conversation with the Governor on this other than Monday morning—that we think in terms of some kinds of aid not just to the City, but it would be the kinds that would be helpful to other parts of New York State as well.

But from your point of view, yes, $200 million to the City, that would grow, and that is really what we are looking at.

There have been several kinds of proposals advanced, education aid, per capita aid, things of that nature.

Chairman Moorman. I think you understand this subcommittee and the Congress would like to see a situation develop to the extent there is a risk that the State would participate to some percentage so it would encourage you to keep a very close watch on the operations of the city of New York.

But recent press reports indicated that some people did not look favorably upon the Federal Government's right to look to State revenue sharing, or Federal revenue sharing to the States, to back up even in part Federal guarantees to the City.

Mr. Ohrnstein. If I could clear that up—I think, Mr. Chairman, there has been a misunderstanding about the position on that. There was an initial suggestion, I don't remember whether it came from Secretary Blumenthal or the others, that aside from security—we are talking now of security—security backup to the guarantee, I believe if the legislation that is presently in place is examined, the seasonal loan legislation, there are securities guarantees of City revenues, particularly Federal moneys that are going into the City.

So that is one level of guarantee which obviously can be built into the legislation.

The question arose as to revenue-sharing funds that flow to the State and not directly to the City. The reason there was an initial negative reaction was because the totality of those funds flow not only to the city of New York, but to many other localities in the
State. And I think you will find there agreement among all of us that it would not be fair to provide a security of those parts of the funds that flow to other localities outside of the city of New York.

As to the portion of the State funds—and I would say it is probably in the area of 50 percent or more of the amount involved of State revenue-sharing funds—that go only to the City. I don't think there would be any objection if those funds were provided as security.

As I understand the figures—and I am sure you can check them—that amount of money—we are dealing there with somewhere in the area of $235 or $236 million at the present level of the revenue-sharing funds, which would be more than adequate to secure the debt service that would have to be provided on a quarterly basis on a debt, say, of $2 billion that is serviced over a 15-year period.

So the misunderstanding came about only as to that portion of the funds which is going to other localities in the State aside from the city of New York.

Chairman Moorhead. Thank you.

My time has expired.

Mr. Steingut. I might say that was reaffirmed by me to Secretary Blumenthal when he visited us.

Chairman Moorhead. The Chair will state the Chair got some criticism from members on both sides of the aisle on the lower row for not enforcing the 5-minute rule as rigidly as I should have, and I will try to do that in fairness to all members.

Mr. McKinney.

Mr. McKinney. It is very nice to see you here, gentlemen.

In my six-and-a-half communities next to New York State, a great many of my people think you are their leaders. They are sure the government comes from Albany, and they see far more of you on television than their own leaders.

I couldn't agree more with the comments you brought up about the regional problem. As a member of the District Committee, I am trying to tell my Virginia and Maryland friends that they have to pay some commuter tax into the city if they want their economic base to be maintained.

One of the things that interested me in going through the 4-year financial plan that was submitted to us—which I am sure you by now know only too well—is that there are about 5 pages of State things that have to be done. They range from welfare reform to probation costs, to City University, to so on and forth.

I want to ask you the unattractive question: Having been a minority leader of the State legislature, how much chance do they have in Albany?

Mr. Anderson. Could you be a bit more specific as to which one you would like to have a comment on?

Mr. McKinney. I would like to be specific, but I can only give you some of them. That is one of the problems with the plan: It is a massive jigsaw puzzle with, not 20 pieces, but 3,000 pieces. I could cite the local sheriff, excess supplementary security income payments, reduction of welfare fraud, wage reporting system increase, State share of home relief payment, provision of regulations to day-care
attendants, voluntary hospital improvements, mandatory second opinion for elective surgery, State participation in department of health fringe benefits, insurance corporation's indemnification, municipal overburden, full State share of probation formula costs, highway maintenance reimbursement, reimbursement for police protection, reduction of local sheriff's, mental health disallowances, reimbursement for two-party check disallowance.

I guess what I am really saying: As a complete package, does it have a chance?

Mr. Steinour. I would say in answer to that question I would have to assume, without having discussed the specifics with the Governor, when he talked to the $200 million and its potential growth, many of these areas are included in that. Many of the things that are mentioned in this laundry list we have started. The city university, the court costs, many other areas have been included. And I would think much of this will be in the discussion in the ensuing 2 weeks on the legislative level.

But I do think much of what you are talking to and much which is included here would fit in with what Senator Anderson has talked to as far as formula statewide and its applicability to the city of New York. So I think much of this is going to be included.

Mr. Anderson. Congressman McKinney, if you are talking about the $200 million, I could be more specific about that. I would say that is certainly within the realm of possibility. I would think it would most likely come in the way the education formula is eventually worked out, State revenue sharing and probably social services in some fashion, welfare in some fashion. I think they have a growth potential that might answer what the chairman was concerned about as to whether this would grow into some larger sum by the year 1984.

Mr. McKinney. I seem to be hearing sort of a bipartisan feeling that if it isn't this specific laundry list, at least a laundry list that will bring the State's participation up on that level?

Mr. Anderson. I think we have had more than—they have been shifting them back and forth. That is not the key as far as I would guess the Congress is concerned. I would think the Congress would be concerned about do you mean it at a level? Do you mean at a level with something that could grow to something larger than that. If that is your question, we do mean it at the level.

Mr. McKinney. I remember 4 years spent in upstate New York and being a New York City resident, I found I wasn't always the most popular person in the bar.

Mr. Anderson. The bar of the State of New York, I assume.

Mr. McKinney. You have to stay warm up there in Geneva somehow.

It has been proposed by several people, including our counterparts across the hall, that the State guarantee a part of this package. If that suggestion were to be followed, what would be the limitations of what the State could do?

Mr. Steinour. Very simple. There is an absolute Constitutional bar. The State of New York cannot borrow money except after the approval of a constitutional bond issue by the people of the State of
New York. We could therefore not supply a constitutional guarantee that would be worth anything.

I think the real answer to the people who want that is that offer we discussed before of a Federal loan guaranteed in part by State funds which are designed for New York City.

Mr. McKinney. I very much want to get that in the record.

My time has expired.

Chairman Moorhead. Mr. Lundine.

Mr. Lundine. Gentlemen, please excuse me if I ever ask things which you have covered already. I apologize for being a little late.

I am interested in your reaction to the Treasury proposal, particularly its long-term guarantee aspect. Do you think 15 years is an adequate length of time to allow the city of New York to take care of its longer term capital needs? Is the amount of $2 billion suggested by the Treasury adequate? And generally are those terms satisfactory?

Second, do you see a need for seasonal financing in addition to these long-term guarantees?

Mr. Durkee. It is my understanding the mayor of the City has said those terms generally are satisfactory to him. I don't think we appear here today. State legislators, presuming to tell the mayor the intricacies of New York City finance. Speaking as only one individual, if he says he can dig out of the position which he finds himself in with a program this way, designed this way, although I did note in one statement made by him that 20 years would be preferable to 15 years, but if generally it is acceptable to him, it is certainly, speaking individually, acceptable to me.

Mr. Ohrenstein. Congressman Lundine, I would answer pretty much the same way as the assemblyman did.

I think insofar as the length of the term and the amount is concerned, there seems to be general agreement between the mayor—and I think, again, we are all guided by him in many ways, in this respect, that that appears to be satisfactory. I think there is some disagreement between the mayor and the Secretary of the Treasury on one part of the total capital need. The mayor has put that at something like $5.1 billion and the Treasury has put it at $4.5 billion. Part of that relates to the restructuring of something like $800 million, which the City in fact borrows from the State short-term in the terms of an advance.

I would suggest that on that level, it seems to me there is some way to go in the way this package—there is a package involved here is being restructured, and will have to be some further discussion to refine that.

But if the mayor finds the amount and the length of term satisfactory, I think that is OK. I said before that I believe what is unsatisfactory about the Treasury's offer is the standby nature of the guarantee. I think that would be totally counterproductive. Because what you are saying to the City is first go out and try to borrow and if you fail, we will come in. That is like almost guaranteeing failure. I think you are much better off, if this joint effort is going to work, of saying we will give you a guarantee, we will therefore enable you to go to the public market and borrow the balance of the difference between $2 billion and $5 billion, say.
I think that is one criticism that has been voiced and it seems to me the logic of the situation is almost clear.

Second, the question of seasonal borrowing, it seems to me if this effort is going to succeed, the extension of seasonal borrowing at some reduced amount is just one more helping block to guarantee that the thing will really work and that the creditworthiness of the City is reestablished. It has cost the Federal Government nothing. The Government has, in fact, not only been reimbursed but at a profit, and, therefore, I think that could very well be made standby. In other words, you could make a standby seasonal borrowing effort and ask the City to go out and try to borrow seasonally, and with a Federal standby program.

I think those are the areas you have addressed yourself to.

I don't know whether there was some other area.

Mr. Sweeny. I said earlier, Congressman, and I agree generally—Senator Ohrenstein has just informed me that the mayor has asked for 20 years. I would have to come to the conclusion that the longer stretch would be more favorable and easier. However, I would like to, in your absence, just very briefly suggest if we are going to look at this in a totality, that what Senator Ohrenstein referred to were the seasonal borrowings and the long-term guarantee up front, we would be with certainty, more certainty, be able to come out of this maze as quickly as possible in a sensible, viable, financial manner.

Mr. Lundine. Thank you, Mr. Chairman.

Chairman Moorhead. Mr. Kelly.

Mr. Kelly. Thank you, Mr. Chairman.

Gentlemen, I found that your testimony is following the transcript pretty well so far, and that it is just unthinkable that New York would be bankrupt; it is unpatriotic to have this city be in such dire circumstances; and you want us to do something about it.

So I would like to ask you a couple of questions. The information available to me is that New York City, New York State, rather and the City, get more Federal aid than any other State in the United States. You get more aid than any other State. On a per capita basis you are sixth in the Nation and as a State you are No. 1.

New York City is the richest city in the United States. It is already paying the highest taxes. It has the highest per capita debt in the United States. And you believe the only possible solution is to borrow more money, and you are telling us it won't cost a thing if you just guarantee, just guarantee.

And it is true that your guarantees now will come up to nearly $400 billion as a Nation. It will be on the budget, that is the kind of bookkeeping that got New York in the condition it is in. You want us to even guarantee it and the only reason you can give is we are doing it for others.

So, therefore, we should do it for you, too. In other words, we have been a little dumb here in Congress and you want us to be a little dumber.

Now, those don't necessarily seem like very good arguments to me. It would seem to me as though there might be one other solution. And what I want to know from you is why don't you go to the unions in New York City and have them take a 10- or 20-percent
pay cut and then you will have solved the problem and you will save the Nation. Just think, you would transform yourselves from being in a position of groveling around here begging for a handout to being a national hero, and for New York City to take its rightful place in the galaxy of the United States. Just fantastic, what an opportunity.

Now, why don't you—you are the legislature, why don't you do something about abolishing rent control and rent stabilization, and reducing the welfare situation. You mentioned the fact that other States in your area have lower taxes and so they are stealing your jobs. Well, do you know what else they have? They have welfare payments that are lower than yours. And I have reference to Connecticut, Delaware, New Jersey, Pennsylvania, all have lower welfare payments than you do, and they have lower taxes, and, you know, there is a connection.

If you spend more money on welfare, and you pay more for your municipal employees, then you have to have more debt or more taxes or both. It is just like that everywhere.

Now, in Texas they don't have as many problems as you do, but their welfare payments are only a third as much. Less than a third as much as you are paying in New York. The suggestion is that is because the cost of living is higher. But the truth of the matter is that 60 percent of the difference in the cost of living in Houston, Tex., and New York City is just one item alone—the income tax in New York to say nothing of all the other taxes. So taxes constitute the biggest difference in the cost of living and people on welfare don't pay taxes anyway so that is not an excuse.

I would like to hear from you now; why don't you people go back up there, face up to the welfare people, and try and cut down on your expenses and run your own State and cities like you ought to! That is what the rest of the Nation is doing.

Mr. STEINOUT. I don't think there is a volunteer.

Mr. OBERSTEIN. Which question do you want us to answer.

Mr. KELLY. Take your choice. I think they are all good questions and I would be glad to have an answer to any of them.

Mr. OBERSTEIN. I will take one crack at it. You say we are the richest city in the world. We have the highest taxes and highest debt. I think any fiscal expert in using current accepted accounting methods, is that the parents, generally accepted accounting methods, anybody who would say if you have the highest taxes and the highest debt, you cannot possibly be the richest city.

Congressman, I would suggest to you in all seriousness if you are suggesting that somehow we have been profligate and we have been sinners and therefore we have been brought to our knees and therefore we ought to do the right thing by ourselves, tighten our belts and go and go it alone, if you are suggesting that, I would like to take respectful exception with you.

First of all, we have done all of those things. We have made a lot of mistakes. I listed many things that the State did, the State legislature did.

The members of the legislature from New York City, on a bipartisan basis, voted to take control of the City government out of
its hands. Now, these are members of a legislature representing a
city, bipartisan, voted to take control of their own city out of its
hands and giving it to an Emergency Financial Control Board.

Mr. Kelly. What about the unions and rent control?

Mr. Ohrnstein. We put on a wage freeze too. Rent control is
about the most misunderstood subject there is in Washington. Rent
control is, in fact, being phased out. The rent control system--there
has been instituted a system of vacancy decontrol back in 1971. You
had a little argument about that at the time, but it was done, and
rent control is in fact being phased out.

Rent stabilization is not, and all that rent stabilization does, it is
based upon a market price and controls the increase over the market
price so as to enable middle-income people to continue to live in the
City. Middle-income people.

What I would like to suggest to you, Congressman, is that we have
done a great deal in the last 3 years. People have been fired, wages
have, in fact, been maintained.

Mr. Kelly. They went up 16 percent.

Mr. Ohrnstein. No, not in the last 3 or 4 years. The mayor has
taken a very tough position with the unions in terms of the collective
bargaining that is going on.

I would also like to suggest to you that some of our problems
have been created because we in this city were first in the Nation to
address ourselves to some problems. We opened our doors, programs
to your grandfather, to me, I happen to be an immigrant, or to Sena-
tor Anderson's grandfathers or grandparents, Assemblyman Stein-
gut's, Assemblyman Duryea's, people who came from across the seas.
We were the gateway, we picked up the costs for those things for
decades. When there was no health insurance program, Federal or
otherwise, we maintained a municipal hospital system. Because we
would not let our poor- and moderate-income people go without
help. We were the first to deal realistically with the problem of dis-
 crimination against blacks, Hispanic people, when this country
turned its back on them, by a national policy, before the Supreme
Court spoke on these matters.

We paid the bill in that city for a lot of national errors that are
now coming home to roost. We were glad to do it.

Mr. Kelly. Could the record show my time has expired and that
I am not at liberty to respond?

Chairman Moonhead. The record can so show.

Mr. Ohrnstein. Senator Anderson has the same complaint.

Chairman Moonhead. To be fair to all members, because we do
meet at 3, I think we better proceed with Mr. Barnard.

Mr. Ohrnstein. I am sorry, Mr. Kelly, I didn't mean to pre-
empt your talk.

Mr. Barnard. Thank you, Mr. Chairman. Gentlemen, I welcome
you here today. There are so many questions I would like to pose
to you, but in the interest of time I want to zero in on one.

Senator Anderson stated in his comments:

I want the people here in this room to know that I stand ready to work with
my colleagues in the senate, members of the assembly, and the Governor to
develop the appropriate State actions within our capability to help solve this
current problem.
Senator Anderson, would you work toward a constitutional amendment so that New York State could guarantee the debts of New York City?

Mr. Anderson. Well, I think you should recognize that to change the constitution in New York requires that it be passed by two separately elected legislatures. So even if you assume it would be something that could be passed by the legislature, and that is conceivable —

Mr. Barnard. That is not my question.

Mr. Anderson. I am coming to it. I am coming to the answer.

Then under the constitution of our State, it then becomes a referendum matter, and I have been there a good number of years, and I have seen various types of this sort of thing related to housing or whatever come before the public, and almost uniformly they are turned down.

So that, No. 1, it is not, in my view, a practical, workable solution because it just won't happen. Beyond that, taking it two legislatures away and then a referendum away, the whole problem would be — the problem would be flat on the back of the Nation — of Congress and on the State legislature long before that. So I don't see that as a workable solution. I don't like to work on things I don't think would ever work out.

Mr. Barnard. But on the other hand, why should the citizens of this country take a position that the citizens of New York State don't want to take?

Mr. Anderson. There is another great difference between the Federal Government and the State government. Very basically, you print money. We don't.

Mr. Barnard. That is exactly why I am in Congress today. I want to see us get out of that situation.

That would be like a person with terminal cancer giving a blood transfusion to another victim.

That is exactly what it would be.

Mr. Anderson. You are asking us — the only way we could do that would be to borrow the money, you see, in the open market after assuming this constitutional amendment was passed by both houses, approved by the public, then we would have to go out into the market and borrow the money. That is the only way we could get the resources.

Mr. Barnard. What is wrong with that?

Mr. Anderson. Well, I am just suggesting to you, we aren't talking about an appropriation now. We are just talking about a method by which the city of New York could work its own way out of its own problems without the necessity of your appropriating money or our appropriating money.

Mr. Barnard. What is wrong with that plan? What is wrong with a plan where we would continue seasonal financing to fund the necessities of New York City? The Federal Government would stand in that posture and give New York State an opportunity to go to its people and get a referendum so that the long-range guarantees could be a State obligation, or in cooperation with the Federal Government?
Mr. Anderson. Well, there is this basic problem with that. The seasonal financing is a good temporary expedient, but it is too heavy a debt service load for the City. The purpose of the long range is to loosen the yoke or the expense for debt service, and if we went that route and the public didn’t buy it, then you would have to continue it on, and you are increasing the debt unnecessarily. It seems to me it is much more practical not to appropriate any Federal funds or State funds, but to let the marketplace work, because if there is credit there—I mean guarantee there, I am convinced that the City by the time that this process that you and I are talking about ever came to being, the city of New York would be able to borrow the money as other municipalities are able to borrow it and the marketplace paying whatever the current rate of interest is.

Mr. Barnard. Do all of you gentlemen agree with that?

Mr. Steingut. Yes.

Mr. Barnard. All of you don’t think it would be a logical choice?

Mr. Steingut. I don’t think it would be practical.

Mr. Barnard. But it is practical for the Federal Government to guarantee the financing of New York City for 20 years; that is practical?

I have no further questions.

[In regard to the above colloquy, the following letter was received from Hon. Stanley Steingut:]
March 29, 1978

Honorable Douglas Barnard Jr.,
418 Cannon House Office Building
Washington, D.C.  20515

Dear Congressman:

During my testimony before the subcommittee on Economic Stabilization, you inquired about New York State's willingness to lend funds to New York City.

At that time, Senator Anderson and I testified that there were both fiscal and legal impediments to the extension of credit to New York City by the State of New York. This letter will address itself to the legal impediments which make the extension of such credit impossible regardless of whether funds for such a loan are available.

As was discussed in my testimony, the extension of credit to public corporations is prohibited by Section 8 of Article 7 of the New York Constitution, which in pertinent part reads as follows:

"... nor shall the credit of the state, be given or loaned to, or in aid of any individual, or public or private corporation or association, or private undertaking. . . ." (emphasis added)

I know that you are aware of the provisions of this section and that you are concerned as to why New York has not voted to repeal it. New York, in fact, did take steps toward amendment of its constitution only last year.

In 1977, the question of whether New York should hold a Constitutional Convention was placed before the voters. One of the prime arguments for the passage of this question was the elimination of the prohibition against gifts and loans by New York State. The voters of New York defeated this question by a vote of 1,668,137 to 1,126,902. One reason for the defeat of this question was the fear that repeal of the gift and loan section would leave the state vulnerable to financial collapse.
Honorable Douglas Hornard Jr.  2  March 29, 1978

While it is true that a single amendment to effect repeal of Article 7, Section 8 could now be proposed for approval by the legislature and the People, a similar amendment was submitted to the people for approval in 1971. This amendment, among other provisions, would have allowed the state or local governments to make grants or loans to both government and private agencies or groups for "the development of adequate, safe and sanitary housing and other types of shelter or accommodations; urban and community renewal; economic prosperity and adequate employment opportunities; civic, cultural, recreational and other community facilities and services." (emphasis added). The amendment was overwhelmingly defeated by a vote of 2,235,143 to 1,470,371, after a long and acrimonious debate which centered on the gift and loan provisions. In my view, and no political observer disputes this, it does not appear that there is sufficient public sentiment for a repeal of this provision to warrant the repeated futile passage of such an amendment by the legislature.

I hope that this has been responsive to your questions. New York City is a national as well as New York State resource. We are prepared to take all reasonable measures to ensure the fiscal future of this national resource. I look forward to your support in this effort.

Sincerely,

Chairman Moorhead. Mr. Caputo.

Mr. Caputo. Thank you, Mr. Chairman.

I would like to welcome what I was going to call my former colleagues, but really my former leaders, to Washington.

We have all been concerned since the outset of the problem in 1975 with separating the City's credit problems from the State's credit. First, we didn't want the problem to spread; and second, we wanted the State to be able to help the City. Now, it seems to me terribly important that we continue that separation in the creditors' minds.

It is particularly important now that we not taint the State's credit because we are on the verge of the spring borrowing, which is massive; and, I have learned, unique to any State. Without that, what we are talking about today becomes academic and 10 percent of America becomes directly insolvent. We have to be careful not to discredit the State with anything we talk about, much less do, here.

Understandably, the Federal Government wants assurance that whatever it extends by way of seasonal loans or guarantees will be repaid. It wants collateral. One of the suggestions by the Treasury Secretary, and I have his language here if we need to review it, is that the State's revenue sharing, which has never been used before—the City's revenue sharing from the Federal Government has been, but not the Federal revenue sharing directly to the State before, to my knowledge—may be used as one way to secure it.

Now, the seasonal loans use transfer payments from the Federal Government to the City. Nobody is talking about using transfer payments from the Federal Government to the State to secure seasonal borrowings or guarantees before Mr. Blumenthal did.

I think it is important to develop alternatives to that. And I think they exist. One is to segregate out that portion of the State's revenue sharing from Washington that goes directly to the City. I think there is a better alternative, although, that might be acceptable.

And that would be to have a third resolution MAC bond, or an altogether new State agency that would be like MAC and that would receive the Federal guarantees, issue bonds on the strength of those guarantees, use the proceeds from those bonds to buy City paper, establish a debt service reserve fund, and, importantly, make the city's income tax a State tax the way we did with the sales tax and stock transfer tax when we established MAC, and have that tax flow to the new agency.

The Federal Government would be protected. There would be the debt service reserve fund which has always worked with our State agencies in the past except for Economic Development Commission, and that could be cured.

Second, there would be the City income tax, two and a half times, assuring repayment.

And third, there would be the moral obligation of the State of New York with this new State agency, or, if it is a third resolution MAC bond, with MAC.

I think the interest of the Federal Government can be preserved more than amply without attaching the State's revenue sharing and impugning the credit of the State.
So we can accomplish the legitimate objectives of the Federal Government to get repaid without tying in the State's credit in a new way.

Now, my question is: Is that kind of scheme, the details which would have to be worked out, acceptable to the legislature?

Mr. Steingut: You know, having lived through the trauma that we lived through together in 1975, that the legislature, and I believe the Governor and the then mayor and present mayor, would look at any formula to improve the relationship, the funding, and the certainty of what has to be done. I would appreciate a documentation of this so we can give it very serious and sincere review.

Mr. Duvika: Mr. Caputo, in my opinion, that would be much more acceptable, because it keeps, in a sense, in violation the State flow of Federal revenue-sharing moneys.

In the breakout of the State/local percentage of New York, 80 localities, 40 State. So that the State portion would not be impaired as it might be in the mix that I believe the Secretary recommended.

Mr. Anderson: I think it is an excellent suggestion and one we should certainly look at.

Mr. Ohrenstein: I would simply say to you the history of the last 3 years has been one of fiscal gymnastics, illustrated by Mr. Felix Rohatyn in particular, and I think you are making an excellent contribution to that process.

Mr. Caputo: I wanted to ask about the short-term financing. We are going to try to get seasonal financing. I think the case is compelling for seasonal financing on a standby basis, if only because the last City note rating was a MIG-4 rating, which is the minimum. It may be that Senator Proxmire is saying, "Get it from the banks," and the Comptroller of the Currency is saying, "You can't buy at banks."

Now, the question is, what if we don't get it from the Federal legislature? It is possible.

Mr. McKinney: Might be able to give you—issue notes. They have the authority to issue notes. They have never done it before. Would you have a sense of propriety to have MAC consider issuing short-term lending to the City?

Mr. Ohrenstein: I don't know if that has been considered. It could be.

Mr. Steingut: I have never heard of it before.

Mr. Ohrenstein: There has been increasing confidence expressed if the long-term capital problem was resolved, there was that first joint step forward, reestablishing the total creditworthiness of the City, that the short-term problem could be addressed in a variety of ways. That might be realistic, this being one of them.

The reason why the standby program there would be necessary in the event those failed, the City did its best to go to market early in November. It did it at the request of Senator Proxmire. We put all the pieces together. We came into session a week prior to election last year. We passed the necessary legislation. The City failed. We certainly would like to see the City do that again, but it would always be comforting if we knew that in the event that failed, there would be this standby program, because to see the City go into default for
3 months when we are talking about saving the total situation is kind of ridiculous.

Mr. Caputo. I am asking about MAC notes.

Mr. Anderson. Certainly we would have to look at that. I don't know enough about the revenue flow into MAC to determine that. If that isn't strong enough to encourage buyers of notes to buy them, I think we might legally have something there, but it might not work any more than the City can go out.

Mr. McKinney. It is only as good as that revenue flow into it, because the investor isn't going to buy the note any quicker than he will buy a City bond or City note if he doesn't see the opportunity of getting paid back.

The last offering was difficult enough, and the City is so dependent on MAC for long-term financing.

Mr. Caputo. You would prefer not to pollute the long-term borrowing of MAC. I think that is a sensible comment. Thank you.

Chairman Moorhead. If no members of the subcommittee object, the Chair would like to recognize first Mr. Garcia and then Mr. Green to participate fully in these hearings.

Mr. Garcia. Thank you, Mr. Chairman. I think you may have brought these four gentlemen here because you knew I was home sick for the New York State Legislature.

Mr. Chairman, I have served as the deputy minority leader to the New York State Senate, and I am most delighted to see my colleagues here.

Mr. Caputo. He even brought Albany snow with them.

Mr. Garcia. I would just like to say, if I may, that one of the things I find very significant in the fact that these four gentlemen are here today is that it represents a bipartisan effort for the State of New York, not only from a political point of view but from a geographical point of view as well. Senator Anderson comes from the center of our State in Binghamton, and Assemblyman Durylee comes from Montauk Point, the tip of Long Island.

I think that from the very first day, Mr. Chairman, of the financial crisis in the city of New York there was never a question that the City must be saved. I think the significance in these four gentlemen being here today is to demonstrate to this country that those of us who are from the City and the State of New York are determined that the City should be saved and must be saved.

While we are all not fortunate enough to be from the City and I know some of my colleagues even have some problems with whether in fact the city of New York should be saved at all—I can just suggest to my colleagues that those of us who are from New York make up a substantial part of the economic viability of communities in other States around the country. I would just hope in the final judgment, Mr. Chairman, the city of New York will be assessed in its proper place.

I have no questions for these gentlemen. They know where I stand and I know where they are, Mr. Chairman. Thank you.

Chairman Moorhead. Mr. Green.

Mr. Green. One idea that surfaced both yesterday and this morning was that both the long-term financing needs and the short-term
financing needs might be covered by a single guarantee program. The theory is that the combined long-term and short-term debt outstanding at any one time would not exceed $2 billion, or to use the mayor’s figures, $2.26 billion, because you would have a situation where initially the short-term debt was relatively high and the long-term debt relatively low, and, as the long-term debt was going up during the period of the program, the short-term seasonal borrowing would go down.

I guess both the mayor and the Governor seemed to indicate that concept didn’t create any problems for them. I simply wondered if it created any problem for any of you gentlemen.

Mr. Anderson. I don’t see any problem. Might get a better rate on the short term.

Mr. Steinhart. Mr. Green, that was what was recommended and advocated in 1974.

Mr. Green. Nothing further.

Chairman Moorehead. Mr. McKinney, do you have anything further?

Mr. McKinney. No, I would just like to thank all four gentlemen for coming down. I couldn’t agree with them more. I wish you well in your fight for a just cause.

Chairman Moorehead. Mr. Barnard.

Mr. Barnard. I yield my time to my colleague, Mr. Caputo.

Mr. Caputo. I just wanted to ask for the record, the State legislative leadership endorses the extension of chapter 898 of the laws of 1975 which indemnified the trustees and it was chapter 168 of 1975 that needs to be increased to permit MAC to borrow another $2.3 billion. Is your forecast favorable?

Mr. Steinhart. I think both.

Mr. Caputo. Do you think we will pass that before, say, 6 weeks is out?

Mr. Anderson. I was going to suggest to the chairman while we were talking about this $200 million problem, this will be in place in all probability by April 1, which is the start of our new fiscal year, which in all likelihood would be prior to congressional action. So you will know in fact what we are talking about by the time you are called upon to make a decision.

Chairman Moorehead. Thank you for that comment, Senator Anderson. That will help us.

Do you have any further questions?

Mr. Kelly. Yes, sir.

Well, Mr. Chairman, you have never been presumptions.

Gentlemen, as I understand your testimony, and it follows this same transcript, there is no way for New York to solve its problems except to borrow money. It seems to me as though you have gotten in trouble because you have been spending too much money already. You are drowning in debt and now you want us to throw you another bucket of water.

Isn’t there some way to solve New York’s problem without borrowing more money and coming to a Federal Government that is now approaching a trillion-dollar indebtedness of its own? The dollar is on the down. The stock market is on the down. We have
serious problems nationally to solve, and there certainly doesn’t seem to be any logic in economics that you should solve a bankruptcy by borrowing and spending more money.

Now, you have indicated, for example, that you have to reduce your tax load so you can keep your industry. But you want to borrow money to do that. You don’t want to cut expenses.

Now, you are saying to the people in Texas and Georgia and Louisiana that we are more generous than you are, we have a big heart. We have compassion for our fellow man, and we want to send you the bill to prove it.

Mr. STEINWUT, Mr. Kelly—

Mr. KELLY. I want my colleague from Georgia to know I am serious about this.

Mr. BARNARD. I know you are serious.

Mr. KELLY. You care more about——

Mr. ANDERSON. With some trepidation I am even going to preempt the speaker here, Mr. Kelly.

I think what you should think about in terms of what we are asking here is that we are not asking for this guarantee to provide new things for New York. We are trying to restructure a debt situation that is there. Now, you can spend a lot of time maybe objecting to how we got there and I might share some of those thoughts with you, but the historical fact is that here we are on March 8, 1978, with this situation and what we are trying to do is restructure that debt in a fashion that the debt service will be reduced somewhat.

Now, there will be some capital things necessary, true capital things, such as repair of bridges, and things of that nature that have been allowed to deteriorate, and if we are not going to have a catastrophic problem facing the whole Nation, as well as New York City, we have got to do some of those things. If we were asking to borrow money for operating costs, a practice unfortunately did pertain in the City at one time, then I would be 100 percent in agreement with you. But we are not asking for that.

Mr. KELLY. If you cut your welfare 20 percent, cut your labor costs—not this business about where they say we froze the wages and then in fact they increased over 16 percent during the time they were frozen, but I mean a real reduction in wages by 20 percent. If you caused those people to give up that 50 days a year annual leave and if you made them work 40 hours a week, like everybody else in the country, what do you think the response would be on the market? I think people would really start to think, well, gee, those bonds may be worth something. It sounds like they are going to finally run that government like there is a tomorrow. But that is why you have no confidence in the marketplace, because you are running the thing like you can depend on the printing presses of the Federal Government to print all the money you need and there is no tomorrow.

That is where the confidence has gone. It doesn’t make any sense.

Mr. DURGA. There is one difference with New York. Louisiana and Texas, those States have a natural resource in the form of oil, which generates substantial revenue to the State and, in fact, Texas has no personal income tax and no corporate income tax. We in New
York do not have that possession. We have very little in the way of natural resources. We do have a slowing down of industry and we were a financial capital of the world. As a matter of fact, because we were the financial capital of the world, many people speculate we send as much as $8 to $9 billion a year more to Washington than we get back.

Mr. Kelly. Would you believe Georgia isn't included on oil?

Mr. Steingut. Peanuts. The raw products.

Let me say, Mr. Kelly, we have gone through this trauma together. I can go through the litany of what has been done. I am sure the Governor has and the mayor as well. We have contained costs on a State level. We have restructured our welfare system in the State considerably. There is a saving—Federal, State, and local—to the tune of a billion and a half. We have done a multitude of things, and I think that in and of itself is going to be recognized by the investing public.

Mr. Kelly. Good luck on the labor negotiations.

Mr. Chairman, I have a unanimous consent request, also,

Mr. Chairman, I ask unanimous consent that the publication from an objective organization in New York be received into evidence to indicate that there was a 16.6 percent increase to the transit workers during the time that the wage freeze was in effect in New York.

Chairman Moorehead. Without objection, that will be made part of the record.

[The publication referred to by Congressman Kelly, “Looking Ahead in New York City,” by the Economic Development Council of New York City, Inc., with an attached summary, follows:]
THIRTEEN

TRANSIT WORKERS' PAY

A Look at the Total Picture

- To maintain the average hourly employee on its payroll costs the Transit Authority $24,413 per year.

- Over the past ten years, the average earnings of a private employee in New York City have gone up 84%. The cost of living has gone up 86%, but the average earnings of the New York City transit worker have gone up 117%.

- In this ten-year period, average earnings for the private employee have gone from $17,253 in 1967 to $34,319 in 1977. But the average New York transit worker’s earnings have risen from $14,370 in 1967 to $18,207 in 1977.

- In the past three years, during most of which City wages have been "frozen," the transit worker has held his own with general wage increases and cost of living adjustments totaling 16.6%—almost matching the actual 17.1% increase in the cost of living.

These are highlights of the attached report just completed by the Economic Development Council.

With these and many other salient facts, this study makes it clear that any increase in compensation for transit workers would not be justified.

This report is presented as part of the EDC's continuing effort to provide facts to concerned New Yorkers to enable them to understand and support public policies that improve the City's economic climate and thereby create more jobs for more people.

January 1978

George Champion
Chairman

Average earnings of employees covered by unemployment insurance.

ECONOMIC DEVELOPMENT COUNCIL OF NEW YORK CITY, INC.
260 Madison Avenue, New York, N.Y. 10016
212 949-0600
New York City transit workers are not employees of the City. They are hired by the Transit Authority, a component of the Metropolitan Transportation Authority. Yet contract negotiations with these employees have great importance, in two ways.

First, and most importantly, the T. A. contract expires three months earlier than that of the City employees -- on March 31, 1978. Thus the T. A. settlement is likely to set a strong precedent, affecting contracts in which the City has a direct stake.

Second, if the T. A. settlement results in a fare increase, the economic health of the City is placed in jeopardy. Because labor costs alone already exceed operating revenues, any increase in labor costs would require either a rise in fares or increased subsidies which the City could ill afford.

Our examination of labor costs has convinced us that any analysis based solely on base rates of pay is highly misleading. While base pay is a factor, any comprehensive analysis must also include benefits and the entire range of pay practices and work rules which result in substantial additional costs over and above base pay. It is our conclusion that the New York City Transit Authority exceeds comparable systems in the area of benefits and premium pay practices.

Our specific findings are:

- By and large, pay for transit workers has kept up with increases in the cost of living, even over the last three years.

- Over the past decade, pay increases for transit workers have surpassed those gained by the average of all workers in the private economy. Transit workers, in sharp contrast to the average private employee in New York City, have experienced an increase in their real income (in constant dollars) over the decade.

- In comparison with comparable large city systems, the current hourly rate of base pay is not excessive.

- Benefits received by transit workers, most notably retirement income and time off, surpass those provided by comparable systems.

- Pay practices followed by the Transit Authority, which result in the average worker receiving a premium almost one-fourth above base pay, go well beyond the usual practice in other systems.
Mr. Steingut. I would like to say it was within the fiscal plan.

Mr. Kelly. I am sure it was within the plan.

Chairman Moorhead. The Chair would like to make an announcement about a change in the program.

Mr. McKinney said this whole situation is a jigsaw puzzle of many thousands of pieces and putting them together is a job which involves many private groups and individuals and the Federal Government, the State government, the local city government; we had planned to continue hearings on March 14 in order to hear from representatives of the financial community of New York City. Since then, I have learned that a working group consisting of Mr. Felix Rohatyn, MAC chairman; Mr. Robert Morgado, acting for the Governor; Mr. David Margolis, president of Colt Industries; and Mr. Phillip Toia, deputy mayor for finance, acting for the mayor, has been formed by Governor Carey and Mayor Koch to negotiate with the various participants, including the Treasury Department, to be involved in assembling this complex New York City financial plan.

I today asked both Governor Carey and Mayor Koch, and Mr. McKinney has joined in with me, to request this group to report to this subcommittee no later than March 23 on its findings and recommendations regarding the overall financial plan. In view of this action, I think it would be premature to ask testimony from those parties scheduled to appear on March 14 until we hear from Governor Carey and Mayor Koch with regard to this request and the report of the working group.

Accordingly, when the subcommittee adjourns, it will do so to reconvene on Wednesday, March 15, at 9:30 in this room. We will then be hearing testimony from various citizens groups and individuals.

When the subcommittee adjourns, it will adjourn to meet March 15.

Let me take this opportunity to thank this distinguished panel of legislative leaders of New York for taking the time to share your thoughts with us; you present a very cogent case.

While I have one little reservation on some part of the State revenue sharing being part of this whole package, I understand your concern. And again I want to thank you very much for appearing with us to help us in this difficult problem.

[Whereupon, the hearing was adjourned at 3 p.m., to reconvene on Wednesday, March 15, at 9:30 a.m. in this room.]
NEW YORK CITY'S FISCAL AND FINANCIAL SITUATION

WEDNESDAY, MARCH 15, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC STABILIZATION OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 9:30 a.m. in room 2220 of the Rayburn
House Office Building; Hon. John J. LaFalce, presiding.

Present: Representatives LaFalce, Lundine, and Kelly.
Also present: Representatives Robert Garcia and S. William
Green, both of New York.

Mr. LaFalce. The Subcommittee on Economic Stabilization will
come to order. There are a number of events that have intervened
this morning to delay the convening of this morning's subcommit-
ttee hearing.

First of all, an unexpected call of the Democratic caucus took
place and legally, technically, the subcommittee ought not to meet
during that period of time. However, I am advised that the caucus
should be winding up its activities shortly. In that spirit, we will
commence this morning's hearings.

Second, Mr. Moorhead, our subcommittee chairman, is suffering
an illness and will not be able to attend any part of this morning's
hearing, but we did not want to postpone them for that reason. Were
Mr. Moorhead here, and opening today's hearing, he would have
made the following statement:

The hearings today are a continuation of our examination of the New York
City financial situation. The witnesses who have appeared before the subcom-
mittee in the past several weeks have for the most part been officials from
government—Federal, state, and city—who have presented their views on the
City's financing needs over the next several years and their proposals for
meeting these needs.

Today's witnesses are primarily from the private sector. With one exception
they represent nongovernmental citizens of New York who are deeply con-
cerned with specific aspects of City programs, namely, budget polices and
rent regulation. The minority members of our subcommittee had requested that
we hear these witnesses, and we were indeed pleased to invite them.

The issues of budgeting and rent control are highly controversial ones. While
these are matters for local determination, and we do not intend to be directly
involved in them, we do need to understand them if we are to develop a work-
able program to help New York achieve financial stability. We expect our wit-
nesses today to help us with that task.

That concludes Chairman Moorhead's prepared remarks. Before
we do begin, Mr. Green, do you have any statement you would like
to make?

(237)
Mr. Green. Just go right ahead.

Mr. LaFalce. Thank you.

Our first witness will be Mr. Rexford E. Tompkins, the chairman of the Citizens Budget Commission, who is accompanied by Mr. Herbert J. Ranschburg, the director of research for the Citizens Budget Commission.

Mr. Tompkins, the floor is now yours.

STATEMENT OF REXFORD E. TOMPKINS, CHAIRMAN, BOARD OF TRUSTEES, CITIZENS BUDGET COMMISSION; ACCOMPANIED BY HERBERT J. RANSCHBURG, DIRECTOR OF RESEARCH

Mr. Tompkins. Thank you, Mr. Chairman. I see that with the attendance here, if both of you have read the statement, I can economize on everyone's time.

Mr. LaFalce. Without objection we will incorporate your entire text into the record, and we ask you to summarize for us the remarks that you would like to make.

Mr. Tompkins. As long as now I feel a little bit more comfortable than when I testified in New York City—I always felt it because that is the way the little guy that makes all the noise and brings the pink elephants to the city hall steps also does it.

I don't want to give any undue publicity, but I just want to mention that. He will kill me when he finds it out. If I may, I will simply talk informally, I should say at the outset that I feel in a somewhat dichotomous position here. At home, it is our general role to attack vigorously the City administration for all manner of evils which it is committing, and I now find that I am down here defending them to the death for their efforts.

But I should make it perfectly plain that we have, throughout the life of our organization, since it was started in 1932, tried to be constructive in our criticisms of the City's financial policies, and in that light we have, in the last couple of years, issued a couple of reports, the burden of which was to say someone has to pull up the reins and find a way of stopping the manner of spending which we have indulged in during the past years.

The innate financial strength of the City, and the presumed golden goose that we had in the enormous commercial development, simply started to erode and along with that phenomena, we truly lost most of our blue collar industries from New York City and that in turn started to impose heavy social burdens in terms of poor people and plus the fact that New York has always been a mecca for those who feel that their life problems can be solved if they can just make it to New York.

So we have been in the forefront of supporting social burdens that perhaps in fairness ought to be recognized as national burdens. So, we do not see in the long run a real solution of either New York City's problems or other cities' problems, unless the problem of medicaid and welfare is recognized as being a national problem the same way that the farm problem is an national problem, in the same way that rivers and dams are national problems, but that is a long-term solution.
So New York is placed in the position of having to say, "We sure got ourselves in a mess," and the private financing system is no longer willing to handle us. That is really what we are dealing with.

Now, the components of the problem are, of course, first, the budget. Second, a control mechanism to insure the performance of the budget, and then last, the financing.

Without question, if you have a balanced budget and a control mechanism which will insure that the balanced budget is lived up to, the financing will handle itself. The problem, bluntly, as I see it, is simply that the private financial mechanism does not have the power to enforce compliance with the budget in the same way that the Federal Government does.

If just to put it in simple, understandable example, it is the same as though you were lending money to and from and you wanted to be sure he would pay it. If you could get the employer to cosign the note, you would feel far more comfortable about his credit.

Well, as I look at our problem, New York City is really in that boat. We are a local government whose credibility has been eroded in the financial community, and the only big brother they have got who can really force the City to live by its budget is the Federal Government.

There is no question about it in my mind, that a Federal compact will be kept by the City. But to try to encourage the City to instill stern measures that are going to be necessary over its past way of life, I just don't see it being done unless it is being done as part of a Federal compact.

I am stressing the nature of how I conceive the relationship because it is very material in what we are asking the Federal Government to do. We are really not asking for any money out of the Federal Government. I think the experience since 1975 has shown that when the City makes a commitment under its compact with the Federal Government, it lives up to it.

The Federal Government has not been costed a dime. It has the device which I think may be unduly expensive for the City, of a point over the Government's borrowing rate to supply its budget for supervision of the contract, but beyond that, dollars are not being asked for from the Federal Government.

I think that must be recognized in any fair appraisal. Political power to force one governmental unit to live by its promises in our present situation lies in this Federal compact. You are going to shortly hear a lot of testimony on the subject of rent control. You will get what we live with in New York, in terms of tremendous political pressures.

I don't for one second underestimate the difficulty that Mayor Koch faces in trying to turn the City around, and he is going to have to make some very difficult political choices, but his choices will be made and can far more readily be accepted by the body politic if they realize that he is on the hook to abide by a Federal compact.

So I don't think that I should do more now than perhaps summarize the couple of studies that we have made recently. We really made those studies to emphasize that the way the City was going, in 1983 we would have a $2.9-billion deficit.
Obviously, if that is the fact and if that is accepted by people, it is perfectly clear the City has to do something drastic. But, at the same time, it has been our position, and it still is our position, that you cannot just decompress an operation like our City's government so rapidly. The dislocations of human lives and in human lives, of precipitous correction of all these problems, is just not endurable.

Since it can be done without a dollar cost to a Federal government, we strongly urge that some renewal of our financial plan, a re-signing of the City note, if you will, be adopted by the Congress and the Nation.

Now, if that satisfies you, Mr. Chairman——

Mr. LaPalce. Fine.

Mr. Tompkins. Thank you. I shall be glad to answer any questions you may have.

[The prepared statement of Mr. Tompkins, on behalf of the Citizens Budget Commission, follows:]
Prepared Statement of Roxford E. Toopkine
Chairman Board of Trustees
Citizens Budget Commission
Before the Subcommittee on Economic Stabilization
Of the Committee on Banking, Finance and Urban Affairs
The U.S. House of Representatives

My name is Roxford E. Toopkine. I am Chairman of the Board of Trustees of Citizens Budget Commission and, in professional life, President of Dry Rock Savings Bank. CBC was founded in 1932 as a private non-partisan citizens' group and has devoted itself over the years to objective analysis and concern on New York City budgetary and financial affairs. Our organization, along with other New Yorkers, is anxious to see a plan developed which will assure the return of New York City to fiscal health.

Further, we believe that such financial recovery can be achieved with no more in dollar terms than the fairly minimal federal participation which has thus far been necessary to enable New York City to survive. We think that continued federal participation is in the national interest. We also would argue strongly that New York has demonstrated to the federal government that it can and will keep such commitments as may be required of it in return for the much needed federal assistance which our city seeks.

In developing a consensus as to a proper program, we think it may be helpful to consider three fairly definable elements with which any plan must deal, to wit:

1) Budget balance;
2) Fiscal controls, and
3) Financing mechanisms.
First, with respect to budget balance, CBC has issued two recent reports which are relevant. In November 1976, we warned that too rapid a balancing of our expense budget could cause grave damage to the city's economic base and require expenditure cuts which might do irreparable harm to the city's ability to survive. Just, for example, if we were required to eliminate all capitalized expense items from the 1978/79 budget, we would have to cut some $450 million dollars, which our would pay for two thirds of our police force. We are not suggesting, of course, that such a sum would have to be moved out of our police services, but we are trying to illustrate the severity of the problem of trying to cure all of our budgetary ills overnight. We feel just as strongly today about this matter of precipitous budget corrections as we did when we issued our report in November 1976. Moreover, in December 1977, we published a fifteen-page study in which we warned our city that major budgetary problems would soon be upon us and that Fiscal Year 1979 could be as critical a year as was Fiscal Year 1976 when it became necessary to create the Municipal Assistance Corporation (MAC).

Continuing with the subject of budget balance, CBC published on February 5, 1978, a study of New York City's fiscal prospects for its next five fiscal years. The findings of this study were sobering indeed. In substance, given the assumptions which I shall describe in a moment, the study showed that, in the fiscal years ending in June 1983, if radical changes in expenditure patterns are not achieved, the budget gap for New York City could be as high as $2.9 billion dollars. Admittedly, and many critics have been quick to point this out, we have made assumptions such as a continuing annual increase of 6 percent in total wage costs in forecasting this dire result, but, in part, such an assumption was necessary if the study was to have even a remote resemblance to reality.
It is unnecessary for me now to go into some of the other assumptions which we made because most of them, as in the wage case, simply assumed the continuation of past practices. The importance of that study was that it brought into sharp public focus the need for New York City to continue a vigorous program of financial reform. Understandably, many New Yorkers felt that the measures taken since the crisis erupted in 1973 had brought about a total solution of New York City's financial problem. Our report made it perfectly clear that this was far from the case. And while our report was designed primarily to alert our own New Yorkers to the problems still facing us, we would hope that our report would similarly alert you gentlemen and all the others in our nation who are concerned with the fate of New York City.

I should not leave the subject of budget balance without acknowledging that we are fully aware, as I am sure most of you are, of the long litany of policies which New York City should not have adopted during its history — unreasonably high public wages and fringe benefits, disastrous work rules, taxes which were regressive in genesis but devastating in long-term economic effect, rent control, duplicate agencies and other mistakes which must in time be corrected. What we are willing to assert, however, is that it appears to us that the City, its elected officials, its unions, its business leaders and its citizens have at long last recognized the necessity for correcting many of these mistakes and that this recognition will dictate our future direction.

Like many others, however, we would point out that our City's problems are not entirely of our own making. Nor are these problems necessarily unique to our City. You have heard often that our City like many others simply cannot any longer carry the burden of welfare and medicaid which is imposed upon us.
We certainly recognize that New York City is entitled to no special consideration on these national problems, but we do urge some weight be given to the fact that New York has always been in the forefront of accepting the burdens of these social costs. We hope to receive some fiscal relief until such time as a rational solution to these national problems will be found. We applaud President Carter's intention to assume a greater share of medicaid costs by 1981. But, in truth, our City cannot survive that long wait in view of the documented inability of our City revenues to cover anticipated needs until such time.

We do not doubt that Mayor Koch will balance every budget so long as he is mayor. The methods which he will select to balance those budgets will require some very difficult political decisions. CBC will, of course, continue to support sound fiscal policies. But we know that balancing New York City's budgets is going to be an extraordinarily difficult task for many years to come.

**Financial Controls**

As all of us are now well aware, producing a balanced budget is only one of the steps necessary to financial recovery. For at least the next ten years there will have to be in existence a control mechanism which can assure that the budget will be followed. The form of this continuing control mechanism has not yet been resolved. Our only comment on this score is that any mechanism adopted will have to be one upon which the federal government can rely and also one which will generate support in the private credit markets for future City bonds and notes. We would urge also that the mechanism should include provisions for wide publication on a reasonably prompt basis of any significant variations from the budget plan.
Financing

It is evident that the matter of financing will be relatively easier to handle once there has been established a financial control mechanism which will insure compliance with a balanced budget. Much has already been said about the relative merits of seasonal loans and long-term federal guarantees. We think others are more qualified than we to comment on details of such plans.

Our observations are two:

First, we would emphasize that the help already given to New York City has not been a cost to the federal government, but has in fact perhaps provided a net benefit. On this point we put aside arguments as to comparative claims by cities as opposed to farmers, as opposed to highway funds, funds for building dams and all the other national costs to which we contribute. Since the help we seek will not involve a cost, we do not feel it necessary to invoke such arguments.

Second, we would hope that whatever form of relief is designed will contain appropriate means whereby New York City may shed the burden of high financing costs which may no longer be necessary once we will have achieved normal credit standing.

I shall be glad to answer any questions you may have.
Mr. Lafalce. Mr. Ranschburg, you don’t have prepared remarks, you are just here to assist in answering questions?

Mr. Tompkins. He knows the answers.

Mr. Lafalce. I think it would be helpful, Mr. Tompkins, for the benefit of the non-New Yorkers present, and the New Yorkers also, if you could give us a little bit more of the history of your organization, so we have a better idea of where you are coming from.

You were first formed, as I understand it, in 1932, and your role has been, in large part, one of watchdog and critic over the years, so it is both as a critic of past practices—it is as a critic of past practices that you are coming here today, saying there is a consistency between the alleviation of New York City’s problems and the assistance of the Federal Government. Is that correct?

Mr. Tompkins. That is correct.

Mr. Lafalce. Could you perhaps elaborate a bit more on the history and practices and statements, attempts of your organization?

Mr. Tompkins. Well, what we have done through the years is, essentially, the organization had its genesis, I believe, now I am talking from general knowledge and not membership in the organization. I am not as old as the organization, at least as far as the New York City one is concerned.

It was formed, originally, by a group of real estate people who felt the City’s budget had just gotten out of whack, and since real estate taxes paid for everything in the City, they had a real interest in trying to engender solid budgetary practices.

Over the years, the organization changed its character in terms of its membership, so that now the membership is far more diversified with a much broader base than it now embraces, really, financial institutions, I, myself, am president of a savings bank; it embraces many of our leading business corporations who feel that the health of the City is a concern of theirs, and the real estate component of membership, while still substantial, is not anywhere near what it was.

But over the years, it was the one sort of private organization that concerned itself with the budget. Mr. Ranschburg probably has more knowledge in the private sector of New York City’s budget than anyone else in the City, but for, perhaps, Jack Friedgut of City Bank who has made City budget his specialty, and I think Mr. Ranschburg would agree with me that he is as much an authority, out of the private sector, as you might find.

We have also tried, in developing studies, to really offer suggestions to the City as to where they might save; we have made studies, for example, of whether or not, if we went to private carting, it would reduce the cost of sanitation services in New York.

One of the things troubling all levels of government is what is the proper wage level for a public employee as opposed to private. One of the studies we have mapped out for ourselves in the next few months is trying to get a real handle on whether you can establish real comparability, if you take what is happening with the Jarvis referendum out in California, which is directed at this problem of levels of public employment, I think it is perfectly plain that some-
body is going to come up with a reverse Davis-Bacon bill, whatever that bill was, whereby originally in the South, you had to pay union prevailing wages in order to get a Government contract.

I think someday you may see the reverse: you can't get Federal assistance if you are paying prevailing union wages, as opposed to private, where the private is setting lower standards.

That has started to happen in New York. It has to be solved, in my judgment, in the long run, but it won't get solved overnight and it has to be solved by some kind of very tough negotiations where you bring the two into balance.

If New York doesn't do something like that, it will just go on losing businesses and losing its economic base, so it doesn't have a real choice, but all of these things will take a lot of time, will take a lot of public education, and take an awful lot of really tough political character on the part of every level of government.

Now, I think that the Citizens Budget Commission exists today because we have tried to be objective. It is very hard for any governmental body, I don't care what level of government, not to be producing reports which, one way or another, seem to have to accommodate some political fact of life that makes it difficult for them to be totally forthright.

We have tried to keep our own standards high in that regard, and call them as we see them. That is why I alluded to the fact at the outset, that I find myself in a rather quixotic position as being a leading critic of City government inside the family, and now, hopefully, a strong defender of its need for assistance.

Does that answer the need?

Mr. LaFalce. The answer is fine. I will now call upon the ranking minority member of the subcommittee for his questions. Mr. Kelly?

Mr. Kelly. Thank you, Mr. Chairman. I would like to ask unanimous consent that I be permitted to put a statement in the record.

Mr. LaFalce. Without objection, so ordered.

[Mr. Kelly's statement follows:]

Statement of Congressman Richard Kelly

In 1973, 5,065,000 New York City residents, out of a total of 7,481,619, occupied rental housing. Rental units comprised 74 percent of the total occupied housing units in the city.

In view of this overwhelmingly large tenant constituency in New York City, it is not difficult to imagine why New York City politicians have allowed Rent Control (a "temporary" wartime measure instituted in 1943 to prevent "speculative, unwarranted and abnormal" increases in rents and evictions of tenants during a period of housing emergency) to linger on for 33 years, at a cumulative cost of $20 billion to the city's property owners.

This, despite hard evidence that rent control has:

Contributed to the physical deterioration and eventual abandonment of thousands of rental units by property owners who were prohibited from charging adequate rents to cover costs of maintenance and services, much less making a profit.

Undermined the concept of owner-management by destroying the life savings of hundreds of small investors whose properties were confiscated by the city when they were no longer able, or willing, to pay taxes on properties taken out of the free market.
Accelerated the rise in real estate delinquencies. The delinquencies, when combined with actual cancellations and remissions of uncollected real estate taxes, and estimated unpaid water and sewer taxes, totalled $1,521,215,000 as of June 16, 1977—a sum that exceeds the city's 1978 budget deficit.

Contributed to a loss in total assessed values, and a decline in the overall tax base.

The various permutations of rent control regulations over the years have engendered a pervasive lack of confidence among real estate investors in the city, thus discouraging construction of new multi-family rental units in the city.

This is only a partial list of problems recognized by New York City's property owners, housing experts and, most importantly, the city's own "Temporary Commission on City Finances" which, on June 21, 1977, came out with its own list of recommendations which included:

"Creation of a State Rent Stabilization Board to administer the phasing out of rent control and rent stabilization for New York City and other municipalities where controls have been established," and

"Repeal of the recently enacted extension of the Emergency Tenant Protection Act by the State Legislature."

I ask that the Commission's Fifteenth Interim Report on "The Effects of Rent Control and Rent Stabilization in New York City" be introduced into the record since copies of the Interim reports are out of print and hard to come by. (See p. 413.)

Based on the information contained in the Commission's report and other sources, I can only surmise that rent control has been a major contributing factor to the physical and fiscal decline of New York City. To allow it to continue, in the form of rent control or stabilization, is a clear signal to potential investors to stay out of the town because it is being run by politicians who place votes above the long term wellbeing of their city.

As I see it, rent control has helped erode the real estate tax base, has contributed to the abandonment of more than 200,000 housing units since 1965 (a factor obviously ignored by city and state politicians who claim there is a housing shortage in the city), and has robbed property owners of their life savings.

Rent Control has discouraged private investment in housing in the city, replacing it with tax expenditures on public and publicly assisted housing. Of the 600,000 new housing units completed between 1950 and 1970, 211,000 (or 31 percent) were public or publicly assisted units. The 70,000 housing units authorized for construction in New York City in 1977, contrast sharply with the 30,000 authorized in 1972. While an improvement over the 5,400 authorizations in 1976, this level of construction parallels the Depression levels of the 1930s.

The assessed value of city property has fallen annually from a record high of 20.7 billion in 1970 to an expected 38.0 billion in 1979.

According to the Federal Reserve Board of New York, the estimated loss of tax revenue due to rent control was $230 million in 1975—nearly 25 percent of the budget deficit in Mayor Koch's four year plan.

Despite a mountain of evidence showing that rent control is harmful to the economic life of the city, politicians cling to the notion that rent control is good because it keeps the middle class residents from moving out.

Mayor Koch, during a hearing before this Subcommittee on March 7, 1978, further stated that abandonment "has nothing to do with rent control." He said: "Abandonment of property in changing and slum areas has nothing to do with rent control because there effectively is no rent control in the slum areas of town."

What he neglected to add was that healthy thriving neighborhoods were turned into slum areas because rent control did not allow property owners the necessary return on their investment to allow for proper services and maintenance. This inevitably leads to "dishinvestments" and the neighborhood begins to "turn."

Such a cynical disregard of the obvious, by New York City's leading citizen, who himself occupies a controlled apartment, argues poorly for any contemplated neighborhood revitalization that does not involve massive infusions of tax dollars.
Mr. Kelly. Mr. Tompkins, in your prepared statement, there were a couple of remarks at the bottom of page 2. You said that you had to provide for a 6-percent wage increase in order to be in the realm of reality.

Mr. Tompkins. For the report to receive any credibility, if you understand the purpose of the report—

Mr. Kelly. I understand what you are saying. I want to ask a question about it. I am not in any way attempting to be abrasive, but we don't have much time, and I need to cover what I need to cover.

Also, on page 3, you said that they have been doing a bunch of things that are bad, and that in time, we are going to need to do something about that. Well, you know, they have had 3 years, and mostly what they have dealt with has been cosmetic. The real substance hasn't been dealt with. They still have the highest paid work force in the United States of America, when you consider the total cost.

They still are paying the highest welfare levels in the United States of America. Now, it has to be trash and nonsense for these people to say, "Oh, it is because our heart is so big," and then to want to send someone else the bill. It is certainly nonsense to say, "Credit doesn't cost anything." If you walk outside the door and try to buy some, you will come back convinced it does cost something.

New York City is trying to tout the proposition that the Government-issued money is free. There is no way of calculating how much money the Government lost on the transaction, because we are in the nonsensical position of financing New York because they have been irresponsible. That is bad government, and the cost—the cost of bad government is so heavy, it is beyond conception.

You can't conceive how long the list is. In the real world, the cost is enormous. So what I am asking you is why is it that we have to wait until later? Why, in 3 years, could they not have abolished rent control?

You mentioned that they need political character. Would that include courage? And you seem to be a champion of Mayor Koch, but up to right now, we don't have anything but conversation from him, and we can't overlook the fact that Mayor Koch, along with everything else, is a politician, and promises from politicians are like making soup out of deer tracks. It is a very thin broth.

So what I am asking you is, why do we have to wait? Why, in the 3 years, haven't some of these big hunks been accomplished, and what makes you think Mayor Koch is going to do any of the things he said?

Well, the idea, "I promise you" is a little bit discredited right now. The terminology, "I promise you," is just a little bit in doubt right now.

Mr. Tompkins. I believe, Congressman Kelly, that what you are saying puts the emphasis where I don't think we should be putting the emphasis. If I could agree with you that what has been done was costing the Federal Government, you would have, I would say, a very valid argument against extending a cosigning arrangement.
But the fact of the matter is that the City has met all of its obligations, in terms of real credibility, whether the dollars are there, they have met their obligations, and I should think that is the credibility we ought to be looking at.

Mr. Kelly. They have not met the main obligation which was that they wouldn't be back here. They are back here.

Mr. Tompkins. Since I didn't make that commitment, sir, I just am not familiar with it.

Mr. Kelly. This is what Congress was told.

Mr. Tompkins. Well, I would say there are many well-intentioned debtors in this world who promise us, in the banking business in particular, "Don't worry; I will have that modification. If you give me this one modification agreement I will be paying full amortization in 1979."

And in 1979 they are telling me, "I will give you full amortization in 1981."

The New York City government in terms of its being a debtor can promise and believe the promise when they make it, but what I am saying to you is that the political facts of life, of changing a huge engine of government so it becomes a perfect machine overnight can't be accomplished.

God help us, if we had to do it here, sir, with the Federal Government.

Mr. Kelly. Is it your proposition then that every city in America should be given the message, do not ask your labor force to live within the means of the city to pay, even if it means you have to go bankrupt?

Now, is that the message—is this the message—wait. Let me finish. Is this the kind of government that you are recommending?

You are a monitor of governments, a champion of truth and reality.

Is this the message—

Mr. Tompkins. Thank you, sir.

Mr. Kelly [continuing]. Is this the message that you want to give, that governments may not ask employees to take a reduction to avoid bankruptcy?

We will give you a pay raise because you want it and we will run this whole machine right off the bluff.

Mr. Tompkins. No. That is certainly not the message; but if I were to say to you that my own business life is this, when you have got to take something from a person, you are dealing with a different situation than when you are saying to a person, "I won't give you more."

Mr. Kelly. If that is not the message—

Mr. Tompkins. The burden of our report was, you can't really afford that 8 percent, the city of New York. I don't want you to miss the point, this report said, in effect, we are going to take the assumption which you in City government think are reasonable, and show you that they aren't reasonable. I would not want my position here to be misunderstood. When I saw Felix Rohatyn the other day, I said, "Felix, I am going to go down there and tell you, I am sure
you must have been misquoted. You probably meant a 5-percent reduction in labor cost?"

It was a friendly salvo at him.

But we certainly feel that the wage line ought to be held, but we are realistic in this sense. You may find that you are not able to do it. We have said, publicly, that the unions' position in New York, that they have not had increases is a lot of nonsense. They have had cost-of-living adjustments which are the equivalent of increases in private life and no amount of semantics is going to tell me that that is different but that doesn’t mean to say, Congressman, that you can turn around and say to people, “You have to change your way of life overnight.”

You have to probably give something and all we are saying is, you better know what you are doing, if you are going to give something on wages, then where are you going to get it from?

Because you have to have a balanced budget and you can’t get the Federal Government to give you any kind of consigning unless you have a balanced budget. That is our position and we are not changing it.

Mr. Kelly. Let me ask you one other question. In the event then we go ahead with this, just as you and everybody from New York has suggested, then are not we sending a message to the rest of the cities in the United States. When your labor force wants a wage increase, not that we will pay you as much as the workers in New York, but just lead you in the general direction, we won’t give you all of the work rules that are bankrupting New York, but we will give you a lot of them? They don’t make any sense. It is more than we can afford, but we will give it to you. And the reason we will do that is because this is the new reality.

Mr. Tompkins. I would vary your scenario slightly because I think there is one premise that distinguishes the case, if I may use the legal phrase. If you go the New York route, and this is one of the problems that we have, you are going to be guaranteeing an obligation that is 8 1/2 percent and if this city were sound and had a sound budget, its borrowing rate should be the same as any other city, which is 5 1/4 percent. No city is going to out and volunteer to take on an 8 1/2 percent rate when you can get it for 5 1/4 percent.

Our city is going to have to pay an exorbitant borrowing price despite everything, but I don't see any way out of it right now.

Mr. Kelly. Let me point something out to you. In the Federal Government we don't have that problem, we just print more money.

Mr. Tompkins. Wouldn't I love to have your press.

Mr. Kelly. Now that you have tapped into the Federal Treasury in New York there is no reality.

Mr. Tompkins. But Congressman, we haven’t tapped in. If you gave us a buck, I would be happy with you.

Mr. Kelly. But you get more aid than any other State in the United States of America.

Mr. Tompkins. I am not a real expert on this. Is Moynihan a dirty word in this room? He wrote a big report that said we weren’t getting such great aid.
Mr. Kelly. I think his objectivity is a little suspect.

Mr. Tompkins. I think probably all of ours is or we wouldn't be human beings.

Mr. LaFollette. I believe we have allowed you to go beyond the 5 minutes.

Mr. Tompkins. I am enjoying this, Mr. Chairman.

Mr. LaFollette. That is one reason we let it go so far.

We will also send a message to Mr. Moynihan, hoping he will adopt the objectivity as Mr. Tompkins stated.

Mr. Tompkins. Well, I think it is helpful to try to get it where—where he and I disagree on what the solution is, on what New Yorkers are asking.

Mr. LaFollette. If New York City or New York State is getting more than other States, as Mr. Kelly questions, other States may have one-half million in population compared to States with millions of inhabitants. There should be parity and that means the exact per capita dollar amount to each State.

Mr. Kelly. I was talking about California, Mr. Chairman. It is a State on the other end of the country.

Mr. Tompkins. That is where I would like to send our problems right now.

Mr. LaFollette. I would like to call on Mr. Landine both to ask questions and to preside.

Mr. Landine. Welcome, gentlemen.

I have basically one essential question. That is, is it realistic to believe that the city of New York can bring its budget into true balance, according to good, generally accepted accounting principles, within 4 years?

Mr. Tompkins. I believe it is, Mr. Chairman, for the simple reason that necessity is going to compel it.

Now, there are many areas in New York City's government where I think that what we refer to here in shorthand as difficult political choices are going to have to be made.

I mentioned, for example, duplicating agencies. In the human rights field you have the Federal Government, you have the State government and you have a city Human Rights Commission.

The question is going to have to be, how much does the City have to do of itself, to protect its citizens in that area?

My own guess is, probably very little.

You already have two agencies that are vitally involved.

You have the same kind of repetitiveness right down the line. When, hopefully, the treatment of welfare and medicaid is solved on a national basis, and is recognized as a national problem, that is going to go a long way toward helping New York and its problems. When in terms of simply stripping down the New York City staff to the number of employees actually needed, is finally accomplished, I believe that that, too, will help to bring about the balance.

The odd thing is, it is like any business turnaround, that the deeper you get into it the faster it develops, and with every reduction of governmental expense on an ongoing long-term basis, the economic side, the recovery side of New York will grow stronger.
Businesses are going to feel more comfortable at staying in New York.

We had, at our luncheon yesterday, Deputy Mayor Badillo, who for the first time talked publicly about the necessity of generating a labor force in New York that would let New York stay as the commercial capital of our world, really the world, and you can't do that unless you start introducing far more rigid standards in our educational standards, in the lower and intermediate schools.

These are all things that make me feel optimistic about our city and this administration. They have people in there who have identified the problems, who have made pledges.

I would join Congressman Kelly in a caveat that however well intentioned any leader in New York is, the political pressures on him are enormous, so it's going to take an awful lot of skill, but as we say in our prepared remarks, I think everybody in the city of New York now recognizes that we are in deep trouble and that unless we make our city competitive with other cities, its great natural assets are going to be dissipated, so I would say that the very fact that there are so many—I exempt myself—so many business leaders involved now in trying to get the city of New York to where it is going to be considered a sound city on an economic basis, is a very hopeful sign.

I assure you the Citizens Budget Commission is not going to let up in its efforts to get New York City to do the things that are necessary to make it a top city.

Mr. Lunde. You have given a few illustrations of possible cuts and I think you would agree that these hardly amount to a great percentage of the City's budget. I mean the Human Rights Commission, for example.

Mr. Tompkins. That is just an example.

Mr. Lunde. One aspect that strikes me about the finances of the City is the extraordinarily high level of debt service. It further appears that this high level of debt service is not likely to be improved, however prudent or how much character the politicians have, when you have a very seriously deteriorating physical plant and a rather bizarre replacement schedule for the infrastructure that I guess we all would recognize to be clearly necessary.

In view of that, do you think that a 15-year payback, assuming that no capital improvements will be able to be financed beyond the length of the Federal guarantee, is a reasonable length of term for future borrowing needs that the City is going to have?

Mr. Tompkins. Well, it is hard for me to say with any confidence that it will work surely but I would say that without it the City will surely fall apart and therefore, I go more on the fact that it is absolutely necessary to do.

I would say also that in time, if we ever got into the private credit markets and could borrow on conventional municipal paper, before you were borrowing at 5 1/4 percent, your debt service requirements would drop fairly sharply.

I understand the difficulty of guaranteeing a municipal obligation at 5 1/4 percent, competing with the Government's own borrowing
programs, so we must necessarily, I gather, accept that added cost. But if we get the expenditure level down, which our report showed without change was going to run at the rate of 20 percent against income growth at the rate of 13 percent, if you can get that expenditure down to 13 percent, so that it matches growth, then I think you automatically lop off the problem of the debt service. As a matter of fact, you know, one of the things I hope that agreement will provide is that the paper that is guaranteed is callable by the City, in the event that the events which I hope will occur, we can dump the 8½ percent. Somebody may just have slipped when the savings banks refinanced UDC, part of the paper was not callable and they ended up UDC having to pay a premium to get the bonds back when the thing worked out the way I personally had predicted it would work out and they were stuck with an excess.

I hope that any plan that is developed doesn't let that one slip by.

I am not in any way a defender of guaranteeing 8½ percent to our municipal pension funds for 15 years without any recall.

Mr. Garcia. You can see the three New Yorkers here. We know that Mr. Kelly is here.

Mr. Tompkins. I appreciate having four friendly people here.

Mr. Garcia. We have had testimony in the last 2 weeks from the mayor and the president of the city council and the comptroller, and last week we had the legislative leaders who came here from Albany along with the Governor.

One of the problems that I have had over the years is that, historically, yours is a group that has been very critical of the City and the way they have managed. But you have come here today to testify that, in fact, you believe that the Federal Government should continue with both seasonal and a long term.

Mr. Tompkins. Right.

Mr. Garcia. You agree on both the seasonal and long term. I wanted to place that in the record, because I think that the record should show that even those who have been critics over the years of the city of New York, in terms of what they do with our dollars, are now coming here to testify in favor of this borrowing.

I, for one, am appreciative of the fact that you have come out of your way to come here and testify. Both Congressman Green and I, as you know, are the two latest additions to this board and I just feel that if we are going to survive in the city of New York, we need everybody to come forward.

Mr. Tompkins. Let me just say, Congressman, on this point, that fortunately, largely in part through the skills of Mr. Ranschburg, the Citizens Budget Commission has built up certain credibility as to our knowledge of the budget.

One of the things that has been most encouraging, and I think, Congressman Kelly, you might appreciate the significance of this is that the City government, the new administration has turned to us and worked closely with our staff to try to define the problems and see it through our eyes, rather than the historical, political hand-me-downs of what is going on in the city of New York.

I think the very fact that they have done that has added considerable to my own optimism about our ability to work out of it.
Mr. Garcia. Mr. Tompkins, do you have any figures on the number of people who have come to New York? You made reference to the welfare situation in New York, and you made reference to the medicaid figures, the situation. Do you have the actual dollar figures?

Mr. Tompkins. I think Mr. Ranschburg has them.

Mr. Ranschburg. Yes. For fiscal year 1978. Now, these are City funds only. Medicaid was about $523 million. Public assistance, which is ADC, home relief, and the City's share of SSI, $491 million, social services, which is day care, foster care, et cetera, $34 million, salaries, et cetera, to execute these programs, $104 million, for a total of $1,152 million.

Now, for this, in order to be complete, one has to add to this, the general support for the hospital corporation which amounts to about $352 million, so you have a drain on the City of New York out of its own funds of $1,504 million.

Mr. Garcia. Those are City tax levy dollars?

Mr. Ranschburg. Yes. There is some minor amount of other money, but yes, that is all out of the City's hide.

Mr. Garcia. If the Federal Government would assume welfare cost—what I consider its natural role—instead of its being regional and left to the States, how much would that delete from this figure? All of that?

Mr. Ranschburg. If the Congress were to take the general area of medicaid and public assistance, et cetera, as a national responsibility, presumably, practically all of the $1.5 billion would not be charged upon the City.

I would think that the financial problems, not only of New York City, but of a heck of a lot of other places in this country, simply would disappear.

Mr. Tompkins. I would point out that the $1.5 billion might be a lesser sum under a national welfare program because I don't know what level of benefits would be established. You might not get the migration in the varying levels.

I would have no knowledge on that. If the burden of your question is, would it cost the Federal Government $1.5 billion because we are not putting it up, if assuming you paid the same level of benefits, that answer would be yes, if you changed the level of benefits on a national basis, and the reform tries to encourage nontransferability between jurisdictions, you might have a different number.

Mr. Garcia. Thank you, Mr. Tompkins.

Mr. LaFalce. Mr. Green.

Mr. Green. If I may continue for a moment with the question that Mr. Garcia was pursuing on welfare, am I not correct that the statement you made, that this could relieve the City of virtually all of the dollar amount that you mentioned, assumes that there is in fact no supplementation at the local level?

Mr. Ranschburg. Within $1.5 billion, there are certain programs under supplementation which vary from State to State. For instance, New York State, as you know, is somewhat generous in supplementing SSI. It is also true, and we have advocated it, if the operation of the hospital corporation were somewhat more rational-
ized, one could save some money there. But as Mr. Tompkins has
said, if for example, Congress were to decide that Medicaid and
public assistance ought to be stabilized roughly at the level which
has been set by the Legislature of the State of New York, and we
have nothing to do with setting the level or something like the levels
prevailing in the Northeastern part of the country, these are the
figures we are talking about.

Mr. Green. Am I not correct that the welfare proposal that
President Carter has sent to the Congress in fact assumed continued
supplementation by those States that have been at the levels above
the national average, and that, in fact, there are in there some fea-
tures that encourage supplementation, so that if the President's pro-
posal is adopted, they will not produce the kind of broad-scale
relief to New York City that you advocate in your figures?

Mr. Rankinburg. To be perfectly frank with you, sir, the mayor's
people told me only 3 days ago that if the City were to get no more
than what Senator Moynihan is trying to do in short-term relief,
a relatively small part of the welfare load, while it isn't very much,
it sure has to be better than nothing.

In other words, one has to go perhaps through small stages.

Mr. Tompkins. Bill, I don't know—excuse me, Congressman
Green, I have known Mr. Green for a number of years.

We haven't done a good enough study on welfare reform to be
too helpful in our answers. I just don't want us to be talking about
things we don't know about.

Mr. Green. Let me turn to one other comment that was made;
that is, the need to rationalize the operation of the Health and Hos-
pitals Corporation.

I have had a feeling that, although the City has taken a much
firmer grasp of the operations of those departments directly under
the line authority of the mayor, there has been a good deal more
difficulty in getting firm fiscal control of the operations of the non-
mayoral agencies, so that those are still a trouble point.

I was wondering if you would care to comment on that.

Mr. Tompkins. It is like anything else. You can't hold a man re-
sponsible if he doesn't have the power. I personally feel very strongly
that creation of those independent agencies is a bad mistake and
will have to be changed.

But that is not an official position of the commission. It is my
own judgment. As to the way to run a city, I just don't think that
New York can ask its mayor to do all of the tough things it has to
do, and leave the education system and the hospital system out of
the area of his control, and we are going to support strongly refor-
mation of the City's government, so that that situation can be corrected.

I hope you weren't asking that as a Republican.

Mr. Lunde. Due to the time, I am going to forgo, but I under-
stand other members may have further followup questions.

Mr. Kelly.

Mr. Kelly. Mr. Tompkins, the summary of testimony we have
suggests the United States will be in dire condition in the event New
York goes into bankruptcy. That it will tend to further deflate the
dollar on the international money markets, that it could very well set up a chain reaction that would cause recession nationwide. It is going to aggravate the problem for every municipality that goes to the money markets to finance its capital functions.

Do you share that view?

Mr. Tompkins. I will answer personally if I may, since this isn’t the kind of question we have discussed in the commission.

My personal feeling is, some Europeans might say, well, if President Carter can’t settle the problems of New York, what can he do? Maybe there is a ruboff there, but I don’t interpret or view tough-minded international financiers as so superficial in their judgments.

I think it would be a tragedy from the standpoint of the 8 million New Yorkers if we went into bankruptcy. I think it could have some effects which are unknown, but I would not say that the rest of the country couldn’t handle it.

Mr. Kelly. Unless the Vietnam situation has totally changed the national attitudes, my understanding is, if an enemy appears off our coast that threatens this country, we would immediately ask every male and, I guess now that the women have been liberated, all the women to go forth to give their lives to defend the country, to be killed deader than a mackerel, squished by tanks. What we are saying in New York is, “Look, the Nation will collapse financially.”

We will probably all be unable to defend ourselves because we won’t have the economic structure to support a defense system, that the whole thing is going to be in utter disarray. The one thing we can’t do and must not do, is ask the highest paid public servants in the United States to take a pay cut for 1 year, because there is something mystical about them. If they got paid less than the most, I don’t know what would happen, but it would be terrible.

Do you share this view that all of these things are going to happen, it is a litany that you yourself refer to, that in time we must balance the budget, but in the meantime we are not going to solve these problems, but we are going to finance them by borrowing more money. I find this interesting that you come to the Federal Government with this, because I think you feel as though we will be sympathetic?

Every problem has a solution called money. You are not going to try and solve the problem; you are going to finance it.

Your emphasis, as I understand now, because some adroit gentleman has started asking you, is that your version is that we really need to finance the problem, not to solve it.

Mr. Tompkins. Congressman Kelly, if you don’t think that I don’t believe that we should solve the problem rather than finance it, I have been unable to express myself.

Mr. Kelly. All right.

Mr. Tompkins. Because I have said I find myself in a true dichotomy when I am talking in the family to my fellow New Yorkers, I make you look pale by comparison.

Mr. Kelly. Good.

Mr. Tompkins. I have to call you—Jack Bigel calls me the Neanderthal banker, if I can put it to you any more fluently as to how
I can be a loyal New York, and yet agree with every program you would like to see accomplished. I couldn’t put it more strongly, but I am also well aware, having lived in New York City politics for 20 years. I would not be worthy of talking to you if I told you I thought Mayor Koch or some higher being could accomplish everything that has to be done by the time we sign an agreement. It just can’t happen.

Mr. Kelly. Then we can ask this bright young man back here with the striped tie on, to go die, to spill his guts, but you can’t dare ask these people to take a minor payout.

Mr. Tompkins. No. Our problem is he will move to Florida. You can ask him to take a payout. I will join you asking him to take a payout, but I can’t guarantee that he will.

I am saying if we get him to take 2 percent this year, and 2 percent next year while everybody else is getting 8 percent, eventually he will be down to where we all are, but if you try to do it by telling him cut 8 percent today, so you are down where we are, you are not dealing with human nature. It won’t happen. I have run enough business in my life to tell you that it won’t happen, and I think you must agree with me.

Mr. Kelly. No, rather you die than me. Thank you.

Mr. Lundine. Mr. Garcia——

Mr. Kelly. I would like to point out the statistics that New York State receives more aid than any other State in the United States per a Treasury Department report. I will be happy to supply that. I don’t know how the objectivity——

Mr. Tompkins. I am not appealing to your analysis of figures. I am appealing to your more practical nature. How we can really save New York without causing a disaster.

Mr. Kelly. Thank you.

Mr. Lundine. Without objection that will be in the record.

[For the statistics referred to by Mr. Kelly, see appendix III, p. 799.]

Mr. Tompkins. My remarks?

Mr. Lundine. No, Mr. Kelly’s insertion.

Mr. Green. No further questions.

Mr. Lundine. Thank you very much.

Gentlemen, you are to be congratulated for what you are doing for your city, as well as the enlightenment you brought to this subcommittee.

Mr. Tompkins. I wish we could earn your congratulations.

Mr. Lundine. We are now going to hear from a panel of witnesses, including Jane Benedict of the Metropolitan Housing Council.

We will proceed in the order I introduced you. Jane Benedict, William A. Moses, and Nathan Leventhal. We are somewhat under a constraint of time that was not anticipated, I think, when these hearings were scheduled.

If you have prepared statements, they will be entered in the record in their entirety. If there is any way for you to summarize, that would be appreciated.

We will hear from each of you, and then only after all three have made your comments will we open or continue questions.

Ms. Benedict.
STATEMENT OF JANE BENEDICT, CHAIRWOMAN, METROPOLITAN COUNCIL ON HOUSING

Ms. Benedict. I have submitted a statement which you have, and I will try to summarize.

I think it is important to understand from what corner you speak. The Metropolitan Council on Housing is a Citywide tenant union.

Mr. LaFalce. You may proceed.

Ms. Benedict. We are a Citywide tenant union. We are not in any way a governmental agency nor are we funded by anything except the memberships of people like any trade union. We are a union of tenants, of course. We are extremely grassroots.

I would say we are 98 percent voluntary, although we do have several paid organizers.

Many of us are organizers without pay, and the organization is some 20 years old. The general membership of the organization is low income and modest income, although we have, in addition, members and organized groups that are middle income and even upper middle income, and the spectrum of the composition of our organization includes many minority groups, many black and Hispanic, as well as nonblack and non-Hispanic men and women, and all ages.

We are an activist group, in that we are an organizing force.

I want to make that clear, so that anything I say comes out of day-to-day experience.

Our central office at 24 West 30th Street in Manhattan is open from 9:30 to 6:00 p.m., 5 days a week and, there are many, many, many phone calls that come through from the hundreds of people that are beleaguered with problems as tenants that want help.

I should like to make clear that is the root of what I have been speaking about. I have been active in the organization since it was first organized, and I lived in the Yorkville section of Manhattan before that, and that is where I first came to organize tenants.

I have gone into some detail in my statement, which I will not do now, because I don’t want to burden you with the fact there are two systems of controls in New York City.

When we talk about rent control, it is not only the rent control law, it is rent control as it originally started, and it is also something called rent stabilization.

It is important to know that there are 1,400,000 apartments, approximately, under these two systems of controls, and that is something like 2 million units, dwelling units in New York City, as a whole.

Not all apartments in New York City are under control of any kind. Those that are subsidized come under various forms of subsidy. Those that are, of course, one- or two-family houses, on the whole, are simply conventional homes and are not under control, et cetera.

One of the things that has been said over and over by landlords and by real estate and banking interests is that 1947 rents are being paid in 1978.

Nothing could be less true that that.

Under rent stabilization, there are constant increases of 6.5 percent, 8.5 percent, 11.5 percent, for renewal of leases in this current
year. That percentage changes each year, from July 1 of one year, through June 30 of the next.

Those increases are set by a Rent Guidelines Board appointed by the mayor. There is an addition this year, what is called a “vacancy percentage.” That is 5 percent added to each one of those levels for a new tenant coming in. Under rent controls, rents are not frozen either. And there has been since 1972 something known as a “maximum base rent system,” which I think is a misnomer, since it is two conflicting kinds of levels.

But, anyway, from 1972, there has been an annual increase of 7.5 percent under the rent control law. That means that since 1972, as of January 1, 1978, with the new 7.5 percent that has just been levied, the rents have gone up 65.9 percent, and by 1980 will have gone up 106.1 percent, with the 7.5 percent cumulative increases.

In addition, there are increases in both systems for major capital improvements, for new equipment and written into both laws, is something called a “hardship approach,” which means that a landlord is guaranteed a certain basic profit, based on various formulas, previous profits, etcetera.

When the rent control law was renewed 2 years ago, there was an extensive report based on a Federal survey, issued by Dr. Bloomberg, and he indicated there was a 57 percent increase in rents throughout New York City, with only a 17 percent increase in income.

It also noted this very large report which has a great deal of data in it, that the median income in New York City is $8,985.

That is hardly a magnificent level of income. I tell you, as an organizer and as a woman who has been doing this for many, many years, the average New Yorker has no more money to put into rent. We hear it in all kinds of forms, in all kinds of sophisticated and unsophisticated reactions.

The summary of the Bloomberg report of January 19, 1976, from the New York Times indicates that more than half of the New Yorkers are paying 25 percent of their income for rent. Twenty-five percent of income has become a sort of definition. There was a day I can remember when the New York City Housing Authority had no more than 19 percent of income as an overall percentage as considered reasonable.

Twenty-three percent is what is now talked about, and there was a day when the Bureau of Labor Statistics said that the 25 percent of income was too high for a working class family, yet more than half of New Yorkers pay more than 25 percent of their income.

Some 400,000 families pay 35 percent.

And minority groups are particularly hard hit. I think one knows this simply from reading the papers or listening to anyone’s stories of the problems of New York City, that more than 30 percent—excuse me. Half of the Puerto Rican tenants in New York City pay more than 30 percent of their income for rent, and the study also indicates that half the elderly households headed by men are paying more than 30 percent of the income, and half of the elderly households headed by women are paying more than 40 percent of income.
We know tenants living on SSI, social security, that are paying 40, 50 and even 60 percent.

There are certain regulations that allow, where a tenant applies and pays more than a third of income for rent, 33½ percent of rent, that certain increases are exempted, but the rents are not rolled back.

In total, we are saying tenants can afford no more.

Another argument of the real estate industry is that the landlords simply cannot make it, and they have to have no controls on rent. They will take what they can get, but they want no controls on rent, because they can't make money. Nobody knows what real estate really makes. The cash flow is not the entire subject at all. There is a practice that is so highly speculative in real estate in New York City, that it is like playing the stock market.

The practice of leveraging, putting down 5 percent in cash, the rest in mortgage, maybe 10 percent, and pulling out anything that can be pulled out of the building to buy more buildings, is a speculative game that has been played hard since World War II.

The reports on cash flow are not the proof of the pudding at all. No one knows what real estate makes.

The whole methods of depreciation, some of which are—they are all legal.

We consider them totally immoral, but the methods of depreciation are such that they are nothing but paper and bookkeeping entries. That is how the money is paid.

I am sure I don't have to comment, but mortgage interest is deductible from income tax and the more that can be shown in the expense column in terms of depreciation, which is not a true depreciation, the money is not put back into the buildings, that is how slums are made. The buildings are milked.

This is how income tax levels are brought down. If you want documentation, we have plenty of it.

There is another argument talking about the abandonment of housing and everything from abandonment of housing to all of the problems of New York City in certain historical movements are laid at the door of rent control.

Abandonment of housing does not have its roots in control. Abandonment of housing has its nature in the speculative game played with real estate I have just described.

The milking of buildings is not a process that happens in a year or two. An owner does not wake up one morning and say, "I will leave my building." It is a 20-year process with sale and resale and resale, everything taken out of it that can be gotten out of it in rents, and as little as possible put back in maintenance repair.

That is the roots in part, not entirely of the South Bronx, and all the little South Bronx's which we know intimately.

We are out for one moment saying the abandonment of housing is not a tragic and serious problem, because it is the human beings living in these buildings that are the abandoned ones. Many of these buildings are being run by tenants that are desperate, that take the rent money and run them themselves in adversity.
We have many buildings where the tenants have taken up the running of the buildings themselves, because nobody else cares what happens to them.

That is not by choice. There is an argument that has been popular and also in Washington, D.C., that is the shrinking tax base in New York City.

The shrinking tax base is not because of rent control. The shrinking tax base has many, many causes, and I am certainly not expert enough to give you all of them, but some of them are quite familiar to us. Real estate boasts that it owes in back water, sewer and real estate taxes, $1.5 billion worth of taxes.

That is not because people are bankrupt in the real estate industry. When Harry Hemsley of Hemsley Spear states he is not going to pay taxes on 400-old building, it is not because he is bankrupt. It is also interesting to note a great deal of his back taxes, delinquent taxes, are not residential.

The last figure given was some 60 percent was commercial. There have been no commercial taxes on those properties since World War II.

Also, it is interesting to note the percentage of taxes in the budget, in the planned budget demanded of real estate, in contrast, going back to 1915 is 78 percent and dwindled steadily through 1975, which is the last figure I have. It was then 23 percent.

From 78 percent to 23 percent.

We have in New York City two laws, called J. 51 and Local Law 58. These are tax abatement laws. Tax abatement up to 90 percent for up to 20 years.

J. 51 having to do with rehabilitation of hotels, commercial properties and residential properties, and Local Law 58 having to do with rehabilitation of business properties for business purposes.

No one knows, I am sure, at this point, how much tax abatement is being allowed. I have here clippings by the handful which I simply take from the New York Times, a thoroughly credible number on the subject of the numbers of buildings being rehabilitated with up to 90 percent, for up to 20 years of tax abatement. We submit these are all interrelated to the picture that is given of rental controls driving New York City into the ground.

I would like to state one last thing. And that is, that rent controls in this country are not limited to New York City.

It is true that New York City has had a rent control law and now two, ever since 1940—well, ever since World War II?

It is also true that out of necessity of the scandal of vacancy decontrol which simply said when anyone left a rent control apartment, it then became decontrolled.

The rent stabilization law was applied once those apartments were lived in, to those decontrolled apartments because in that period, from 1971 to 1974, rents went up an estimated 51 percent.

They still jump. They jump to an enormously high level. There is, in fact, no legal minimum to what the landlord may charge, as the building is decontrolled and then comes under rent stabilization with, as I indicated before, leases which stipulated percentages of
increases and a vacancy ration percentage in addition to those percentages for renewal, when it is a new lease.

The fact that there is a growing movement of rent control straight across the country, the fact real estate and banking have formed a national organization to combat it and are pouring money into that particular campaign, the fact they held a meeting and do hold meetings in Washington, D.C., and held one just a couple of weeks ago, in which it was indicated that money is about to be poured into Madison, Wisc., as was poured into Berkeley, Calif., in order to try to kill rent control there.

It is something that is springing up, rent control, some form of control.

Not because any one tenant is running from city to city. We haven't got the forces to do it nor the money.

It is springing up in city after city in varied States, because there is a need for some sort of a lid on rents and the security in one's apartment and a guarantee that one will not be evicted.

Those are the basics of such controls.

And these laws come out of the need, because tenants, all through the country, are victims of a general tremendous rise in rents and of a speculative process of real estate, which may be particularly refined in New York City, but which is a nationwide practice, frequently with nationwide realtors and nationwide banking interests.

So, in conclusion, what I am saying is, New York City is not peculiar in this, although New York City, with its 8 million citizens, is a particularly complex city, a very old city, with many, many different groups, ethnic groups and enormous problems. As everyone knows, and because of that need, there is a tremendous need that the biggest single item in the family budget comes under control, to take it away at this would run counter to what is happening nationwide and would cause such hardship in New York City, as I find it improbably for me to express.

Thank you.

Mr. Lundene. Thank you very much.

[Text resumes on p. 372.]

[The prepared statement of Ms. Benedict, on behalf of the Metropolitan Council on Housing, along with a report by Peter K. Hawley entitled "Housing in the Public Domain: The Only Solution," and a report entitled "Are Landlords Really Losing Money?" follow.]
STATEMENT OF RENT CONTROLS

My name is Jane Benedict. I am the Chairwoman of Metropolitan Council on Housing.

The Metropolitan Council on Housing is a New York City-wide tenant union, having a number of branches and affiliates in various communities of the city. The organization is 73 years old this year. We are 98% volunteer, with a few paid staff employees who are organizers, in addition to those of us who are volunteer organizers. We are extremely active with hundreds of volunteers on various levels of activity. Our members are largely of low and modest income, but we cover a broad spectrum of income and ethnic groups and races. We are very grass roots. We are not funded in any way, except through our own efforts. The organization's income is derived from dues (largely at $5 and $10 per annum for an individual member), and from modest contributions. If you place at the acknowledgement of these contributions in the current issue of our newsletter, TENCHIT, which I shall make available to you, you will see what I mean. Our office is officially open five (5) days a week from 9:30 to 6 PM, during which hours our telephones are constantly busy with tenant inquiries on problems and how to organize. We give advice freely and arrange meetings with those who want to organize. Those meetings are usually held at night, when people have finished work.

There are approximately two million rental apartments in New York City. Approximately 1,400,000 of these are under one or another of the two systems of rent control. The balance of some 700,000 dwelling units, are either public housing, cooperatives, condominiums, apartments under some form of subsidy not subject to any control, or conventional one and two-family homes.

Those apartments in buildings pre-dating 1947 come under the Rent Control Law. They presently number 400,000 to 500,000. The number, however, is constantly shrinking because since July 1, 1971, a state-wide vacancy decontrol law has been operative, so that as an apartment is vacated, it is decontrolled.

Buildings constructed between 1947 and January 1, 1974 are under a law which became effective March 1, 1968, and which retroactively put under its jurisdiction the buildings constructed since 1947 and was later extended to cover those constructed up to January 1, 1974. Buildings constructed since January 1, 1974 are under no form of control.

We, therefore, refer to rent controls in the plural, not in the singular.

For Decent, Integrated Housing At Rents People Can Afford
Since 1972 the Rent Control Law has provided for an annual 7% increase in
landlords. This is in addition to increases, in that the 7% is computed
not on the base rent of 1971, but upon each year's already increased rent.
Although the increase cannot exceed the rental rent, it too, has been
raised: by 8% in 1974, 22% in 1976 and 9% in 1978; thus few tenants ever
reach the ceiling, and so continue to pay the increases. Since 1972 the
7% system, known as the Mandatory Base Rent, has increased rent con-
trolled rents by 85% as of January 1, 1973, and by 1980 will have reached
an increase of 105%.

The Rent Stabilization Law not only covers the older buildings in
New York City built before 1957 through 1973, but since July 1, 1974 also
covers the decontrolled apartments once a new tenant moves into that apart-
ment. Once the apartment is decontrolled the rent jumps to an entirely
new and higher level, to which not set by law. During the interval be-
tween July 1, 1971 and July 1, 1974, when decontrolled apartments were
under no law whatsoever, the New York State Temporary Commission on the
Cost of Living, under the chairmanship of then New York State Asseymem-
Andrew Yest (now President of the Borough of Manhattan in New York City),
found that rents in decontrolled apartments had risen 51%.

The scandal of the landlord to which tenants were subjected in
this situation produced state legislation which put these apartments once
decontrolled under the Rent Stabilization Law. But the first rents in
the decontrolled apartments continued to rise as they did before, so that
the initial rent, subsequently under Rent Stabilization, will often double
and even triple.

The Rent Stabilization Law requires that there be leases of one,
two or three years. Before the decontrolled apartments came under this
law (1971-1974), a tenant had no security of tenancy and could be evicted
at the owner's will, with court sanction, of course, but with the court
having no power to keep the tenant in occupancy.

In this connection it is important to note that both the Rent Con-
trol and Rent Stabilization Laws are basically important to tenants' rights
because they do guarantee the right of the tenant to continue in occupancy, with
eviction for cause only. The Rent Control Law no longer provides for leases.
Tenants in occupancy under the Rent Control Law are deemed statutory tenants.

Under the Rent Stabilization Law there are increases provided for every
lease renewal on a percentage basis. The percentages vary from year to year
and are set by a Rent Guidelines board appointed by the Mayor. Currently,
the scale, effective July 1, 1977 and running to June 30, 1978, provides for
a 6% increase for a one-year lease, 8% for two years and 11% for a three
year renewal. A new tenant coming into an already stabilized apartment, re-
gardless of whether the building had been erected between 1947 and 1974, or
a decontrolled apartment now permanently under stabilization, will pay 24
more than the renewal guidelines, or 11%, 13% or 16%. In certain instances
there are 2% increases for electricity, as well.

It has long been a favorite argument of real estate in fighting against
controls to state that tenants are happy, 1947 rents in 1978. It would seem
clear from the foregoing picture that this is hardly the case. In fact, in the Bloomberg report submitted to the City of New York when the Rent Control Law was renewed by our City Council two years ago, it was revealed that rents in New York City had risen 57% while income had risen only 17%. In other words, rents have risen more than three times as much as income.

The Bloomberg Report revealed among other things a vacancy ratio of only 2.8%. Significant also was the fact that half the city's tenants pay more than 25% of income for rent, with a median income of $8,935.

This vindicated our Council's position that the average New Yorker simply has no more money to put into rent. And yet, under both sets of controls our rents continue to soar.

It must be noted that in both sets of laws a so-called "hardship" clause is an integral part. Thus, if the landlord is not making a certain amount of profit, he/she/it may apply for an increase. The formulae vary in the two laws. There are, and always have been, increases for appliances and major capital improvements that are permanently added to the base rent long after the entire cost to the owner has been amortized.

It is impossible to go into detail in so brief a line as to the speculative nature of real estate. Suffice it to say that the sole end resale of buildings, the use of leveraging in buying more and more, the demand of the real estate industry to make profits on the full value of a building when only 32% of the purchase price has been paid in cash, the use of depreciation tricks (legal, but immoral) as tax shelters—this is the nature of the intensely speculative character of real estate today.

Indeed, this galling "quick buck" approach has led to the milking of buildings: that is, as much taken out in cash as possible, in the form of rents, as little as possible put in, in the form of operation, maintenance and repairs. Indeed, this is the root of the tragedy of abandoned housing, as in the specter of the South Bronx and of all the other South Bronxes that are rapidly developing.

It is equally significant that the real estate industry over the City of New York's $1 billion in delinquent real estate, water and sewer taxes. This is the industry's own estimate, not ours. This non-payment has been part of real estate's battle to force the city to kill rent controls and/or to legitimate concessions to the landlords such as pass-alongs paid by tenants for fuel or labor cost expenses. That the non-payment of these taxes has in large part been calculated, is something we can prove. Moreover, a major portion of the tax delinquency is in the commercial sector, not residential. There has been no form of control on commercial rents in New York City since 1947.

It has also been a favorite argument on the part of those who oppose controls in New York's shrinking tax base. Not only is it shrinking because of the $15 billion owned by real estate, but the City is
shrinking its own base by the unilateral use of the forms of tax abatement to builders known on A-91 and local law 58. This has to do with the rehabilitation of buildings with abatements up to 90% of taxes for up to 20 years. These too have cover the conversion of commercial property such as hotels, lofts and office buildings, as well as the rehabilitation of residential property and the rehabilitation of commercial property for commercial purposes.

An example of the millions lost in taxes in the rehabilitation of the Commodore Hotel by the Trump Interests, which have been tax exempted from payment of $100 million over a 20-year period. "Rehabbing" under these provisions is considered the pursuit of the moment in real estate circles. We see how yet calculated the vast amount lost in taxes from the rehabilitation, which in all cases yields luxury rents, and which, in buildings not as glamorous as the Commodore Hotel promise to be, is frequently shoddy work.

Not all real estate takes in hidden profits and tax shelters, no one knows. Cash flow is surely not the whole story.

In addition, when real estate says it cannot build because of rent controls, the history of New York must be examined. From 1947 to 1969, when the Rent Stabilization law was passed retroactive to 1966, there were no controls on new housing. All that was built by private industry in those 23 years was so-called luxury housing, in which the average citizen could not dream of living.

Standing quietly and silently behind the real estate industry in its war on tenants for the elimination of controls are the banks. With the mortgage interest rates which the banks set, we are now at the point where fifty to sixty cents of every rent dollar goes to payment of debt service.

It is significant that in city after city across the country, including Washington, D.C., the struggle for some form of rent control goes on. The reason is apparent. Real estate/banking practices have driven rent levels to the point where people organize as they have throughout history to seek protection. It would be unthinkable that in New York City, the largest and perhaps most complex of all American cities, the same which others are struggling for were to be further weakened or eliminated.

Indeed, we believe it imperative that these laws and their administration need strengthening. We are working in that direction.
Housing in the Public Domain:
The Only Solution

By Peter K. Hawley

Published by: Metropolitan Council on Housing
24 West 30th Street
New York, New York 10001
Acknowledgments

I wish to express my appreciation to the committee set up by the Metropolitan Council on Housing, to assist and guide in the writing and production of this pamphlet. They are: Jane Benedict, Jeanne Dubman, Martha Hirst, Joseph Hyler, Esther Rand and Curtis Truehart.

Particular mention should be made of the contribution of Esther Rand for her assistance on the section dealing with the history of federal subsidies. To Elizabeth Henson and Bob Drinan for their patience and aid in the endless chore of proofreading. To Jane Benedict for the many late hours of reading, re-reading and critical helpfulness. To Joseph Hyler, my thanks both for his typing of the first draft and for his useful suggestions and historical perspective. Jillian Mulvihill has worked with a devotion and intensity, without which the necessary deadlines could not have been met. Mae Marcus, with quiet selflessness took over my other responsibilities and thus made it possible to concentrate my time and energies on this task.

But to Martha Hirst goes the full measure of respect, admiration and appreciation. Were it not for her, this pamphlet could only have been a dim shadow of itself. The many hours of work are hardly a yardstick of her contribution. Her knowledge, her sensitivity to the understanding of the reader, her imaginative ideas, and critical faculties have had a profound effect on this effort. She is indeed a collaborator. I am fortunate to have had the privilege of working with her.

Peter K. Hawley
TABLE OF CONTENTS

List of Tables ........................................................... v
A. The Housing Famine -- Why? ...................................... 1
B. Landlords have Abdicated their Responsibilities .......... 5
  1.0 Is Real Estate Profitable? .................................... 5
    1.1 Capital Structure of Real Estate ......................... 5
    1.2 Profit from Operations ................................. 10
    1.3 Depreciation ............................................. 17
    1.4 Abandonment ............................................. 21
    1.5 The Economics of Abandonment ......................... 23
    1.6 Tax Shelters ........................................... 30
    1.7 The History of Government Housing Programs ....... 32
    1.8 Why Don't More People Go into Real Estate? .......... 36
  2.0 Real Estate Can't and Won't Build for Low and Middle Income People ............................................. 38
    2.1 The Housing Shortage -- How and Why .................. 38
    2.2 Increase in "Capital Value" ............................ 39
      2.2.1 Effect on new construction ....................... 39
      2.2.2 Interest rates .................................... 41
    2.3 Landlords Have Priced Themselves Out of the Low and Middle Income Markets ............................. 42
      2.3.1 Rent supplements ................................... 42
      2.3.2 People's impoverishment .......................... 43
  3.0 The Role of the Banks ...................................... 43
    3.1 Domination of the Economy .............................. 43
C. Housing in the Public Domain: What Does It Mean? .......................... 54
   1.0 Promises, Promises ........................................... 54
   2.0 Housing Must Be By and For the People ........................... 54
      2.1 How Would It Work? A People’s Housing Board
         and Tenant Committees .................................... 55
      2.2 What Goes Into Public Domain? .............................. 56
         2.2.1 Existing Housing .................................... 56
         2.2.2 New Housing ......................................... 57
      2.3 How Will Buildings in the Public Domain Be Run? ........... 57
         2.3.1 Rent .................................................. 58
         2.3.2 Management and Finance ............................... 58
         2.3.3 Occupancy, Vacancies and Priorities ................... 58
         2.3.4 Rent Limitations on Private Real Estate ............... 58
   3.0 Housing is a Basic Human Right .................................. 59

D. Sources of Available Funds ........................................... 60
   1.0 The Responsibility is Ours .................................... 60
   2.0 Defining Our Housing Needs .................................... 61
   3.0 Sources of Available Funds .................................... 62
      3.1 The Financial/Economic Framework ........................... 63
      3.2 Federal Level Sources ...................................... 65
      3.3 Private Industry Sources: Corporate Profits ............... 69
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. An Example of Capital Profits (Capital Gains)</td>
<td>7</td>
</tr>
<tr>
<td>2. Effects of Capital Gains on the Tenant</td>
<td>9</td>
</tr>
<tr>
<td>3. M.B.R. Components</td>
<td>12</td>
</tr>
<tr>
<td>4. Capital Gains Made from only Component #5 of the M.B.R. Formula</td>
<td>16</td>
</tr>
<tr>
<td>5. Fast Depreciation</td>
<td>19</td>
</tr>
<tr>
<td>6. Effect of Fast Depreciation on Landlord’s Income Tax</td>
<td>20</td>
</tr>
<tr>
<td>7. Superprofits of the Abandonment Process</td>
<td>27</td>
</tr>
</tbody>
</table>
A. THE HOUSING FAMINE -- WHY?

In the richest country in the world—in the country which boasts the greatest know-how and best industrial technology in the world—there exists a housing famine! Why?

An estimated 13 million families suffer "serious housing deprivation". In such housing as does exist, the rents in the last two decades have doubled, tripled and quadrupled. Why?

Are these "acts of God" over which man has no control—and therefore must suffer their existence?

Clearly not!

Then what is the cause?

Land has been gathered into the hands of an ever smaller group of people and has become a rare, expensive and monopolized commodity.

The total value of real estate, land and structures, throughout the United States in 1971 was estimated at $3.5 trillion. (Financing Real Estate Development, Harry A. Golemon, A.I.A., Editor, for The American Institute of Architects. Based on analysis of the Securities and Exchange Commission and the United States Department of Commerce. Published by Aloray, 1974)

In 1972 the total value of real estate in the United States held by individuals (as distinct from corporately owned) was one trillion 492 billion dollars. Of this, 15.1% or $225 billion was owned by the richest 1% of the population. The richest 6%, however, owned 43.2% or $645 billion—almost half of all personally owned real estate. (New York Times, July 30, 1976)

We don't need to contend that landlords can't build needed housing at rents people can afford. Real Estate/Banking have not only proven it by
having the lowest rate of construction since the depression of the 1930's, but their spokesmen continually repeat that they cannot build for low and middle-income people.

We intend to prove in the subsequent pages that:

1) Real Estate/Banking are making profits beyond the wildest belief of the average citizen.

2) By the very nature of the economic jungle in which they live, Real Estate/Banking are not and cannot be content with current or even foreseeable margins of profit.

3) The construction of new housing is not the only way to make profit. They reason: why build if more money can be made from trading existing housing, or collecting federal, state and city subsidies?

4) While this process goes on, housing decays, the population grows, and the ensuing shortage is used as another excuse for rent gouging.

5) The role of the banks is central to this destructive process.

6) This chain of economic housing destruction cannot be altered by pleas for justice, decency or even necessity.

7) It can only come about when those intervening forces are brushed aside, for they contribute nothing to housing but stand in the way of its construction at rents people can afford.

8) Then and only then can people's tax money be used directly to build housing.

9) We need no experts beholden to Real Estate/Banking. A Peoples'
Housing Board and Tenants Committees can guide and administer the construction and operation of housing.

10) This is what we call Housing in the Public Domain -- free of landlords, speculators, banks, bondholders, interest and mortgage payments, and all the other appurtenances of the top-heavy Real Estate/Banking structure.

In June 1976, the United Nations held a world conference in Vancouver, Canada on this very subject. It was called "Habitat" or The United Nations Conference on Human Settlements. The New York Times reported on June 7, 1976:

"...Members of the conference were working on the drafting of proposed recommendations for national action that included statements favoring public ownership of land, government regulation of land use, expropriation of profits from land speculation and public 'recapture' of increases in land value attributable to public development."

A week later the Conference decided that:

"Land, because of its unique nature and the crucial role it plays in human settlement, cannot be treated as an ordinary asset, controlled by individuals and subject to the pressures and inefficiencies of the market. Private land ownership also is a principal instrument of accumulation and concentration of wealth and therefore contributes to social injustice."

(New York Times, June 12, 1976.)

So, it becomes clearer that this distressing phenomenon, which each of us keenly feels on his or her back, is not a local aberration, or even a nationwide one. It is world-wide. It has reached such horrendous proportions that the United Nations, which has many compelling problems to solve, felt it necessary to call a world conference on this subject.

The Metropolitan Council on Housing has, for years, advocated Housing in the Public Domain and called a city-wide conference in November, 1975,
which adopted such a course of action. It is gratifying to find our posi-
tion endorsed, so to speak, by a United Nations body.

But let us make our case on its own merits.
B. LANDLORDS HAVE ABDICATED THEIR RESPONSIBILITIES

1.0 Is Real Estate Profitable?

The Real Estate industry's propaganda mill does a very expert job in publicly shedding tears to "prove" its poverty. It cites rising costs and especially abandonment to make its point. Would you, it rhetorically asks, throw out a good washing machine or automobile unless it were no longer useful (profitable) to you? This, of course, is sand in the eyes, thrown up to blind us.

So let us take a quick look at the Real Estate industry and some highlights of the controlling economics.

Your landlord is not really your landlord or at least not your total landlord. He is the front-man or managing partner for the banks and insurance companies that hold the mortgages.

The landlord or "owner" of a property (other than one- and two-family homes) invests 5% to 10% of the purchase price, sometimes even less, and borrows the balance from the banks, etc., giving them a mortgage on the property as security. The greater ownership, and therefore power, lies in the hands of the banks. This is why we in Net Council, in order to have a clear perspective of who is our adversary, always speak of the industry as Real Estate/Banking.

1.1 Capital Structure of Real Estate

The investment of 5% to 10% to control a property worth 10 to 20 times as much is known as "leveraging".

There are, largely speaking, two kinds of profit in real estate: one, from the operations (rents) of a property and the second, from the
sale of the building. (Here it should be noted that the real measure of all profits is the income tax—and what profits are permitted to go untaxed.) The Real Estate industry, in this respect, is the granddaddy of them all.

As the Real Estate Institute at New York University describes one of its courses in the 1976 Fall Catalogue, "This course examines the impact of taxes on real estate investments. It analyzes the various tax benefits that make Real Estate a tax-favored industry." (emphasis added) More about this later.

In the tremendous shortage of housing that Real Estate has brought into being due to its refusal to build new housing at low and moderate rents, rents have been forced sharply upward. Since the capital value of a building is in direct ratio to its rental income, the upward spiral of rents creates an upward spiral of the capital value of the building.

Table 1 provides an example of the enormous profit made in the buying and selling of Real Estate of which the public is totally unaware.
Table 1. - **AN EXAMPLE OF CAPITAL PROFITS (CAPITAL GAINS)**

1. An owner **buys** a building "worth" .................................................. $1,000,000
2. He **invests** in cash - 10% or ....................................................... $100,000
3. And borrows on a **mortgage** - 90% or .............................................. 900,000

   Let us say he keeps the building for two years—manages to raise the rents, as they all do, through one device or another (MBR, lease renewal, etc.),
4. and then **sells**, let us say for ....................................................... 1,100,000

   Subtracting his buying price (subtract line 1 from line 4)
5. gives him a **profit of** ................................................................. 100,000

   This is "only" 10% above what he paid for the building, but since his **cash investment** was only ..... $100,000
6. **his profit was** ................................................................. $100,000

   Within two years his capital profit on the sale is exactly 100% (If he invested only 5%, his profit would be 200%).
7. **In addition**, if his mortgage was for 20 years, he paid off mortgage principal of $45,000 per year (it is included as a cost in your rent)
8. x 2 years or ................................................................. 90,000

   **His mortgage, at the time of sale is therefore, only**
9. (subtract line 8 from line 3) ........................................................ 810,000

10. He now has cash in two years, of (add lines 6, 7 and 8) ....................... $ 290,000

   **This is enough to"leverage" almost three buildings of the type he originally bought. This does not take into account the profits from the operations of the building.**
From this example, it is not too difficult to understand how sharp operators such as Goldman and DiLorenzo, with $10,000 in capital 30 years ago, "leveraged" it up to billions of dollars in real estate properties, including the Chrysler Building.

It is worth noting that the income tax laws tax this type of profit (capital gains) at only half the rate of "ordinary" income.
Table 2. - EFFECTS OF THIS CAPITAL GAINS ON THE TENANT

1. The new landlord now has a building "worth" ........................ $1,100,000
   (although he invested only $100,000).
   He now recalculates all his "costs".

2. His mortgage interest, say 9½% (it may be much more), is now .......... $94,050
   (990,000 x 9½%)

3. Before, it was (900,000 x 9½%) ......................................... 85,500

4. Interest "costs" (even though this is a tax deductible expense) up by .......... 8,550

5. His mortgage principal payment each year is .......................... 49,500

6. Before, it was ................................................................. 45,000

7. Principal payment (even though this is a capital gain and not an expense) up by .............................................. 4,500

8. Increased "costs"--for these two items alone (add line 4 and line 7) ............... $13,050
The landlord therefore goes to the Rent Control or Rent Stabilization Boards and demands an increase in rents based on these new and higher "costs", claiming he can't make enough profit.

So, because the previous landlord made in two years, a capital gains profit of $190,000 (190%), the tenants are to be required to pay higher rents—as they will again, when this landlord next sells it to another.

All this, mind you, takes place without improving the property by one iota. On the contrary, it most likely has deteriorated somewhat in this period.

1.2 Profit From Operations

This is the area of real estate about which landlords are willing to talk. They never talk about their capital gains nor the inflated capital structure. But even when they talk about profits, it is neither complete nor honest. They talk about cash-flow, that is, the total that comes in (rents) and the total that goes out (cash payments). They talk about increased labor costs and increased fuel costs. These are true, but they are a minor part of the total items that are labelled as costs. And to the extent they are true, they have been more than offset by the steady increase in rents that go up each year under M.R. or with each new lease under Rent Stabilization.

The M.R. Fraud

The major complaint of landlords is that rent controls prevent profit in their operation of residential buildings. It is interesting to examine this complaint historically.

Rent Control was enunciated during the Second World War, when after
the declaration of war in 1942, the economy was geared to the war effort. The proclamation of the Congress froze all prices, rents, barred all new civilian construction, and decreed that rationing be initiated in both food and clothing manufacture and distribution.

The Rent Control law initially had been designed to protect tenants against landlord gouging. As the federal proclamation read, the law was "...to stabilize prices and rents to prevent hardships to persons...to protect persons with relatively fixed and limited incomes, from undue impairment of their standard of living...."

However, even during the period of federal rent control under the Office of Price Administration, landlords began to demand and get increases, and to obtain changes in the regulations. With the end of the war and the closing of the OPA offices, rent control on a federal level was annulled and voided in every state except New York, which voted to continue rent control, and incorporated in its state law and regulations all the rulings that had been made at the behest of the landlords during the six years federal controls had been in effect. The demands of landlords from 1949 through 1962 were also incorporated in the law and regulations, as a comparison of the respective laws would reveal.

By virtue of the state legislature, the rent control law became the responsibility of the City in 1962. By that time, the law had been changed beyond all recognition as far as tenants were concerned and has been nibbled away by rulings, regulations and judicial decisions.

The MBR fraud was perpetrated by the very landlords who are today
demanding that it be declared void and of no effect, while urging that all controls of rents be eliminated. Yet all controls that have been instituted in the State and City were instituted at the lobbying and urging of the landlords and their organizations, in a drive for greater and higher rents and thus more and more profits. The city and state legislative bodies have consistently institutionalized the demands of the landlords, while ignoring the rights of the tenants.

The Maximum Base Rent formula is the most recent case in point:

Table 3. M.B.R. COMPONENTS

<table>
<thead>
<tr>
<th>Component</th>
<th>% of MBR Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Real Estate Taxes</td>
<td>14.9%</td>
</tr>
<tr>
<td>2) Water and Sewer Charges</td>
<td>2.7%</td>
</tr>
<tr>
<td>3) Operations and Maintenance Expense</td>
<td>39.0%</td>
</tr>
<tr>
<td>4) Vacancy and Collection Loss</td>
<td>1.0%</td>
</tr>
<tr>
<td>5) Return on Capital Value</td>
<td>42.4%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

(A Housing Agenda for New York City, Sales and Furl, a McKinsey Report, page 31.)

Let us examine these for error, duplicity and areas of evasion.

1 & 2. Real Estate Taxes and Water and Sewer Charges: As of the end of 1975, $1 billion 300 million was due New York City in unpaid taxes. These constitute 17.6% of the rent dollar that the landlords pocketed—and which amount the tenants paid to them as part of their rents. Pure, if illegal, profit! And let one think that only shyster landlords don't pay, Harry Helmsley, one of the largest landlords in the United States, stated publicly that he would not pay...
taxes on many of his residential properties.
\textit{(New York Magazine, April 14, 1975.)}

3. Operations and Maintenance Expense: This accounts for 39\% of the rent dollar. There are probably very few tenants in New York City who haven't experienced one or more of the following:

- Too little heat (or none in many cases) in winter.
- A reduction in the maintenance staff and cuts in maintenance service. In many buildings there is no superintendent at all.
- Broken and un repaired facilities including plumbing, heating and dark and deteriorated public areas.
- Landlords' unpaid Con Ed bills that threaten to turn off the light in public areas, the operation of the heating system, etc.
- Less frequent, and in some cases, no painting.
- Antiquated or defective and dangerous electrical equipment.
- Add your own experiences.

Each of these items reduces the 39\% of your rent dollar that should have been expended and again becomes pure profit in the landlord's pocket.

4. Vacancy and Collection Loss: This accounts for 1\% of the rent dollar. In this housing shortage, there are practically no vacancies.

5. Return on Capital Value: 42.4\% of the rent dollar. This is the area of massive swindle. It includes:

a) Allowance for interest on mortgage
b) Amortization of the mortgage (repayment of the principal)
c) Assessed value of property x equalization rate x 8.5\% (theoretical profit)
d) Real profit
Let us examine each of these:

a) **Interest on Mortgage** is a blatant piece of fakery. The entire amount of interest paid by the landlord is deductible from the landlord's income tax, and therefore repaid by the U.S. government (state government, as well) and therefore constitutes not one cent of expense. (Just what part of the 42.4% is attributable to interest, we are not told.)

b) **Amortization of the Mortgage.** This too is a fraud. This is not an item of expense. When the landlord makes a payment to the bank on his mortgage, he reduces his mortgage by that amount. He therefore builds up his equity in the building by that amount. It is as if he were putting the money in a piggy bank to save. Again, like interest on the mortgage, this constitutes pure profit. (See example under capital gains, page 7)

c) **Assessed Value x Equalization Rate x 8.5%**. The assessed value of a building is roughly 60% of its "value". The landlord pays taxes on only this sum, that is when and if he pays taxes. The Equalized Assessed Valuation fraud was passed in 1970 as part of the MBR Law. Its effect is as follows: Let us keep as an example the $1,000,000 building we used earlier. Its assessed valuation is approximately $600,000. Using the Equalized Assessed Valuation (EAV) formula, the EAV value becomes $1,050,631.

(For full analysis, see Appendix -- Net Council document of February 21, 1974) And although the landlord pays taxes on only $600,000 of value, under the MBR Return on Capital Value, he
collects from the tenants' rent calculated on $1,050,631.

The EAV is then multiplied by 8.5% which is the theoretical profit for the landlord. While 8.5% seems modest in this age of inflation, the question is, 8.5% of what? Roughly speaking, he invests in cash 10% (in our example, $100,000) of the cost of a building. Then the EAV is inflated up to ten times the investment ($1,050,631). Then the 8.5% profit is applied to that bloated figure. Thus it becomes not 8.5%, but ten times 8.5% which is about 85%! (See Appendix) This is the magic of semantics and obscurantism.

d) To pour salt on the tenants' wounds, we come to the final major fraud. (There are many minor ones.) As we saw in Section 1.1, the landlord invested only $100,000 cash in his $1,000,000 building. In the world of business, he is entitled to a profit only on the actual cash he invested.

At a profit rate of 10% his profit would be $10,000 per year
At a profit rate of 20% his profit would be $20,000 per year
Even at a rate of 30% his profit would be $30,000 per year

However, applying only component #5 (Return on Capital Value) to the $1,000,000 building, the landlord's profit is as follows:
Table 4. - CAPITAL GAINS MADE FROM ONLY COMPONENT #5 OF THE N.B.R. FORMULA (See Table 3.)

1. Interest on mortgage (actually returned by U.S. government to the landlord because it is fully deductible as a business expense) .............................................. $ 85,500

2. Amortization of Mortgage (savings in piggy bank) ................................................................. 45,000

3. Equalized Assessed Valuation (See Appendix):
   He gets as part of his rent (8.5% of $1,050,631) .............................................. $89,303

4. Landlord pays Real Estate taxes of $8.18 per hundred dollars on $650,000 of assessed valuation ................................................................. 40,980

5. By this double standard—namely, by 
   receiving the real estate tax
   part of the rent dollar on the inflated amount and paying his real
   estate tax on the deflated amount, the landlord gets more than he
   pays in taxes, the sum of (subtract line 4 from line 3) .............................................. 40,223

6. So, from Component #7 alone (Capital Value) he receives per year ...................................... $170,723

    on a cash investment of $100,000—17% profit per year!
To which we must add all the savings, cuts in service, and the assorted chiseling.

It is not our purpose to do a comprehensive study of all areas of landlord profit, seen and unseen. Rather, it is our purpose to turn up just a corner of the rug so that your own experiences can let you judge just how much dirt there is under it. Therefore, let us leave these unsavory facts behind us for the moment and examine only three other areas of landlord abuse and profit: Depreciation, Abandonment, Other Tax Shelters.

1.3 Depreciation

The theory of Depreciation should be, and originally was, that an owner of a property shall be repaid (by adding to the cost of the product) that part of the machine or facility that has been worn out to uselessness, in the process of manufacturing his product or delivering his services. In Real Estate this has been perverted out of all semblance to anything originally intended or even making justifiable sense.

Depreciation, as used in Real Estate and under all the tax laws, has no relationship to the real useful life of a building, its condition, or even the replacement of the building. It is an unseen method of making profit by calling this non-cash item an expense. It is one of the most important of Real Estate Tax Shelters. It converts a profit into a paper "loss" and thus allows other income (salaries, interest, dividends, etc.) to be tax free.

- The useful life of a newly constructed building for income tax purposes is about 30 years. Has anyone seen a 30-year-old building torn
down and replaced by a new one? Yet the landlord gets back the entire value of the building in 30 years by deducting, in this case, 3.33% of the building value each year on his income tax. This is charged as an expense though no cash is involved.

- If the landlord sells the building after five years, let us say, the new landlord starts all over again and depreciates the building at his new cost, even though it is higher than the original cost.
- If this is done 25 times, with a building new 100 years old—and sold for more each time than was paid for it—depreciation starts anew with each new owner.

- Depreciation starts at 125% of the cost of the building, not 100%.
  Don't ask why. It has just been manipulated that way.
- Some depreciation is at 200% of the cost of the building—not 100%.
  Some is by an even faster method, called "Sum-of-the-Digits", that defies comprehending its relationship to real estate economics, except that it makes more money for the landlord.

Past Depreciation—An Example:

A special allowance under the income tax laws is given to "encourage" the rehabilitation of old buildings. The depreciation is at the rate of 100%, but the time in rehabilitation is five years, rather than the usual 20 or 30 or so years. The landlords get an incredible bountee and the tenants get rent increases they cannot afford to pay—sometimes 200% to 300% of the previous rents.

In order to prevent a landlord from rehabilitating a building, *Actually much more. See fuller discussion in subsequent pages.*
taking the five-year depreciation bonanza and then selling the building, the law governing this activity "requires" that he continue it ownership for a considerable number of subsequent years or as a penalty the government recaptures appropriate percentages of the bonanza. There is, of course, a loophole large enough to drive a double-decker bus through.

That loophole is, that the landlord can avoid the "recapture" of his profits, even if he sells, after his five-year depreciation is used up and the building therefore has no longer any profit usefulness to him, by the simple device of investing specified percentages of his profits in another rehabilitation.

The legal "penalty" therefore, is to "force" the landlord into a larger rehabilitation profit-spree or into two or three smaller ones.

To illustrate fast depreciation, let us take this example:

Table 5.  -  FAST DEPRECIATION

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The rehabilitation costs</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>The landlord invests 10% or</td>
<td>$100,000</td>
</tr>
<tr>
<td>The mortgage</td>
<td>900,000</td>
</tr>
<tr>
<td>2. $1,000,000 is depreciated over 5 years.</td>
<td>$200,000</td>
</tr>
<tr>
<td>Therefore, the depreciation per year is</td>
<td></td>
</tr>
</tbody>
</table>

The yearly depreciation alone equals 20% of his total cash investment.
(Note: For the moment let us disregard such "unimportant" matters as profit from rent, operations, etc.)

Now let us do the income tax of such a landlord and let us presume the following, not unreasonable, set of facts:
Table 6. - EFFECT OF FAST DEPRECIATION ON LANDLORD'S INCOME TAX

1. Cash profit from building operations ........................................ $ 25,000
2. Depreciation (See Table 5, Line 2) ........................................... 200,000
3. Net "loss" (subtract line 2 from line 1) ....................................... ($275,000)
4. Suppose, then, that he has other income from stocks, bonds, interest,
   salaries that he pays himself, etc. ............................................ 190,000
5. Therefore, his taxable income is (subtract line 3 from line 4) ............. 15,000
6. This is taxable on his Federal Income Tax at a 25% rate,
   so his income tax is .......................................................... 3,750

   Now let us see what would happen without this phoney depreciation.

7. Income from dividends, salaries, etc. ...................................... 190,000
8. Profits from building .......................................................... 25,000
9. Actual income that should be taxable (add line 7 and line 8) .............. 215,000
10. This is taxable at a 70% rate, so his income tax should be ............... 150,500
11. Thus the landlord should be paying $150,500 (line 10) in income tax, but thanks to depreciation, he pays only $3,750 (line 6),
    thereby avoiding taxes in the amount of .................................... $146,750

(Note: This same tax avoidance is applicable to state and city income taxes.)
In summary, in Real Estate we find such abuses as:

- Depreciation allowed for shorter periods than the real useful and profitable life of the building.
- In rehabilitation, a five-year depreciation, which makes for unbelievable tax avoidance and, therefore, profits.
- A building erected 100 years ago for $100,000 has been sold and resold 20 to 25 times, each time (up to a certain point) at a profit, depreciated each time at 125% of the new, higher purchase price, so that the total amount depreciated may well come to more than one million dollars over this period.
- But the biggest fraud in depreciation is perhaps the following: Depreciation is supposed to return to the owner his original capital investment over the useful life of the building. But he gets it, not only in the abused form indicated above. He gets it twice. Once, from the government in his income tax deduction of depreciation and a second time, as part of the tenants' rents.

Note that (page 16) under the MBR formula, component 8b (Return on Capital Value, line 2. Amortization of Mortgage, repayment of principal), the tenants' rents are based on this repayment of the mortgage principal. The effect is that the tenants buy the building while the landlord continues to own it.

(Note: Land is not depreciable. Therefore, our examples are only approximate and presume the building only. They are intended to show the nature of Real Estate/Banking and government in the vast and legal conspiracy against tenants.)

1.4 Abandonment

This is Real Estate's most effective propaganda argument.
And why wouldn't the average, ordinary, decent and honest person believe what seems to be a plain fact in front of his or her very own two eyes?

Not being a manipulator or speculator, he or she understands the simple truth that if it is good (profitable), one doesn't throw it away (abandon it). Hence, if one does throw it away (abandon it), it must be no good (unprofitable).

No less an authority than Edward Sulzberger, one of New York's biggest landlords and president of one of New York's major landlord organizations, stated recently that 35,000 units are being lost each year due to abandonment. (New York Times, November 30, 1975)

This is a damning fact, a tragedy to each of the 35,000 families forced to look for a new apartment that it can hope to afford in a housing-starved city. It is even more tragic to have to live in an abandoned building, as numberless thousands do—especially, but not exclusively, in the ghettos.

To live in decay, with no heat in winter, no hot water, frozen pipes that burst and pour water onto floors, walls, and furniture, that in turn causes ceilings to fall, walls to become plasterless, with the exposed lathing as the "wall" between one room or one apartment and the next—this is and should be considered a crime, equal to murder. For indeed it has caused the death of innumerable persons—especially infants and children as well as the aged, the ill and the infirm. It results in fires from building defects, electrical shorts, etc., that kill thousands each year (see your local newspaper).
And the landlords tell us that it is our fault; that we don't pay them enough rent to keep their properties in good condition!

That this is the BIG LIE, is clear to many people and certainly to most organized tenants. But it is not enough merely to know. We must have proof of why it happens and understand the economics of abandonment. We must know why it is more profitable to abandon a building than to re-pair and maintain it and keep it as a useable, profitable, rentable building.

Before getting down to cases, let us take a quick look backward, to see if this is a new phenomenon. Go back to the 19th century, to the exposes by Jacob Riis of the horrendous housing conditions of the immigrant ghettos, where whole families were packed into one room; where single people were stacked two or three tiers high, 10 and 15 to a room. No amenities, of course. No painting, plastering, or repairs. The rents were raked in and kept as profits—as near 100% as possible—with expenditures cut well to the bone. If the building collapsed—and they did, and still do (remember the Broadway Central Hotel)—then the landlord would start with another semi-decayed wreck, until perhaps that one went up in flames. Insurance, of course, would help assuage much grief.

1.5 The Economics of Abandonment

So abandonment is not new. It was not invented by the current crop of slumlords. They are just hungry copycats, feeding off the rest of the population in whatever way yields the greatest amount of profit in the shortest amount of time.
Now, to the economics. Why do they do it? Isn't it better to keep a building in good condition and keep the rents coming in year after year?

First, abandonment is not a single act, but a process. It starts slowly, takes on more momentum, and speeds up toward the end at a breakneck pace. It takes years, sometimes many years.

Also, we should bear in mind that not all buildings are abandoned—only certain types of buildings.

New buildings, up to 20 years old, are still capable of bringing in top rentals in their various categories. Remember that there is much profit to be made, not only from rentals, but from depreciation, capital gains through sales, and the numerous other devices that abound in this fertile field. So the new building is cared for and maintained as long as it remains in this competitive capacity.

After 20 years, more or less, the building gets tired and needs repairs or replacements that may be costly. Remember, there has already been depreciation that is supposed to allow for replacement. This isn't money out of the landlord's pocket. He got it once in depreciation in his income tax and a second time in his rents.

Now comes the first fateful decision. If it is a Park Avenue or other silk stocking area building, the probable decision will be to make the necessary investment (and, of course, jack up the rent).

But if it is a neighborhood into which minorities, especially Black or Latin people, are moving, the probable decision will be to make patch-work or cosmetic repairs. Minority people can always be forced to pay more for the same product than white, middle- or upper-class people (this is true in
food chains and other stores as well) and so the landlord can get higher rents without the costly replacements.

So here we have the first step in abandonment.

Having taken this step and set his course on this policy, the landlord now decides to take out of the building as much as possible. This means two things: one, raise the rents to the limit of what is possible; two, put back into the building as little as possible.

The difference between the two items is superprofits. This pace, continued another five, ten or so years, makes for large profits and a building that begins to fall into the category of "shabby or run-down".

It is most likely not held by the same landlord through the years. This would indeed be rare. Rather, it has changed hands a number of times. Remember, (See Table 2.) the landlord amortized in two years $85,500 of his mortgage. Landlords don't like that--the money is lying fallow in a reduced mortgage. The landlord would like that money in his hands to use as leverage in buying another building. So, in addition to selling at a higher price, he also gains possession of the amortization money.

Therefore, the turnover in Real Estate is almost a must!

The new landlord ups the rent because he paid more for the building (See Table 6). By this time, there is not much to be gained by investing money in repairs and upkeep because the building is already shabby.

In another series of years (and turnover of landlords, of course), the building degenerates from shabby to deteriorated and finally, to dilapidated.

And from there, it is only a matter of a few more years to abandonment.
But each of these steps is profitable!

Since we have the percentages and economic facts supplied to us by the good government of New York City in the MBR formula, in Table 3, we apply these to each of the levels, using our $1,000,000 building as a case in point, to see in concrete terms how profitable abandonment is.

The key figure here is 35%, the part of the MBR formula allowed for Operations and Maintenance Expense. We will omit the very important 75% annual increase under MBR and the larger increases under Rent Stabilization, even though they would up the rents and profits considerably, because it would complicate our example, and we want to keep it simple. Therefore, we are making our case by deliberately understating it.
Table 7. - SUPERPROFITS FROM THE ABANDONMENT PROCESS

1. Annual rent roll .............................................................. $150,000

2. Operations and Maintenance Expense (39% x line 1) .......................... $58,500

   After the fateful first step toward abandonment, let us say the landlord reduces his staff, cutting down his Operations and Maintenance expense by "only" 10%.

3. This adds to his profit an additional annual amount of .................. 5,850

4. And let us presume that in four years he sells to another landlord. Total superprofits to date (line 3 x 4 years) .......................... $23,400

Note: In doing these calculations it is necessary to remember two things: one, that this is not the total profit from the building, but only the superprofits based on the deliberately caused deterioration; and two, that the total cash investment in the building was only $100,000.

   The new landlord cuts another 13% of Operations and Maintenance which, when added to the previous landlord's 10% cut, creates a 25% cut in the Operations and Maintenance expense.

5. Annual superprofits created by this 25% cut .......................... $14,625

6. If he does this for six years, his superprofits for this period become (line 5 x 6 years) ................................................. $87,750

7. Total superprofits for ten years (line 4 plus line 6) ........................ $111,150 (forward to next page)
The building is now in the shabby class and is sold again. The pace quickens. Without detailing each likely step, the new slumlord-type landlord really makes cuts, taking out another 25%. So, the original Operations and Maintenance expense has been cut by a total of 50%.

8. Annual superprofits created by 50% cut in Operations and Maintenance expense .................................................. $29,250

9. Superprofits for ten more years, probably including more than one landlord (line 8 x 10 years) ................................................................. 292,500

10. Total superprofits for the first 20 years (line 7 plus line 9) ................................................................. 405,630

The building is now substantially deteriorated and ready for the final stage of abandonment. The landlord (probably new) has bought the building at a lower price and is getting all he can as quickly as possible. He cuts another 25% of Operations and Maintenance for three years, so now the original Operations and Maintenance expense has been cut by 75%.

11. Annual superprofits created by 75% cut in Operations and Maintenance expense .................................................. 43,875

12. Superprofits for those three years (line 11 x 3 years) ................................................................. 131,625

Now he is ready to go "whole hog" and prepare for full abandonment. He stops paying real estate taxes, water and sewer charges, which are 17.6% of the rent roll.

13. Annual superprofits from failure to pay real estate taxes, water and sewer charges (17.6% x $100,000 rent roll) ........................................... 26,400

14. It is three years before the City can start "in rem" or foreclosure proceedings. More superprofits (line 13 x 3 years) ........................................... 79,200

*Note: As of October 7, 1976, Mayor Beame signed into law a bill permitting the City to foreclose in one year rather than three.
15. He cuts Operations and Maintenance another 15% (total cuts are now 90%) by stopping payment to Con Edison and cutting back on fuel. (Line 1 x 90%)  .................................................. $52,650

16. Still more superprofits (line 15 x 2 years) ................................................................. $105,300

   The landlord stops paying principal on mortgage for two years.

17. Superprofits from failure to pay mortgage principal (65,000 x 2 years) ...................... 90,000

   He stops paying interest on mortgage (let us say it has reduced itself to $65,000 per year) for two years.

18. Superprofits from failure to pay mortgage interest (65,000 x 2 years) ....................... 130,000

   Then the landlord cuts out all fuel and all maintenance (100% of the original Operations and Maintenance).

19. Superprofits from elimination of all Operations and Maintenance for one year .......................... 58,300

20. Superprofits for these last six years .......................................................... 594,625

   (Note: Lines 13 to 19 represent overlapping, not consecutive, years)

21. Total superprofits (in addition to regular profits) in 26 years from point of decision not to make necessary repairs (line 20 plus line 10) ........................................ 898,275

   The building is now 45 years old.

   Again, bear in mind that cash investment was only $100,000. As the regular and superprofits are taken out, as well as the capital profits from turnover realized, they are invested as leveraging in additional buildings. Thus a new empire is built or an old one expanded.
1.6 Tax Shelters (and handouts from the public treasury)

The relationship between profit and income taxes is too clear to need much elaboration. As Alan S. Usor stated in his *New York Times* column, "About Real Estate" (March 9, 1976), "By writing off the mortgage interest and real estate taxes during the construction period, and by taking accelerated depreciation on the asset, the investor might hope to realize anywhere from $3 to $5 of tax losses on each $1 invested."

We have seen from our study of fast depreciation how that tax shelter resulted in a tax avoidance of $146,750. This represented $1.50 of tax avoidance for each $1.00 that landlord invested—a third of the amount a sophisticated investor would hope to realize, according to Usor.

Real Estate has many other forms of tax shelters. They include:

*Property Taxes* — Paid by the tenant as part of rent but tax deductible by the landlord.

*Interest on Mortgage* — tax deductible.

*Real Estate Investment Trust (R.E.I.T.)* — A form of organization that allowed investors to pool their money for large scale real estate investment; then, as long as the REIT distributed, in the form of dividends to the investors, 90% of its taxable income, no corporate taxes had to be paid on that income.

Investment in REITs was built into an enormous pyramid that was so fragile it has now almost totally collapsed, and has caused the loss of tens of millions of dollars to REIT owners and sponsors, including many major banks.

*Syndications* — A legal device whereby the general or managing
partner sells shares of the profits and a proportion of the amount of tax-sheltering depreciation to limited partners, who, to make the investment practical, must have high incomes.

The limited partner pays to the general partner a portion of the invested capital and receives in return a share of the profits. What is more important—in fact, the essence of the deal—is that he receives the right to his proportion of the amount of depreciation allowance.

The limited partner deducts the depreciation allowance (which the law allows him to show as a loss) from his other income, thereby showing a net income smaller than the actual.

Example:

Income from other sources $100,000
Depreciation tax shelter (proportion) - 30,000
Taxable income $70,000

While not technically tax shelters, these are a few of the cost-reducing and profit-making gimmicks:

J 31 - A New York City law passed by amendment in 1976 which provides tax abatement of 90% of certified reasonable costs at the rate of 84% per year for not less than 9 or more than 20 years, together with no taxation resulting from the improvement for 12 years. This covers commercial space, manufacturing lofts or hotels that are converted to residential use, as well as the rehabilitation of existing run-down residential housing.

Section 421 - of the New York State Real Property Tax Law is a similar statute that has the surface con-game appearance of an
effort to provide additional housing. Landlords who have been
called to take advantage of Section 421 include Aristotle
Onassis. Onassis and his partner Arlen Realty applied for a
$6,000,000 tax exemption under Section 421 for Olympic Towers,
the mixed-use high rise structure on upper Fifth Avenue that
includes 15 stories of office space and 30 stories of condomini-
umia—hardly the low- or middle-income apartment houses which
Section 421 was designed to encourage.

Thus, both J51 and Section 421 result in high rent housing for upper-
income people. They double or triple previous rents, and price low- and
middle-income people out of their homes. In reality, then, these laws
simply provide two new sources of great real estate profit.

There are other such devices too numerous to mention. But whether one
calls them tax shelters or money-making gimmicks, there have been and are
endless methods for milking the public treasury.

1.7 The History of Government Housing Programs

It is important to take note that every scheme introduced which sup-
possedly would provide new housing for those who needed it at rents they
could afford to pay, was actually designed to make great profits for the
banks, developers and builders, while only incidentally providing housing
for a small percentage of the population.

Stuyvesant Town, sponsored by Metropolitan Life Insurance Company,
was built with bonds floated by the New York State Urban Redevelopment
Act, in 1943. Even in that period, more than 30 years ago, only 2% of
those living in the area could afford to pay the rents. Metropolitan Life
was not forced to relocate those who had lived in the ramshackle tenements for years nor was it required to make the new housing available to Black and other minority applicants.

The Slum Clearance Program enacted in the 1937 Federal Housing Act was the beginning of a plan to clear the slums—not to build new, decent and affordable housing for the residents of these areas, nor to beautify the City, but to tear down the old housing and pave the way for higher realty values. The carrot for building was provided by the federal condemnation of land and the write-down of 2/3 of the cost of the land, after which the speculators went to town.

This profitable process was repeated in many cities. (Manhattanville and Lincoln Center are but two examples in New York City.)

The Housing Act of 1949 substituted the phrase "Title I" for the phrase "Slum Clearance Program" in the 1937 Act, which by now had fallen into disrepute. Some low-rent housing was built—but under the Title I cover, they also built the New York Coliseum—by no stretch of the most fertile imagination, low-rent housing.

The 1954 act started the subsidies to the banks and the developers, in order to get away from the massive slum clearance program. No more housing, according to President Eisenhower, could be built by federal funds because Sputnik I had appeared in the heavens and all non-military money was now needed for the space program.

And that is how the Sections 221 (d) (3), 221 (d) (6), and subsequently 236 became household words. In every case, it meant that when the loan was given to the developer at the interest rate of 1% or 3%, in the
beginnings of those programs it resulted in lower rents per room. Remark-
ably, where 1% interest was charged, the rents per room per month dropped
by $40 to $60. The difference between the 1% paid by the developer to the
bank, and the market interest rate, was paid to the bank by HUD out of our
taxes so that the banks, as usual, got the full market rate.

Not too long thereafter, the rents rose again to the same "market
levels" of the non-interest subsidized buildings because the drive of a
builder or speculator is not for low rents but for maximum profits.

With the 1974 Housing Act, one of the first laws signed by the up-
pointed President Ford, a new subsidy was dreamed up: Section 8.

Section 8, the newest federal housing subsidy program, supposedly
designed to benefit low-income tenants, in fact serves only to fatten the
landlords' coffers. According to the legislation, private or public
owners rent new or existing housing units directly to low-income tenants
who are "certified" for the program. A tenant pays 15% to 25% of his or
her income for rent; the difference between that amount and the Contract
Rent is made up by a HUD "Housing Assistance Payment" to the landlord.

HUD establishes the Section 8 Contract Rent ceilings and adjusts
(read, raises) them annually. The net effect of these ceilings is that
new and higher rental standards are set throughout the area. In the New
York metropolitan area, for example, the Section 8 ceiling rent for a new
two-bedroom apartment in an elevator building is $684 per month; the ceil-
ing for a two-bedroom apartment in an existing building is $266 per month,
but apartments renting under Section 8 are automatically decontrolled, so
rents will continue to soar just the same.

- 34 -
To utilize Section 8 subsidies, owners of new housing must first seek HUD approval of their proposed units, while owners of existing housing must be sought out by tenants themselves. However, many landlords refuse to make Section 8 agreements. Apparently, they dislike the administrative hassles, but more importantly, they fear the inspection of their properties that are required before HUD approves the agreements. While thousands of tenants are certified under Section 8, only a small fraction of those qualified have been able to take advantage of the Section 8 program because of this landlord reluctance. Tenants are forced to compete with each other for the few units that are available under Section 8 and to pay higher rents for non-Section 8 units.

These are but samples of the duplicity, cynicism and waste of billions of dollars--each of which, in its turn, becomes a costly and vast failure, in terms of providing solutions to the housing problem.

A few more such:

- The Urban Renewal Program
- The General Neighborhood Renewal Program
- Neighborhood Development Program
- Model Cities
- New Towns Program (See Part D.)

New York State came up with the high-sounding and disastrous
- Mitchell Lama Law (essentially a tax shelter and pork barrel).

Many current tenants and "cooperators" are on rent strike against rent increases of up to 100%. New buildings under this
program are coming in at $100 to $150 per room per month. (The
law reads that it was designed for "low income" people!)

• The Urban Development Corporation. A Rockefeller gift to man-
  kind for high-cost housing. Recently it was saved from bank-
  ruptcy by Governor Carey and the legislature voting a giveaway of
  $258 million in loans and a direct appropriation of $200 million,
  to continue its existence.

New York City has among its gifts to Real Estate/Banking, its own

• Mitchell-Lama Law and the Municipal Loan Program. Ostensibly to
  aid in the rehabilitation of structurally sound housing, it is a
  corrupt piece of cynicism that brings rents up 100% or more and
  out of reach of the existing tenants, while the landlord reaps
  rich rewards by shabby cosmetic and often fraudulent work. Mayor
  Lindsay was forced to close down the program for about six months
  because the smell of the scandals was too much for even his in-
  sensitive nose!

1.8 Why Don't More People Go Into Real Estate?

Having described in so much, even if incomplete, detail the almost un-
believable profits that landlords make (certainly unknown to the public),
one is inclined to ask why don't more people go into it?

For one thing, most people—and all decent people—don't have the
stomach for it.

Here is a quotation from The Handbook of Real Estate Investment by Don
G. Campbell. The author is explaining who should and who should not take
the plunge into Real Estate.

- 36 -
"The sight is enough to tear the heart right out of the stoniest breast: our hero's small son—a normally bonny child—bursts into the house a-sash with tears of humiliation. 'Daddy! Daddy!' he sobs pitifully. 'Some kids down at school say that you're a...a...'

He gropes painfully for the word. 'They say you're a ...a speculator!' If this is the sort of thing that grabs you and throws you into a deep funk perhaps you'll be happier in the wholesale poultry business."

Here we have it straight from the horse's mouth, so to speak. But that's not really all. A worthy landlord can either handle or ignore his delicate child.

The fact is that not everyone can win. Not in a horse race, a lottery, in the grocery business of in Real Estate. There is this thing known as competition. There is also this thing known as limitless accumulation (greed). Do Rockefeller, Ford, Getty or Hughes have enough? In business there is no such thing as enough. For if you don't get and keep stronger than the next guy, he'll take it away from you, whereas if you keep on top you can take it away from him.

It follows therefore that someone has to lose, someone has to be lowest on the totem pole. It may be because he's not smart enough. It may also be that he's not ruthless enough.

Take, for example, the late William Zeckendorf, Jr., whose vast real estate empire collapsed a few years ago. It could not be said of him that he was neither smart nor ruthless. He had enough of both. But luck ran out. He spread himself too thin. Too much leveraging. Too many properties. The cash flow income hesitated a bit too long. The banks and other creditors demanded theirs. He couldn't raise enough money quickly enough to hold them off. The other wolves rushed in to foreclose on his properties.
or to make him sell at bargain rates, to gain enough cash to hold off the 
other creditors. The vast upside-down pyramid began to topple. And William 
Zackendorf went to the lower reaches of the totem pole.

So landlords too, have to know their way around this very sharp and 
competitive industry. They have to be able to fend off this creditor and 
that banker for that period of time—precisely because the landlords have 
leverage. Leverage translated into plain business English means too little 
capital is invested and the landlord is spread too thin.

So the meeker, the less sharp, the unluckier, but especially the 
smaller ones, go down the drain. Sorry! Real Estate is not for the aver-
age Joe or Jane.

2.0 Real Estate Can't and Won't Build for Low and Middle Income 

People

2.1 The Housing Shortage — How and Why

World War II was a golden opportunity for landlords. With the deci-
sion to shift all production to war requirements, essentially no housing 
was built from 1942 to 1945. To aggravate this condition, came the influx 
of large numbers of people to the bigger cities, to man the vastly expanded 
war industries.

The result was no vacancies (previously landlords figured a 10% or 
20% vacancy rate). But rents were held in place, as were the prices of all 
goods and services, by rent controls and price controls.

When the war was over, landlords were besieged with requests for non-
available apartments. This was a delightful position to be in except for 
the damnable rent control laws.
Quick to recognize a good thing when they saw it, they "decided" to keep new construction well behind demand and to use the power of the shortage for profits as well as pressure for governmental relief from rent controls. And relief they did get in the form of across-the-board increases, increases for new tenants, administrative relaxation of the laws, diminution of services and many more.

The campaign to abolish rent controls took on new power with each passing year. Meanwhile, with rents going up, the capital value of real estate increased and there was a large and quick profit to be had in buying and selling. In fact, there was more to be made that way than by constructing new housing, and with much less investment and fewer headaches.

In this atmosphere of shortage and with large under-the-table payments for apartments made vacant by moves to the suburbs or by death, all real estate was booming—Park Avenue and the ghetto as well. So why build? Trade instead. Keep the shortage, reduce the services and up the rents and profits!

2.2 Increase in "Capital Value"

2.2.1 Effect on new construction

We have seen from our discussion "Effect of Capital Gains on the Tenant" (page 9) that the purchase of a building by a new landlord at a higher price resulted in higher rents.

It is now over 30 years since the end of World War II, and there have been many real estate booms. Translated into simple terms of its effect on the population, boom means: a) capital gains profit for the landlord, b) higher rents for the tenant, c) multiplied 10 or 20 times over, a
pushing of the market in rentals to qualitatively new and higher and dis-
astrous levels. A case in point: A reasonably new and well-cared-for
apartment that rented in 1945 for $30 a month, is now marketed for $200 to
$300 per month or more.

If the rental is at this rate then the "capital value" has increased
proportionately. Let us say the rental above has increased 300%. Applying
this to our (now standard) $1 million building, the "capital value" is now
$3 million.

If interest rates remained the same, and they decidedly do not (more
about this later), then the cost of constructing the $80 per month apart-
ment, which might have been $15,000, suddenly becomes $45,000.

We have read many times in the press about what has happened to the
new construction market. We have heard about labor costs and brick and
mortar costs. While it is true that the costs of labor and materials have
risen in this period, these are not, by a long shot, the main or deter-
mining factors in construction costs. Not even the rise in real estate
taxes is profoundly important.

Going back to our MBR formula (page 12), the major factor is "Return
on Capital Value", 42.4%. This critically affects the rising cash capital
invested and the rising amount of money borrowed on mortgages.

If the interest rate remained the same (which it does not), then the
amount of interest paid increased by 300%. If the amortization period is
the same (probably so), then the amount of principal payment has risen by
300%. If the rate of profit that the landlord is content with remains the
same, then the amount of profit has increased by 300%.

2.2.2 Interest rates

However, the interest rates decidedly did not remain the same. In that period, a mortgage rate of 5% (or less) was the going rate. It has now almost doubled. That would make the interest factor increase from 300% to 600%.

Twenty to twenty-five years ago, rent was supposed to consume not more than 25% of income. With the gouging that has taken place in recent years, rents have gone up to 35%, 40% and even 50% of wages. Old people on social security have been known to pay 60% of their income for rent and to eat dog food.

It has become increasingly clear, without exhausting the subject matter, that if housing has priced itself out of the market, then the reasons for it are not labor or materials, but profit—both kinds, capital and income as well as interest charges.

While interest charges are one item of a dozen or so in the list of housing costs, it is not generally known that interest is the main item of cost. About 50 cents of every rent dollar goes to the payment of mainly interest charges—politely and technically called "debt service". (New York Times, July 25, 1971) Since it is now five years later, and interest rates have risen, it is undoubtedly more.

So, here we have the main culprit. If "debt service" were eliminated our rents could be cut in half. Likewise, the cost of construction of a new building would be cut in half.

- 41 -
2.3 Landlords Have Priced Themselves Out of the Low and Middle Income Markets

Big landlords and government housing spokesmen have stated openly and with increasing frequency, that they cannot build housing for low- and middle-income people.

"Traditional apartments are not going to be built without federal subsidies, Housing and Development Administrator Roger Starr predicted today." (New York Post, September 8, 1976)

The economic reasons for it have been outlined above. Of course, greed like everything else, does have its limits. However, landlords are not known for the limits of their ingenuity. Where there’s a buck to be made, they will find a way to get it.

So having about reached the dead-end in terms of the ability of low- and middle-income people to pay the rents and therefore being unable to build new housing for the same vast proportion of the population, the landlords coolly came forward with a new way to up their profits, that is, to dip into the Federal Treasury.

2.3.1 Rent Supplements

Landlords argue with supreme logic (of sorts) that if poor and middle income tenants can’t pay more, landlords can’t build more. Since people have to live somewhere, the government should supplement the rents of these tenants by paying to the landlord the difference between what the tenant "can afford" and the "economic" rents which the landlords require.

(As used by Real Estate/Banking, the word "economic" means "take us out of the mess we have created").
That the landlords have initially succeeded in this line, is attested to by the passage and implementation of Section 8. (See page 34.) Undoubtedly landlords will receive more subsidies and handouts—the application of Section 8 has only just begun.

It is ingenious and not a little ironic, that poor tenants have to pay more in income and other taxes so that the government can hand this over to the landlords, to help pay the rents that tenants cannot afford to pay!

2.3.2 Peoples' Impoverishment

The main result of these manipulations by Real Estate/Banking is the general and continued impoverishment of ever-growing segments of the United States population.

While rent and other prices go steadily upward at a fast pace (at least 6% per year—and as high as 12% some years), officially, wages rise at a much slower pace and the gap between the two constitutes the degree of peoples' impoverishment.

The additional amounts paid in rent force a reduced living standard—less and cheaper food and nourishment, less and poorer clothing, skimping on medical and dental care (or doing without), no higher or perhaps intermediate education for the children, less or no cultural or entertainment expenses, cutting down or out of all amenities.

In addition we find an increasing incidence of doubled up families, and of grown or married children continuing to live with their parents because they are priced out of their needed homes.

3.0 Role of the Banks

3.1 Domination of the Economy

- 43 -
The banks (and insurance companies) "own" the vast majority of American wealth. What they don't literally own, they control through mortgages, loans, management of pension fund portfolios, the portfolios of wealthy private investors, trusts, floating and management of bond issues, lending money to cities, counties and state governments as well as to the federal government, etc., etc., etc., etc.

The money which they lend is, of course, not theirs (except that portion which, over the years, they have managed to siphon off to themselves). The money is, in large measure, the life savings of each of us multiplied by 23 million people. With no consultation, the bankers decide who shall receive loans, who shall not; what industries are to be protected, which rejected; who shall be provided favored treatment, who shall go bankrupt.

Who are these people? Are they known to us? Do we elect them? Can we remove them? How did they get there?

They are a handful of members of the Boards of Directors of the banks.

It is common knowledge that a numerically small group of very wealthy stockholders control and dominate a public company's affairs, by owning (or voting the proxies of others) 3% to 5% of the outstanding shares of that corporation. They can and do elect the Board of Directors and decide its policies.

Even the above "democratic" procedures, do not apply to the so-called "mutual" savings banks and insurance companies. They were originally chartered to a handful of organizers, the Boards of Directors. From then on the Boards of Directors are self-perpetuating. One Board member dies or retires and the remainder "elect" a substitute. They are responsible to no one.
other than themselves, unless it can be said that they are responsible to
the production of maximum profits.

The banks, through their power of life and death over the corporations
to whom they loan the endless millions and billions of dollars, are thus
able to designate one or more members of the Boards of Directors of those
corporations. The bank-designated members are the key members, the power
houses. Their influence or decisions are what count (or else the loans are
called or not renewed).

When, say, the City of New York, has to finance or refinance a loan,
a syndicate (a combination of banks) makes a bid as to the interest to be
charged. In recent years, there has been only one bid submitted. Take it
or leave it! So the City pays whatever the "boys" say—and it becomes a de
facto part of our taxes.

This was the "Invisible" power behind our governments (city, state,
federal) until recently. When the combination of banking usury and the
other corruptions, brought our city to the edge of disaster, the banks de-
cided that the elected officials should be superceded by a set of the banks'
"boys" who, after all, were "smarter". So now the "visible" government is
the Municipal Assistance Corporation (MAC) and the Emergency Financial Con-
trol Board (EFCB).

The results of this changing of the guard over our fiscal problems
can be judged by a few facts:

1. The first MAC bond issues at the banks' insistence, sold at an inter-
est rate of 11% instead of 7, 8 or 9% (tax exempt, of course). This
means that in about nine years we will have paid in interest, the
total amount of the bond issue, and still continue to owe the full
amount of the bond issue:

- Tens of thousands of teachers, firemen, police, sanitation workers,
  children's day care teachers, social service workers, and other cate-
  gories of needed city workers, were fired, but the interest rates paid
to the banks went even higher.

Enough examples. We are making a point, not writing a history of the
rape of the city.

The sword of Damocles that the banks hang over the head of New York
City, is likewise suspended over that of the State—all states, all cities,
all counties and indeed the United States government. The interest rates
that are paid on U. S. Treasury bills, notes and bonds are determined by
the banks, who make the market.

Even the national financial policies are determined, officially, by
the banks. They are the decisive force and designate the most powerful
officials of the Federal Reserve System. Once appointed, the Chairman of
the Federal Reserve Banks and the Boards are independent of both Congress
and the President of the United States in their financial and fiscal deci-

dsion-making.

3.2 The Banks and Real Estate

The banks are the decisive force behind real estate. As we have pre-
viously seen, loans by the banks constitute 90% or so of real estate costs.

This is not a social service that they perform for the good of the
country or for mankind, or even to make the wheels go round. It is quite
simple. It is for profit. The more profit, the merrier.
And profit has many faces. There is the "legitimate" face, interest on the mortgage, etc., the semi-legitimate ones, such as "we want a seat on your Board of Directors”, and the illegitimate ones that abound in such numbers they are impossible to record.

Some such are: Jones, Jones, Jones, Jones and Smith are excellent lawyers and have done their clients lots of good; use the ABC Construction Company to erect your building; buy your steel, plumbing, etc., from so-and-so; there is a good friend who can be very useful to you—he really should be your partner (general manager, etc.). Of course we state it so crudely. Bankers are never crude. They almost never say anything that when quoted or even tape-recorded is incriminating.

But they do make their point and their gentlest suggestions are either accepted or somehow the loan is slow to come; or there are many problems that crop up; or the ratio of current assets to current liabilities is less than fully desirable, etc., etc.

The man who wants the loan or mortgage gets the point and, unless he knows someone who will make a deal for less, he goes along or goes under.

Leonard Donnio, Jr., in his *Mortgage on America* (Praeger, 1974), has documented the vast corruption that exists in land speculation, financing and government giveaways. He speaks for example, of two presidents of Savings and Loan Associations in the same city, who by law are prohibited from approving loans for themselves or their companies. Well, one can't really let such things get in the way of "progress". So being law-abiding, they didn't make loans to themselves or their own companies. They just arranged it so that each would make loans to the other's companies. Life is
really simple if you don't get tangled up in technicalities.

3.3 Interest Rates and Their Justification

Interest rates were intended to serve certain banking needs. The most obvious are:

- cost of running the bank (payroll, operations, etc.).
- building a Reserve Account to make up for some inevitable losses.
- providing a profit for the stockholders.

Without wasting time on the first and last reasons, let us examine the role of the second one.

Judgments being what they are, some mistakes are bound to happen, and unless the interest charged on loans and mortgages is high enough to provide a sufficiently large reserve, bankruptcy will inevitably result. Given the framework of the banking system, who can quarrel with that concept?

3.4 Federal Guaranteed Mortgages

More and more since World War II, the government (mainly Federal, but State and City as well) has stepped in with our tax money and has responded with loving care to the landlords' cries of "We can't make it" and "We need help or we can't build".

The responses have been endless. We won't begin to detail them. We have dealt with a few of them earlier. But one type in particular deserves our attention. That is guaranteed mortgages. (Federal Housing Administration and Veterans Administration)

A guaranteed mortgage means in effect, that if the landlord fails to pay, the government will. Not only the principal of the mortgage, but the
accumulated interest as well.

Well, that's fine (or is it?). But it means that the bank has no risks. It needn't keep part of the interest charges, as a reserve against losses. It needs only ½% or so for administrative expense and whatever, for profit.

But the bank nevertheless charges all the rigged market will bear. It charges the full 9% or 9½%, plus all the extra "points", plus all the under-the-table devices, plus requiring the maintenance of a certain high unused bank balance or non-interest bearing Certificates of Deposit, etc., etc., etc.

There is no conceivable justification for the current interest rates on guaranteed mortgages unless limitless profit is a justification.

There is a reverse side of this coin, also negative. To the extent that there is no risk involved, the bank doesn't really care if the building under mortgage is well-managed or poorly; well-built or shoddy; useful or useless. They will get theirs from the U. S. Treasury in any case.

This means that the builder may submit a budget of one million dollars, and get a loan based on that amount, but by substituting poorer materials and cutting quality (use one coat of paint instead of two, etc.), spend $800,000 and pocket the difference ($200,000) or perhaps share it with the banks' representative, the bribed inspectors, etc.

This is no fantasy or theoretical example. We could document it ad nauseam. One case in point: A Mitchell-Lama Project in Brooklyn where 3,000 callings have fallen. No one is at "fault"—not the builder, the architect, the sponsor, the sub-contractors—no one. No one has been jailed, no one
fined. But the tenant "co-operators", who were sold this planned lemon, have to live in this mess or find money to rebuild it.

There are no government giveaways (or not many) that go directly to the recipient. The banks always interpose themselves. Everything must go through them so they can get their cut.

For example: On the theory that rents could be held down, Sections 236 and 221 (d) (3) of the Federal Housing Law reduce interest rates to 1% and 3% respectively. But does the government advance the money to the builder and charge him these rates? No. That would interfere with private enterprise. Instead the builder arranges for the guaranteed loans from a bank at the market interest rates, and the government picks up the difference between market rates and the 1% or 3%. A burden which we, the taxpayers, must bear.

3.5 Red-lining, Block-busting, and Ghettoizing

These practices of red-lining, block-busting and ghettoizing are in essence, decisions on the part of the banks not to lend money for mortgages in areas which they decide to be allowed to decay; no new construction, no rehabilitation, and no loan for "fixing up the attic", etc., in the private homes in these areas. Such areas exist in the South Bronx, in the Brownsville section of Brooklyn, the Lower East Side and Harlem in Manhattan, and throughout the city and country.

These practices go hand-in-hand with the movement of black people and other minorities out of their narrowly confined, dilapidated, high-rent areas to slightly better ones.
This process too is a way of making money. It raises the rents because new housing isn’t constructed. It causes decay (see “Abandonment”) from which process many fortunes have been built.

When an area is so decimated, after a few years, that it resembles a wartime bombed-out city and after the profit-making abandonment process is reasonably completed, as in the South Bronx, along comes a real estate spokesman, whether or not disguised as a city official, such as the former HDA Administrator Roger Starr, and proposes that all city services be withdrawn—police, fire, sanitation, etc., (perhaps the residents will melt away or else die). He calls it “planned shrinkage.” (Real Estate Weekly, February 9, 1976)

Felix Robatyn of the Municipal Assistance Corporation “believes some tracts of ravaged residential property around the city could be cleared for industrial development.” (New York Post, March 17, 1976)

After this goes on a bit, and real estate prices are depressed, along comes a big-time syndicate of speculators, buys it up cheaply, has the area re-zoned for high-price residential or commercial or manufacturing use, and the “boys” are off at a gallop again, raking in the dollars by the million.

That the banks are the principal perpetrators has been demonstrated time and again. They indeed are the main malefactors, the main spoilers of the lives of the common man and woman in this country.

3.6 What Should Interest Rates Be?

We have seen that interest rates (debt service) consume 50% to 60% of the rent dollar. At 9% to 9½% (second mortgages—15% to 20%), the effect is not only atrocious, but it is economically impossible to fit into the
budgets of the low- and middle-income earners that make up 90% of our popu-
lation. It seriously affects our health and life, and violently deforms
the economy and social structure of our country.

Not very long ago, 1955 to 1960, as a case in point, mortgages could
be had for about 5%. Why did they double? Is there a subtle, invisible but
irresistible cause for this rise? None! Unless the bankers' decisions and
profit pressures are so labelled.

In the depression of 1929 and the subsequent 1930's, President Roose-
velt reduced mortgage interest to 3%, and less. Not only didn't the
banks fail, but those that wobbled were stabilized. That is to say they
made a profit; they continued to function.

"Interest rates were as low as 2 percent to 3 percent
prior to World War II. They generally averaged 4% to
7% during the middle income housing boom following the
war and climbed to as high as 9% during the credit
squeeze in 1974."

(New York Times, May 19, 1976)

There is no more reason to pay more than 3% today than there was in
the 1930's. The economy, industry, housing and the people would all be the
healthier for a 3% interest rate.

As we have previously stated, an interest rate of ½% is sufficient to
administer a bank's overhead, payroll, etc. Add another 1% for Reserve for
Losses (if loans are made with business-like discretion—not racketeered)
and another such factor for profit and we find a 3% interest rate to be ful-
ly sufficient for all reasonable decent purposes.

This would cut the approximate 50% to 60% of the rent dollar that
goes to debt service to about 1/5, or 20%, or to be generous, say 25%. A
savings of 35% of the rent of each and every person in this country. What
a different life each of us could lead!

Again, in the interests of brevity, there is no doubt that the banks are not useful to the construction, maintenance or rehabilitation of housing. Rather they are the root cause of the intolerable failure to utilize the riches, technology and man- and woman-power of this country, that could, if freed from the paralysis of this colossus, build an unimaginable wealth of housing and other peoples' needs as well. It would relieve so much of the anxiety and tension in our lives that literally eat away at our guts and our minds.

Indeed, since we pay in taxes (directly and indirectly) all the sums that the governments pay over to the banks, the speculators and the others who feed at this nourishing trough—wouldn't we do much better to cut these interfering "experts" out (since they produce nothing) and use these vast funds to build housing—directly out of public funds, in the public domain, without bond issue (therefore, no interest), under tenant controls that starts with planning and goes on through administration, maintenance, rents, amenities, etc.?

The answer must be yes! No longer can there be even the faintest hope that Real Estate/Banking can do it for us.

But what does Public Domain mean? And just how do we get the many billions of dollars with which to do it?
C. HOUSING IN THE PUBLIC DOMAIN: WHAT DOES IT MEAN?

1.0 Promises, Promises

Over and over since the thirties, the government has given lip service to the fact that it must help provide housing at low and moderate rents. But the history of government subsidies, from new construction to rehabs, from Mitchell-Lama to Municipal Loan, from Urban Renewal to tax abatement for luxury housing, and on city, state and federal levels, has been a history of tremendous profits made by banks, bondholders, landlords, builders and speculators.

These tremendous profits are borne in part by the subsidies from tax money that first get the housing built and in part by tenants' rents. When push comes to shove in this economic crisis, we find government housing officials insisting that the tenants will have to bail out the money lenders, no matter what the cost in human terms.

2.0 Housing Must Be by and For the People

Real estate investors have long since abdicated their responsibility to provide decent, safe and sanitary housing at rents people can afford. The property interests of Real Estate/Banking must give way to human rights. Housing must be in the Public Domain, under tenant control.

Metropolitan Council on Housing, in calling for HOUSING IN THE PUBLIC DOMAIN UNDER TENANT CONTROL WITH DIRECT ALLOCATION OF FUNDS, seeks to develop a program and movement to meet the immediate and desperate need for decent housing. This has to be a program, unlike those that have been developed before, which takes the profit out of housing and thus permits housing to be built in vast quantities.
We do not mean to establish another bureaucracy like the New York City Housing Authority. The Housing Authority does provide relatively low-rent housing for a fraction of the New Yorkers who desperately need it, and long waiting lists for public housing apartments are proof of the need. But the long lists are also proof of how desperate people are to get out of the privately-owned slums. They prefer public housing, even though public housing as we know it, has many built-in drawbacks: specifically, the attitude that public housing is provided as charity rather than as a basic human right to shelter.

We do not mean to turn housing over to the Housing and Development Administration, New York City's housing bureaucracy or any such agency. The HDA serves the real estate industry, not the needs of tenants. Its leaders are real estate oriented. HDA's method of financing the Mitchell-Lama and Municipal Loan Program are proof of this Real Estate/Banking orientation. The high rents and constant rent increases the HDA approves under these programs show its failure to administer housing at rents tenants can afford.

2.1 How Would It Work? A People's Housing Board and Tenant Committees

We mean to establish a Housing Board consisting of tenants, just plain people—no bureaucrats, bankers or real estate people—which would coordinate Tenant Committees. Each Tenant Committee would be elected by a majority of all tenants within a multiple dwellings (including three-family homes).

To set policies and to manage and coordinate housing in the people's behalf we need more than anything—A DECENT ATTITUDE. Given that, the rest
will come. The Housing Board and Tenant Committees can learn the technicalities of financing, operations, construction and design and all else needed to build and run housing. They can hire and supervise the services of people who are bookkeepers, bricklayers, electricians, plumbers, architects and coordinators, etc.

The Housing Board and Tenant Committees need basically to maintain the point of view of the tenant, the person who inhabits the building, the person who works for a living and who should come home to relax and refresh himself or herself instead of coming home to a depressing hassle.

2.2 What Goes Into Public Domain?

The following types of buildings would be declared to be in the public domain and would be run by Tenant Committees. These are examples and should not be considered a final list.

2.2.1 Existing housing

- All residential buildings on which taxes have not been paid for three months (instead of the current one year which the City must wait before it can begin to foreclose), shall be foreclosed by "in rem" proceedings and taken over by the Housing Board. The present practice of auctioning them off to new landlords shall be discontinued. Instead, they shall be renovated, repaired, refurbished and made decently liveable by the City. They shall then be declared to be in the Public Domain and made available for occupancy, to be run by the existing tenants (based upon the procedures and criteria outlined above and as further developed through experience).

In this time of crisis, New Yorkers must be aware that the real - 56 -
estate industry now owes more than $1 billion in uncollected real
estate taxes and water and sewer charges, which has been paid by ten-
ants in their rent money but then never turned over to the City.

- Buildings where necessary services have seriously diminished or where
  the landlord has not bothered to collect rent for three months.
- Buildings where the landlord is guilty of discrimination of any kind,
especially racial discrimination—the worst kind of discrimination—
which divides people against themselves and therefore leaves them open
to landlord manipulation and abuse.

2.2.2 New housing

New housing is to be built by direct allocation of government funds,
and held and run as described below. In New York City, the Housing Board
should have a goal of building at least 200,000 units per year; in the
United States, at least 5 million units per year. Direct allocation of
federal, state, and/or local government funds means paying for the construc-
tion in cash, out of government revenues which will have already been
raised—no borrowing, no mortgages, no bond issues. Direct allocation will
reduce rents by approximately 50 percent because financing—that is, the
costs of borrowing money from banks or from other money lenders through
mortgages, bond issues, etc.—double the construction costs and operations
of a building. There will be no real estate taxes on buildings in the
Public Domain.

2.3 How Will Buildings in the Public Domain be Run?

Buildings in the Public Domain will be run by the tenants as follows
(this is a working paper, and, again, not a final formula):
2.3.1 Rents

Rents will be based on no more than 15% of income for the present. Eventually rents will be lowered to a smaller portion of income. In any event, exceptions will be made for tenants on fixed income where the remaining 85% of income is not enough to cover other necessities of life, and for those who are unemployed and whose unemployment insurance runs out.

2.3.2 Management and Financing

All operations and maintenance will be managed by a committee of tenant occupants, with the budget for maintenance set and payments authorized jointly by the Housing Board and Tenant Committee. Where major repairs are necessary, appropriations for such work will be made directly from public funds. For existing buildings coming under Public Domain, mortgages and real estate taxes will not be paid. The needs of the tenants will take priority over other liens on the building. As rents will not include real estate taxes, alternative methods of financing that part of the City budget now financed by real estate taxes will be worked out.

2.3.4 Occupancy, Vacancies and Priorities

All vacancies as they occur will be filled based on a roster of tenants who have enrolled with the Housing Board as requiring decent, safe and sanitary housing, taking into consideration current apartment conditions, the need for an apartment as close as possible to the place of work, children’s schools, health facilities, etc. Top priority will be given to emergency conditions where tenants require immediate shelter.

2.3.5 Rent Limitations on Private Real Estate

In buildings which are not taken over by the Housing Board, that is,
in regular privately-owned buildings, rents are to be set at no more than 15% of the income of each tenant. Where the landlord chooses not to own such a building, the building under these conditions shall be placed in the Public Domain.

3.0 Housing is a Basic Human Right

Landlords feed on profits, but neither landlords nor profits are necessary for decent, integrated housing at rents people can afford. The government, through direct allocation of our tax dollars, spends billions on defense and waste and tolerates the misuse of many other billions, that could instead be channeled for human needs. It already pays the costs, with our tax money, for certain needs and services such as the free use of roads and sidewalks, fire, police, sanitation, and schools. There is no greater need than shelter, and we must create the mechanism within the government to meet this need.

Endless billions of dollars abound for this purpose as well as peoples' other needs. We merely have to organize the sensible use of these funds. Part B will indicate what these sources are.
D. SOURCES OF AVAILABLE FUNDS

1.0 The Responsibility is Ours

It is evident by now, that landlords/bankers are not interested in building shelter for people, but rather to use housing as a means of extracting maximum profit. The results are tragic. The New York Times in its lead editorial on October 21, 1976, stated: "An estimated 13 million families suffer 'serious housing deprivation'."

The problem of providing shelter for people, and not for profit, therefore falls upon us. We know what rents we can afford to pay to have enough left for food, clothing, recreation, education, medical expenses, amenities and all else that life requires.

The planners, architects, construction workers, etc., are, of course, needed but these experts must consult the residents, the community, and must obtain our approval. The experts are to be guided by us; our expressed needs must become the experts' laws. This process must go from planning to construction to administration to financing (through our own tax money)--to all features of decision-making.

The machinery set up to bring this into being cannot be blue-printed in advance. It will develop through the tenants' own life experiences, through organizations such as the Metropolitan Council on Housing, and through all the other forms that the good common sense of the common people will bring into being.

It has happened before in history. It will happen again. It will happen in housing because our cities are decaying in front of our eyes, and the billions of dollars that the government spends to "alleviate" the decay
does not alleviate it but goes right into the Landlord/Bankers' already swollen profits.

2.0 Defining Our Housing Needs

Before we begin to discuss where the money comes from, we should define our needs. How much housing do we need? How many dollars will that take?

Back in the 1930s, President Roosevelt spoke of "one third of a nation ill-housed, ill-fed and ill-clothed". In terms of housing, the situation that existed then continues today and has deteriorated even further.

During the depression of the 1930s, there certainly was no building program to fulfill the nation's housing needs. During the first half of the 1940s, there was no building whatever; there was World War II. During the latter half of the 1940s and since, the shortage has remained and has grown despite some construction. As we have indicated earlier, this shortage has been good for profits.

In the meantime two other forces have been at work. First, since the 1930s the population has increased by 74%; and second, the existing housing has continued to deteriorate, both naturally with age and unnaturally with landlords' milking of buildings to obtain their superprofits.

In the best boom years, the real estate industry and the government together have managed to construct not more than two million units per year, nationally. (Units means both apartments and single-family houses.)

This, by no means, can be said to be our maximum effort. First, because we know that real estate interests deliberately have maintained a shortage; second, because in all that period we have had unemployed citizens
in varying numbers who could have been used to construct housing; and third, because we have used valuable people and materials to construct office buildings that are now a glut on the market and where foreclosures are taking place at a rate to gladden the hearts of the banker and mortgagee, looking for good things at bargain rates for the future.

Especially because there are today 7½ million unemployed nationwide, it is possible and necessary to put forth a perspective of building at least five million units per year. This program must go on until there is enough housing built for everyone in need of shelter, and then we must tear down and replace all existing dilapidated, unsafe, unsanitary and overcrowded housing that disgraces our wealthy nation.

Of these five million units, New York City will require not less than 200,000 units per year, because we lead the nation in decay, in slums, in degradation and in high rents.

3.0 Sources of Available Funds

It is estimated that the cost of constructing a unit of housing in New York City is in the area of $40,000. Much of this figure is due, aside from debt service payments, to land speculation, among other things and, as was recognized by the United Nations "Habitat" Conference, there must be devices for stopping as well as recapturing this speculation.

By the simple device of having all housing built by direct allocation of tax funds (Federal, State and City), the 50 to 60% of construction and operations/finance costs that come from the payment of debt service and which are now the major item of expense, can be eliminated.

By this we mean that the government shall not issue bonds to provide
the capital for housing. Therefore, there will be no interest to pay. There will be no mortgage to repay, and of course, no profits to the landlord, banker, bondholder or mortgagee.

As a consequence, the $40,000 per unit cost of construction will be cut by more than half. There will be no "debt service". Thus, the cost per unit--all else aside for the moment--will become $20,000. (Rents, too, will fall in the same proportion.) So, five million units multiplied by $20,000 per unit is $100 billion.

The Pentagon budget alone for the 1976-77 fiscal year is about $113 billion. And that budget is not financed by bonds. It comes from the direct allocation of our tax dollars!

So it should not be too difficult to imagine how a $100 billion housing program--in the Public Domain--could be financed.

But the Pentagon is only one source. We are not advocating its total elimination, however. We merely want to reduce the amount of "overkill" by trimming off some of its fat, waste and corruption. There are hundreds, if not thousands, of other sources of funds for housing and peoples' other needs. In fact, the field is so vast, full of so much available money, that it's hard to know where to begin. (Note: For an explanation of footnote numbers appearing at the left side of most of the following items, see page 87. Items without footnotes represent amounts too complex to compute.)

3.1 The Financial/Economic Framework

Here are some of the more important elements of the financial/economic framework in which we, as a nation, live, work and pay tribute.

- Total value of real estate, land and structures in the United States,
in 1971 was estimated to be worth $3.5 trillion (3,500 billion dollars).

(Harry A. Golemon, ed., Financing Real Estate Development)

The annual gain is at the level of approximately $200 billion per year, with the dominant proportion represented by increments in structure value. Total value has been rising at an average annual rate of 7% from 1968-1971.

(Harry A. Golemon, ed., Financing Real Estate Development)

The erudite words above mean in more simple language that speculation has raised the "values" of land and structures by 7% per year. Without factual knowledge of what the rate of speculative rise was in the previous three years, let us presume (perhaps erroneously*) that the same rate applied.

Therefore, if we were to recapture this speculative increase for those 7 years* as the United Nations Habitat Conference decided was necessary in many cases, in simple arithmetic it would amount to 49%. However, since the rise is compounded, it is well over 50%.

*In the absence of precise facts regarding the rate of the speculative rise in real estate "values" prior to 1968, it is perhaps an exaggeration to apply the 7% rate to those years. To be carefully conservative, let us cut that rate in half---3%. Thus we extend the time period from 7 years to 10 years in order to reach the same 50% level of real estate speculative inflation.

Limiting ourselves to either period of time—that is the 7 or 10 years prior to 1971—and again limiting ourselves to 50% (the rate without compounding)—the recapture of only those few years of inflation-causing...
speculation, would make available for the purpose of housing and other people's needs, the incredible sum of $1.75 trillion ($1,750 billion).

Note: It is worth underscoring that this basic and most valuable of all properties, increased by the astonishing rate of 50%; that is, in 7 or 10 years the "value" of United States real estate increased by half again the "values" that had been built up in the previous 200 years of the life of our nation.

Can one wonder any more about what causes inflation?

3. The total net debt of government and private sectors in 1975 was 3 trillion dollars.
   (If we take 6% as a guessimate of the average interest rate--remember the MAC bonds were up to 11%--the amount paid to the banks, bondholders and the upper-crust generally, as interest, would be $180 billion annually.)

   Of this $3 trillion, the federal, state, city, etc., governments owed $1 trillion 187 billion. The balance presumably was private industry's.


3.2 Federal Level Sources

- The House of Representatives voted to raise the national public debt limit from $627 billion to $700 billion.

- Interest on the public debt paid by the federal government in 1975 was $32.7 billion.
  (U.S. Budget, Fiscal 1977)

The public debt is NEVER repaid. We have never, since our founding, been without debt. On the contrary, it always goes higher!

- 65 -
6. Officially estimated cost of the Vietnam War to 1973, $111.6 billion. (Ultimate cost, unknown.) Unofficially, the cost estimates vary from $150 to $300 billion. (U.S. Budget, Fiscal 1977)

1. Estimated total foreign aid, 1976, $6.6 billion of which military portion is $2.0 billion. (U.S. Budget, Fiscal 1977)

1. Portion of budget marked for "International Affairs", $4.6 billion. (U.S. Budget, Fiscal 1977)

1. Of the total Federal budget, 36% goes to "national defense". (1975 U.S. Statistical Abstract)


6. United States Space Program, total outlay
   1960 - 1975 $76.6 billion
   1975 alone $4.5 billion
(1975 Statistical Abstract)

6. The billions wanted on the Law Enforcement Assistance Administration "should have been spent instead on abolishing slums and eliminating racism" stated an editorial in the Madison Wisconsin Capital Times, declaring that that agency is "beyond repair". In its eight-year existence, it wasted $4 billion. (Daily World, September 16, 1976)

1. In 1974, 244 persons with incomes in excess of $200,000 paid NO Federal income tax. Five of this group had incomes in excess of $1 million. (New York Times, May 9, 1976)


- The Gross National Product for
  1974 was $1 trillion 397 billion
  1975 estimated $1 " 474 "
  1976 projected $1 " 651 "
  (New York Times, December 1, 1975)

- 1976 consumer prices were projected to be 172% of 1967 prices.
  (New York Times, December 1, 1975)

- Treasury Secretary William Simon stated that the elimination of all
  but standard income tax deductions, would increase U.S. tax income by
  $50 billion.
  (New York Times, December 4, 1975)

- The United States Budget for fiscal 1976 is $408.4 billion.
  (U.S. Budget, Office of Management and
  Budget)

- Of this, the Defense Budget was $104.7 billion. With additional
  appropriations, it was later stated to be $113 billion.
  (New York Times, June 17, 1976)

- The authorization for the production of the B1 supersonic bomber was
  $21.4 billion. (Note: unofficial estimated total cost is $100
  billion.)
  (Department of Defense, Selected Acquisi-
  tion report, December 31, 1975)

- The Air Force is developing an Intercontinental Ballistic Missile that
  may cost $30 billion.
  (New York Times, October 10, 1976)

- The United States Senate delayed final decision on the production of
  the B1 bomber until after the elections.
  (New York Times, September 14, 1976)

- Earmarked (in the Defense Budget) for National Intelligence, $4
  billion. (Remember the recent FBI and CIA scandals?)
  (New York Times, November 19, 1975)
Anthony L. Conrad, President of RCA Corporation did not file income tax returns, nor pay any income taxes for five years.

(New York Times, September 17, 1976)

The Tax Reform Act of 1976 reduces the income tax rates for the top 1% of the richest Americans from 70% down to 50%. This would affect the 250,000 wealthiest people.

There are 180,000 millionaires in the United States, according to the Internal Revenue Service; 90,036 were women and 89,164, men.

(The International Teamster, February 1976)

Over the years there has been a decided shift of the tax burden away from the corporation and onto the shoulders of the individual tax payer.

<table>
<thead>
<tr>
<th>Major Sources</th>
<th>Year 1967</th>
<th>1970</th>
<th>1974</th>
<th>1975 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Taxes</td>
<td>41.1</td>
<td>46.7</td>
<td>44.9</td>
<td>43.6</td>
</tr>
<tr>
<td>Corporation Income Taxes</td>
<td>22.7</td>
<td>16.9</td>
<td>16.6</td>
<td>14.5</td>
</tr>
</tbody>
</table>

(Congressman Charles Vanik (Democrat-Ohio) in his 4th annual report to Congress. Reported in Economic Notes, Labor Research Association, September 1976)

The Federal Trade Commission estimated that of total consumer purchases of $900 billion, fraudulent practices have bilked consumers of $80 - $100 billion.


Federal New Towns Program -

The United States Department of Housing and Urban Development (HUD) is re-evaluating its "new-town" program under which the Federal government has guaranteed $280 million in loans since 1970. At the time of the publication of the article (July 23, 1976), $21 million in loan guarantees for one project--Cananda, outside Rochester, New York--has been written off as a total loss. For eleven of the projects, HUD has been picking up the interest payments on the bonds since July 1st.

The total interest burden on all the bonds amounts to about $20 million a year.

As of the end of March, the Government had paid out $11 million in interest.

2. Federal Section 235 (Home Ownership Program) -
Almost $2.3 billion was pumped into housing by HUD in 1971, a
large portion of which went into the 235 program which was designed
to help some families buy homes with very little cash, reducing
interest rates to as low as 5%—the banks getting the difference
between that and the market rate.
"With amazing candor, Secretary of HUD, Carla Hills stated that
the main goal of the program is to stimulate the construction indus-
try, improving the housing of the millions who now live in equaler
would be secondary." (emphasis added)
("The Real Problem is Poverty" by Re-
presentative John Conyers, Jr., in The
Nation, January 24, 1976)

- In Detroit, the default rate reached 30%. This has occurred in many
other parts of the nation also, including Jamaica, New York.

3.3 Private Industry Sources: Corporate Profits

- American Telephone and Telegraph Company recorded profits at an all
  time high for the third quarter of 1976, $1.01 billion. (This figure
  represents an all time record high for any company for any quarter
  year.)

- Corporate Earnings — first quarter of 1976

<table>
<thead>
<tr>
<th>Company</th>
<th>Jan., Feb., Mar. Earnings</th>
<th>Percentage change from 1975 (same quarter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amerada Hess</td>
<td>44,200,000</td>
<td>+ 60.1%</td>
</tr>
<tr>
<td>Delta Airlines</td>
<td>11,500,000</td>
<td>+ 173.6%</td>
</tr>
<tr>
<td>Martin Marietta</td>
<td>9,400,000</td>
<td>+ 168.6%</td>
</tr>
<tr>
<td>Honeywell</td>
<td>13,600,000</td>
<td>+1130.4%</td>
</tr>
<tr>
<td>R.C.A.</td>
<td>34,300,000</td>
<td>+ 101.8%</td>
</tr>
<tr>
<td>General Motors</td>
<td>800,000,000</td>
<td>+1255.9%</td>
</tr>
<tr>
<td>Du Pont</td>
<td>137,500,000</td>
<td>+ 545.5%</td>
</tr>
</tbody>
</table>
  (New York Times, April 15, 20, 23 and 29, 1976)

- Corporate profits surged 44% in the first quarter of 1976 over the
  previous year.

- After-tax corporate profits in the second quarter of 1976 were at the
  seasonally adjusted annual rate of $82.7 billion.
  (New York Times, September 21, 1976)
Six sugar refiners indicted by a United States Jury for price fixing.

Sucrere Corporation and United States Sugar declared extra dividends.

(New York Times, December 20, 1974)

Great Western, the largest sugar processor in the country, reported a 1200% jump in after-tax profits in the third quarter of 1974.

(Daily World, November 8, 1974)

Congressman Vanik (Democrat-Ohio) in submitting his fourth annual tax report to Congress, noted the following:

The average tax rate paid by most big businesses in 1974 was 22.6%. The rate mandated by law is 48%—more than twice as high.

In 1974 there were eight companies (in that study) that paid no Federal Corporate Income Taxes, although they had combined profits of $843,974,000.

These companies are:
Ford Motor Company
Lockheed Aircraft
Honeywell
United States Industries
American Airlines
Eastern Airlines
American Electric Power Company
Allstate Insurance Company

18 companies in 1974 paid an effective United States Income Tax rate of 10% or less. They paid $276,430,000 in taxes on profits of $5,322,603,000. That average income tax rate equals 5%.

These companies are:

<table>
<thead>
<tr>
<th>Company</th>
<th>Effective Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Edison Company of New York</td>
<td>less than 1%</td>
</tr>
<tr>
<td>Occidental Petroleum Corporation</td>
<td>1.6%</td>
</tr>
<tr>
<td>Chase Manhattan Corporation</td>
<td>2.3%</td>
</tr>
<tr>
<td>Texaco, Inc.</td>
<td>3.3%</td>
</tr>
<tr>
<td>Bankers Trust New York Corporation</td>
<td>4.8%</td>
</tr>
<tr>
<td>Northwest Airlines</td>
<td>5.2%</td>
</tr>
<tr>
<td>Mobil Oil Corporation</td>
<td>5.3%</td>
</tr>
<tr>
<td>Texas Gulf</td>
<td>6.1%</td>
</tr>
<tr>
<td>Pennwalt Company</td>
<td>7.1%</td>
</tr>
<tr>
<td>BankAmerica Corporation</td>
<td>9.5%</td>
</tr>
<tr>
<td>Commonwealth Edison Company</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

(Economic Notes, Labor Research Association, September, 1976)
Just what profits corporate industry wants can be judged from the following statement of Pierre A. Rinft, President of Rinft Associates, an economic advisory firm (whose views, in this respect, are similar to those of Citibank).

"There is not enough physical capacity to put everybody to work," he said. "Less real money is being invested in new plants and equipment today than in 1969. Profits have not been there for capital investments. Profits are inadequate by any measure."

(New York Times, August 4, 1976)

3.4 But—The People, How Are They Doing?

25,880,000 Americans subsisted below the poverty line in 1975—an increase over 1974 of 2,500,000 people, the largest increase in one year since 1959. (The poverty level for a non-farm family was $3,500 per year.)


Between August of 1971 and July of 1974, the average weekly earnings of workers rose from $128.02 per week to $154.38 per week. However, real weekly earnings—after adjustment for inflation—during this period were $92.82 which dropped to $91.04 in July, 1974.


Unemployment nationally was at the rate of 7.9% in August, 1976, and totalled 7,506,000 people.


George Meany, President of the AFL-CIO, estimates unemployment at 10.5%, if those too discouraged to look for work are included.

In the New York metropolitan area, the unemployment rate is 9.8%, or 25% higher than the national average.

- Among Black, Latin and minority people, as well as youth, the rate of unemployment is variously stated to be as high as 20% to 25%.

3.5 New York State Level Sources

- The Legislature of the State of New York decided it was time to make the banks pay a bit of their fair share of taxes. So they raised their taxes from 8% to 12% (with a 30% surcharge only for the years 1975 and 1976). This was to have brought in $275 million. Instead, it yielded $90.9 million—30% short. Why?
  According to John G. Reimann, the State's Superintendent of Banks, the banks reduced their tax rate by siphoning off income and channeling it into reserve funds set aside for losses from bad loans.

- The New York Telephone Company and its parent company, American Telephone and Telegraph, are using an "ancient" loophole to avoid paying state taxes on over $1 billion of revenue. The loophole law goes back to the 19th century, which rules out taxing income attributable to interstate operations.
  (New York Post, October 15, 1976)

- A 1% tax on the income-yielding assets (such as stocks, bonds, mortgages, loans, etc.) of banks, insurance companies and related financial institutions in the State of New York, would yield from $2 billion to $4 billion per year. (This tax would be limited to the income derived from the State of New York only.)
  (Proposal of Assemblyman Frank J. Barbaro, dated November 12, 1975)

- "Where can your corporation taxes be nearly $00.00?
  In New York State. Where, for new and expanded plants, you can receive business tax credits of nearly 100%.
  (excerpted from an advertisement of the New York State Department of Commerce published in New York Times, December 15, 1974)

- Richard Ravitch, head of B.M.H. Construction Company, one of the biggest in the nation, builder of the floundering $95 million Manhattan Plaza (New York City, State and Federal subsidies), was appointed by Governor Carey as the first Executive Director of the Emergency Financial Control Board, the State's watch-dog over the City's watch-dog, the Municipal Assistance Corporation. Both are banker dominated.
Ravitch is also Chairman of the floundering-Courting Urban Development Corporation. The Manhattan Plaza project, of which he says he has "divested" himself, is requesting an additional $11.5 million for Federal rent subsidies.

(New York Post, October 14, 1975)

1 Many $30,000 State jobs are called part-time jobs by a special board set up by Governor Carey. Some need only work a few hours per week.


1 New York State can save $4.2 million a year by moving its offices from the World Trade Center, says the State's Office of General Services.

(New York Times, June 7, 1976)

1 New York State legislators voted themselves an extra $880,000 in "Julius" (in lieu of expenses).

(New York Times, June 3, 1976)

4 New York State built and paid for production facilities for the Consolidated Edison Company of New York that cost $500 million—and gave these facilities to the company—free.

(Jack Newfield, Village Voice, April 26, 1976)

1 New York State agencies keep large non-interest bearing accounts at favored banks, such as:

- New York State Department of Taxation and Finance had on deposit with Bankers Trust Company, $11 million.
  (James G. Hellmuth, Republican Party State Treasurer, is Vice President of Bankers Trust Company.)

- The State Lottery opened a $4 million account at a Bankers Trust subsidiary in Albany.

(New York Times, January 5, 1976)

6 New York State Mall in Albany—cost $985 million. Original estimate was $250 million.

ANOTHER STATE -- ARIZONA

4 The Attorney General of the State of Arizona "estimated that the sale of virtually worthless land mortgages have bilked investors of $500 million during the last decade".

(New York Times, October 5, 1976)
3.6 New York City: Level Sources.

- The 1976–77 budget for New York City is $12.5 billion.  
  (New York Times, April 13, 1976)

- The debt service in this budget is $2.3 billion.  
  (Note: Debt service is a euphemism for the payment of interest to the banks, etc., although it does include some repayment of debt principal.)  
  (New York Times, April 15, 1976)

- As a percentage of the budget, debt service is 19%. (Almost one cent out of every five cents of our total taxes goes to the banks and bondholders.)  
  (New York Times, April 15, 1976)

- In July, 1974, Comptroller Harrison Goldin rejected a bid for New York City notes, bid by the usual consortium of banks at the rate of 7.92%, "as unconscionable".
  
  - One week later, he borrowed from these same sources $800 million - short-term funds at 8.366%.
  
  - On November 4, 1974, he borrowed $150 million tax anticipation notes at 8.34%.
  
  - On December 2, 1974, he again borrowed $600 million in one-year notes at 9.479%.
  
  - On November 22, 1974, Mayor Beame announced a deficit of $400 million, of which $108 million was debt service cost overage. (In plain English, this means the extra high interest rates which the banks demanded and got, while forcing the City to "economize" by firing thousands of workers.)  
    (Study prepared by Martin Rosenthal, a member of the Social Service Employees Union, Local 371, as published in the Daily World, March 21, 1975)

- The annual debt service of New York City increased 157% in two decades and mainly reflects past borrowings.  
  (Professor Donald Baidor and Thomas H. Elmore, as published in the New York Times, March 30, 1975)
• "HOW NEW YORK BECAME A FISCAL JUNKIE ON THE PATH TO DEBT ADDICTION, THERE WERE THE EXPENSE FIX, THE REVENUE FIX, THE CAPITAL FIX AND THE OUTRIGHT DEFICIT FIX."
  (Title of an article by Steven R. Weisman in the New York Times Magazine Section, August 17, 1975)

• New York City's jobless rate in 1975 was 10.6%, while the United States' rate was 7.5%.
  (New York Times, April 6, 1976)

3.6.1 While This Dance of Death Goes On, Our City Fathers Speed Up the Tempo of the Music.

• In the face of a glut in the commercial and industrial real estate market, to the point where there is a high degree of bankruptcy and foreclosure proceedings among and against the owners, the Committee Chairman of the New York City Council stated that a measure (requested by the Beame Administration) would be passed within two weeks that would exempt from real estate taxation for periods from 10 to 19 years, new and reconstructed commercial and industrial buildings.

1 - The Municipal Loan Program
   This is a scandal-ridden giveaway for real estate sharpshooters. It was temporarily closed down in 1971 by Mayor Lindsay and one public official went to jail. Foreclosure actions are pending against 150 of the 220 post-1967 projects. The City has already acknowledged a capital loss of $40 million, which is expected to rise to $70 million.
  (New York Times, April 2, 1976)

3.6.2 Real Estate Taxes

2 • Tax delinquencies are $1.3 billion as of January, 1976.
  (Tax Guardian, Spring, 1976)
  Note: This is a real estate industry propaganda sheet.

2 • Tax delinquencies are $1 billion by the end of 1976.
  (Letter of Reuben Klein, President of the New York Realty Owners Association as published in the New York Post)

Take your choice!
$20 million in real estate tax assessment reductions were given, among others, to:

- New York Telephone Company at 1091 Avenue of the Americas (William Ellinghaus, its President, was also Chairman of the Municipal Assistance Corporation). $1.25 million
- Also, on other New York Telephone properties $227,060
- Rockefeller Center $9.15 million
- Avis Corporation (on 5 buildings) $6.8 million
- First National City Bank $1.1 million
- Bank of New York $1.0 million

(City Record as published in the Daily World, August 16, 1975)

• Helmsley-Spear, one of the largest real estate outfits in the City, decided to stop paying real estate taxes on 190 of the firm’s 400 residential buildings in New York City. (New York Magazine, April 14, 1975)

• Borough President Robert Abrams of the Bronx stated that the 10 largest tax delinquents include:

  - The New York Bank for Savings which failed to pay off a $450,000 tax bill on property it foreclosed last year.
  - The Hilton Hotel chain which owes the City almost $2 million in back taxes on the New Yorker Hotel.
  - A 16-story office building at Fifth Avenue and 33rd Street.
  - A 20-story apartment house on East 58th Street.
  - The Hotel Taft on Seventh Avenue and 51st Street. (New York Post, September 29, 1975)

The City is planning to sell $900 million worth of mortgages on 122 Mitchell-Lama houses with 42,000 tenants. It expects to realize only $600 million or $700 million on this sale. (New York Times, August 31, 1975)

Note: 1) This turns over city subsidized middle-income houses to Real Estate/Banking.
2) It loses $200 to $300 million in the process.
3) Rents in those developments, already zooming, will then skyrocket.

- 76 -
6 New York City Third Water Tunnel—budgeted and contracted out at $100 million, revised to $384 million—a cost "overrun" of $254 million. (New York Times, November 10, 1974)

An audit by City Comptroller Harrison Goldin says the City loses $2 million a year in Park concessions. (New York Times, June 11, 1976)

5 Yankee Stadium, rebuilt by New York City money, was originally estimated to cost $24 million, will now cost $96 million. (New York Times, March 16, 1976)

2 The Commodore Hotel will be rebuilt by the Trump Organization under an arrangement that will mean a loss of more than $100 million in tax revenues, through tax relief to the developer. (New York Times, March 16, 1976)

The Bronx Terminal Market was leased to a private company for 99 years at a rental that is a fraction of the amount being received by the developer for its use. (New York Times, March 16, 1976)

1 Real Estate Taxes as a percentage of the New York City Budget

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1915</td>
<td>78%</td>
</tr>
<tr>
<td>1925</td>
<td>79%</td>
</tr>
<tr>
<td>1955</td>
<td>47%</td>
</tr>
<tr>
<td>1965</td>
<td>37%</td>
</tr>
<tr>
<td>1968</td>
<td>36%</td>
</tr>
<tr>
<td>1974</td>
<td>23%</td>
</tr>
</tbody>
</table>

(Public Employees Press, June 20, 1975)

Felix G. Rohatyn, Chairman of the Municipal Assistance Corporation, proposed that a stretch out program for longer term city bonds "would permit as much as a 20% lowering of the real estate tax". (New York Times, September 22, 1976)

New York City Councilman Robert F. Wagner, Jr., stated after a ten-month study that New York City was spending $155 million a year to lease more office space than was needed.

- Major political contributors hold many of the city leases.
- In Manhattan alone, city rental payments in one year cover the full purchase price of six leased buildings.

---
Councilman Wagner listed 19 tenants of property to the City who had contributed a total of $55,450 to Mayor Beame's 1973 Mayoral Campaign.


"In what may be a major showdown with the Beame Administration, almost all of the 1200 owners at a mass meeting last week voted to withhold real estate taxes, water charges, city sales taxes and major capital improvements "until we get relief."

"The meeting was sponsored by the Community Housing Improvement Program (CHIP) at a seminar on the new rent law..."...was what CHIP termed a 'Landlord's Conservation Program.'"

(*Real Estate Weekly*, August 1, 1976)

To encourage and entice landlords to pay their taxes, New York City passed a law granting them an 80% discount to prepay their taxes.


The ordinary citizen is not "enticed", but sent to jail if he or she evades taxes.

Matthew J. Troy, Jr., New York City Councilman and Chairman of the Council's Finance Committee, pleaded guilty to charges of filing a false income tax return. He received a two-month jail sentence and a fine of $500. He agreed to make restitution of $17,000 he had "taken" from the estates of law clients.


Federal guarantees of up to $7 billion were voted to cover New York City debts.

(*New York Times*, November 1, 1975)

(Even though these bonds and notes are now federally guaranteed, and thus loss-proof, the interest rates—tax-exempt—have not come down.)

**TAX-EXEMPT PROPERTIES**

*The assessed value of New York City real estate is about $60 billion.*

*However, there are $22 billion of tax-exempt properties:
  82% of this is government-owned
  18% is non-governmental.*

*Among this $22 billion are included such shining gems as:*
  Chrysler Building, owned by Goldman and Di Lorenzo.*
The World Trade Center—a high rent, high profit enterprise. Educational, religious and hospital properties that go beyond their immediate professional needs.

- All privately owned real estate is in large part tax-exempt, since it pays taxes on about 60% of its real value. If real estate were taxed on its full value (single and two-family homes exempted), it would yield about $1.3 billion of additional taxes.

NEW YORK CITY SUBSIDIZED HOUSING

- McKinsey and Company, a research and consulting firm, charged that the program (New York City housing subsidy program) is a "random approach to subsidizing upper income households". It further charges that 38% of the apartments aided by tax exemption are expected to have monthly rents of $140 or more a room, requiring a family income of more than $30,000 a year to afford a two-bedroom unit. Peter D. Joseph, the City's Deputy Commissioner for Housing Production, acknowledged that most of the buildings built in Manhattan under the program were in the luxury-rent class. Indeed, a tax abatement building at Park Avenue and 79th Street has one-bedroom apartments priced at more than $1,000 a month, according to Mr. Joseph's aides.
  (New York Times, March 19, 1974)

- A 24-story building, which two years ago was shattered by a vast explosion, is being converted into a luxury apartment tower under the City's J-51 Program. Rents will range from $460 to $2,000 per month.
  Rockrose (the landlord company) is likewise converting a building on Broadway and 11th Street and the Hotel Albert on University Place and ten other buildings containing 1,400 units.
  Taxes will be abated for periods up to 20 years.

- Swartzman-Litwin are building a 35-story luxury apartment building on York Avenue between 73rd and 74th Streets in Manhattan. They have put up 30 more luxury buildings on the East Side, renting from $500 to $600 per month for a one-bedroom apartment. They operate under the beneficence of New York City's J-51 Program and New York State's Section 421. Both are tax abatement programs. Schwartzman-Litwin say these programs are "very enlightened".

- The Reyenes group is converting the 21 stories and penthouse (of a commercial building at 315 Seventh Avenue) into 98 studio and one-bedroom apartments, which will rent in the high $300's to $400's
range. Mr. Baynes said: "Conversions (under J-51) are the only game in construction now!"


• "A recent change in the City's J-51 tax abatement program makes it possible for a builder to recoup approximately 60% of his investment through real estate tax reductions, and this has sparked investor interest."


3.7 Multiple Level Sources

3.7.1 Medicare-Medicaid

• Federal District Judge Charles L. Brieant, Jr., in sentencing a chiropractor to prison on 14 counts of Medicaid fraud, stated "those greater minds than ours who contrived this Medicaid legislation, created a very easy and obvious means to steal public funds. Why did they do this?"


• 22 other defendants received sentences ranging from probation to one year in prison for bilking Medicaid of more than $600,000.


• The Medicaid Task Force of the National Governors' Conference called for the regulation, as a public utility, of the $17 billion Medicaid program, which is scandal-ridden and near bankruptcy.

• U. S. Senator Moss, referring to Medicaid mills, stated that the City alone lost $340 million through fraud and abuse in this program.

• Costs of Medicaid are rising 50% faster than the Consumers Price Index.


• New York officials place Medicaid frauds at 20%.

(New York Times, August 31, 1976)
3.7.2 Day Care Centers

- Day care centers are one of the biggest giveaways in the City. The City is committed to pay a total of $300 million over the lease periods up to 10 years for the 170 centers that it directly leases. (New York Times, May 4, 1976)

- Six groups of Day Care Center operators own 69 centers. Over the 15- and 20-year terms of the leases, these groups will collect $129 million from the City of New York, which also pays the real estate taxes and maintenance. (New York Times, September 14, 1976)

- Akiba Ehrenfeld who owns seven centers and will collect $18 million from the City, and more than $1 million in 1974 alone, reported on his federal income tax an adjusted gross income of $4,500. (New York Times, September 14, 1976)

- "Among the beneficiaries of the day care leases were former Brooklyn Assemblyman Leonard Simon; Brooklyn Councilman Sam Wright; Stanley Lowell, who was one of Bernard Bergman's lawyers; the late Sidney Unger, a notorious slumlord; and M. Milton Rosen, whose brother, Richard Rosen, was a commissioner in the Lindsay administration, and whose wife was a City Council member." (Village Voice, September 27, 1976)

3.7.3 Free School Lunch Program

- The free school lunch program, which in New York State is expected to cost $63 million to $73 million, was charged by the Department of Agriculture as "heavily plagued by mismanagement by the state, waste and theft at some food distribution sites and profiteering and contract violations by a number of food distributing organizations". (New York Times, September 24, 1976)

- "But the school board's investigations found that during the period examined—from October 1974 to March 1976—a total of 54 large orders, each in excess of $5,000, and with a combined value of $2.2 million, were split into 728 'open market' orders. Each open market order came to less than $5,000 and thus was not subject to the usual competitive bidding required of large orders." (New York Times, September 2, 1976)
New York State Attorney General Louis Lefkowitz, stated that one nursing home owner, Eugene Hollander, had defrauded the state of $6.3 million in Medicaid.


One nursing home, the Park Crescent in New York City, owned by the notorious Bernard Bergman, inflated construction costs of the "home" by $2.4 million, and charged this sum to Medicaid.


It was found that the same home had been milked of more than $1 million by withholding payments for mortgage interest, taxes, pension contribution, fuel and milk, while receiving these funds from Medicaid.


The same Bernard Bergman received a four-month jail sentence.

(New York Times, June 18, 1976)

Al Schwartz, an assistant health commissioner who was accused of "coziness" with nursing home operators, was appointed to supervise Medicaid and methadone clinics in New York City.


Nursing home owner Eugene Hollander submitted a bill to Medicaid for $360,000, which included "patient-related expenses" but were for personal expenses, such as $10,000 of personal furniture, $54,000 for two Renoir paintings and another $66,700 for a painting by Maurice Utrillo.


Charles J. Hynes, the special state prosecutor for nursing homes, said that in the second year of his investigation, he would uncover at least $70 million of Medicaid overcharges. Among these overcharges were bills for personal maid, private residential landscaping, personal travel, personal food at phenomenal levels, personal luggage, works of art, vast quantities of liquor, interior decorating expenses, personal dental and medical care, heating fuel for private residence, personal charitable contributions, profits to investors, vacation expenses, private real estate taxes, private automobiles, sink costs, personal investment stocks, personal accounts, entertainment, and...
fees, theater tickets, stereo equipment, and extensive secret personal profits.


5. 3.7.5 The Unemployed: A Source of Vast Wealth

Our press, our economists, our governmental big-wigs constantly decry the drain on our economic resources caused by the unemployed. They cite the depletion of the Unemployment Reserve Funds and the mounting costs of Welfare, etc. Actually, they are standing on their heads and see the world upside down.

There is no wealth without workers. Gold in the mine is wealth only when extracted by workers. So with coal and other minerals. Automobiles and refrigerators are useful and are sources of wealth only when the components are manufactured and assembled by workers. Bread and cauliflower are useful as foods only when first planted by farm-workers and processed and packaged and transported by workers. So to keep workers unemployed is not only a waste of human beings, but also a waste of great potential wealth.

Our standing-on-their-heads economists tell us that if we don't have unemployed, we will have inflation. This is patent nonsense. There are numerous factors that make for inflation, but employment, even full employment, is not one of the causes.

Cars, food, clothing and the other necessities of life have been priced so high that people must cut down on the consumption of these commodities. Rents are raised far beyond a level the average person can afford. These and other high prices create the enormous profit that the huge corporations and Real Estate/Banking interests siphon off our economy. This
Indefensible amount of profit is the real and major cause of inflation. If prices and profits are brought down and held down, full employment will only enrich the economy; it cannot conceivably hurt it.

With this in mind, let us examine how much wealth can be created by putting our unemployed to work:

- 7.5 million people are unemployed in the United States.
  \textit{(New York Times, September 4, 1976)}

- The average weekly wage of production non-supervisory workers on private non-agricultural payrolls is $175.69 per week.

- 7.5 million unemployed x $175 per week = approximately $1.312 billion per week

- $1.312 billion x 50 weeks per year means a national added wealth of $65.625 billion per year.

- However, every dollar of payroll as it goes through the economy (the grocer, the wholesaler, the manufacturer, the builder, the bank, etc.) multiplies itself by 6.

- Therefore, $65.625 billion of payroll x 6 = $393.750 billion of additional wealth per year, created by putting the unemployed to useful work.

This is sufficient to solve practically all the social needs of the people of this nation, and to move us to new and higher levels of economic, educational and cultural development, never before experienced and not often envisioned. Given a few years of such economic enrichment, we can not only solve the housing situation and eliminate all slums, but we can eliminate and even reverse the decay of our central cities, as well as replace...
the rural slums with housing and facilities and amenities befitting our rich economy.

It could permit programs to relieve the distress that daily plagues each of us. We can re-open day care centers. We can provide decent education and reduce class-room size. We can re-establish free education in City and State universities. We can open the closed hospitals, mental institutions and other needed medical facilities. We can begin to treat our aged with the decency and dignity that they have earned by a lifetime of work for society. We can reduce transportation fares, re-institute the frequency of operation of buses and subways, even clean up the subways and build new ones. We can build highways, re-build railroads, fill up potholes and repave the pox-marked streets. We can re-build the collapsed West Side Highway (and its counterparts in other cities), and paint and maintain the steel structures to prevent their future collapse.

We can build sorely needed garbage incinerators and sewage treatment plants, and stop that contribution to pollution. We can clean up the Hudson River, the dead Lake Erie, and the dying other Great Lakes, as well as the other rivers and lakes and streams that befoul our environment. We can even find anti-pollution methods for waste disposal before the oceans become dead and the air becomes totally unbreathable.

Full employment would reduce sharply the economic causes of racism, and allow a human exchange that, given time, could permit us to see each other as people, not as antagonists, competitors, adversaries, nor by the color of our skins, our mode of dress or speech or any other such superficial and really meaningless criteria.
4.0 Budget of Available Funds

4.1 Budget Categories

As will be seen from an examination of the budget, the amount of funds available for housing—construction, rehabilitation and maintenance—as well as all other people's needs, is truly astronomical.

The available funds are divided into six categories for the sake of simplifying comprehension, but also to permit the reader to separate and eliminate any item or category which in his/her opinion is not practical in examining this budget a few things should be borne in mind.

- Many items are referred to but no money figure is attached, because they are imponderables and we prefer no "way-out" guesswork.
- In many cases (perhaps most), the figures are much too conservative because for example, projecting New York State or New York City figures nationally would have been utter guesswork—or alternatively would have been a research project of many years duration, far beyond the necessities of this study.
- Figures on corporate tax avoidance are limited merely to those few cited, and are by no means a roster of corporate cheating.
- To attempt to project these nationally, is beyond the scope of this study.
- In citing figures such as Secretary of the Treasury Simon’s approximation of the amount of tax loopholes that exist in our laws, we have deliberately selected the lowest attribution.

There are many authoritative persons who have advanced figures...
two, three or more times as large. The same is true of the cost of the Vietnam War, for example.

The following are the categories into which we have placed the various items of our Budget of Available Funds:

1. Identifiable, realistic amounts that can be saved.
2. In some cases, where amounts are regional or not specific, we project low and conservative figures for the nation as a whole or for the particular entity.
3. Savings resulting from the reduction of interest rates to a practical and economically viable 3% per annum.
4. Recapture of overspeculated land and real estate values and the inflation-causing corporate profit spree.
5. Wealth created by putting the unemployed to work.
6. Wasted funds—actually expended or in planning stages—that cannot easily be recaptured but which indicate that funds can be raised, where there is a desire to do so.
## 4.2 Budget

Identifiable, realistic amounts that can be saved:

<table>
<thead>
<tr>
<th>Page</th>
<th>Action</th>
<th>Amount of Available Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td>Secretary of the Treasury Simon's estimate of increased tax revenues resulting from the elimination of tax shelters</td>
<td>50</td>
</tr>
<tr>
<td>66</td>
<td>A 5% cut in the defense budget</td>
<td>28</td>
</tr>
<tr>
<td>66</td>
<td>Cutting in half the National Intelligence budget</td>
<td>3</td>
</tr>
<tr>
<td>67</td>
<td>Military portion of Foreign Aid 1976</td>
<td>2</td>
</tr>
<tr>
<td>67</td>
<td>One half portion of budget marked International Affairs</td>
<td>200</td>
</tr>
<tr>
<td>67</td>
<td>One half of 1975 Space budget which probably will be the same in subsequent years</td>
<td>450</td>
</tr>
<tr>
<td>67</td>
<td>For the 250 persons with incomes in excess of $200,000 who paid no Federal Income Tax in 1974, taxes should have been at least</td>
<td>60</td>
</tr>
<tr>
<td>66</td>
<td>Cost to Treasury of reducing from 70% to 50%, tax bracket for upper income people, conservative estimate</td>
<td>10</td>
</tr>
<tr>
<td>68</td>
<td>Effective rate of corporate income tax reduced from 22.7% in 1967 to 14.2% in 1975--if restored to 1967 level of 22.7%, would yield approximately</td>
<td>460</td>
</tr>
<tr>
<td>68</td>
<td>If corporate taxes were paid at the full legal rate of 46% of net profit, the amount of taxes due on $39 billion of profits would be $18.36 billion. This would add ($39.36 billion minus $16.4 billion)</td>
<td>32</td>
</tr>
<tr>
<td>68</td>
<td>Trade Commission report that consumers have been bilked out of</td>
<td>80</td>
</tr>
<tr>
<td>68</td>
<td>New York Programs total loss - seminars project</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Sponsors defaulted interest payments picked up by R.O.O.</td>
<td>13</td>
</tr>
<tr>
<td>72</td>
<td>New York State Taxes on banks, avoided by calling profits by author name</td>
<td>80</td>
</tr>
<tr>
<td>72</td>
<td>New York Telephone Company tax avoidance</td>
<td>120</td>
</tr>
</tbody>
</table>
Page 72  A 3% tax on the income yielding assets of New York State banks, insurance and other financial institutions would yield at least

<table>
<thead>
<tr>
<th>Amount of Available Funds</th>
<th>Million</th>
<th>Billion</th>
<th>Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2

Page 73 New York State part-time jobs at $30,000 per year --if properly paid for--guessed estimate

500

Page 73 Moving New York State offices from World Trade Center--savings

4 200

Page 73 Stimulus for New York State Legislators

880

Page 73 New York State non-interest bearing accounts--if transferred to earn 3% interest--guessed estimate

720

Page 75 Municipal Loan "give-away" program--acknowledged and expected capital loss

70

Page 75 New York City collection of delinquent real estate taxes, water and sewer charges

1 300

Page 76 New York City voiding the real estate tax assessment reduction to giant corporations

20

Page 76 New York City sale of $900 million of Mitchell-Iams mortgages to private banks and real estate--lose approximately

230

Page 77 New York City loans by Park Department in handing out concessions at "favored" rates

2

Page 77 New York City: If Real Estate Taxes were restored to the same proportion of the city budget as it was in 1913 (78% rather than 33% in 1974), it would result in a minimum of additional taxes of

4

Page 77 New York City Councilman Robert Wagner, Jr.'s estimate of the leasing of unnecessary space

155

Page 78 New York City's removal of all "enticement" discount for payment of real estate taxes--guessed estimate

1

Page 78 New York City tax on non-governmental real estate properties now exempt--conservative estimate

300

Page 79 New York City tax on privately owned real estate at its full value (rather than 60% of it)

1 500

Page 81 Day Care Lease Fraud, conservative guess estimate

300

Page 81 Free School Lunch Program Fraud--Estimate of fraud in New York State

25

1. Total

2 276 336 330
<table>
<thead>
<tr>
<th>Page</th>
<th>Description</th>
<th>Amount of Available Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>63</td>
<td>Recapture of over speculated land for the 7 (or 10) year period prior to 1971</td>
<td>1.750</td>
</tr>
<tr>
<td>69</td>
<td>Reducing the record breaking after tax corporate profits by only 25%</td>
<td>20.700</td>
</tr>
<tr>
<td>70</td>
<td>Taxes that should have been paid by 8 companies that paid no Federal Corporate Income Taxes in 1976</td>
<td>500.120</td>
</tr>
<tr>
<td>72</td>
<td>Additional Income Taxes that should have been paid by 18 companies</td>
<td>2.280</td>
</tr>
<tr>
<td>73</td>
<td>Recapture of facilities paid from taxes, given to Con Edison free</td>
<td>500.00</td>
</tr>
<tr>
<td>75</td>
<td>Worthless land sold to investors in State of Arizona</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Total</td>
<td>1.276.385.120</td>
</tr>
<tr>
<td>83</td>
<td>Wealth created by putting the unemployed to work</td>
<td></td>
</tr>
<tr>
<td>83</td>
<td>With full employment the annual addition to the national wealth is</td>
<td>393.750.120</td>
</tr>
<tr>
<td></td>
<td>5. Total</td>
<td>393.750</td>
</tr>
<tr>
<td>66</td>
<td>Wasted funds that cannot easily be recaptured but which indicate that funds can be raised where there is a desire to do so.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amount of Available Funds</td>
<td></td>
</tr>
<tr>
<td>66</td>
<td>Elimination of the &quot;overkill&quot; B1 supersonic bomber program</td>
<td>21.400</td>
</tr>
<tr>
<td>66</td>
<td>Elimination of the now useless CRBM</td>
<td>30.00</td>
</tr>
<tr>
<td>67</td>
<td>Estimated cost of Vietnam War to 1973</td>
<td>11.400</td>
</tr>
</tbody>
</table>

- 91 -
<table>
<thead>
<tr>
<th>Page</th>
<th>Amount of Available Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>67</td>
<td>78</td>
</tr>
<tr>
<td>73</td>
<td>759</td>
</tr>
<tr>
<td>77</td>
<td>284</td>
</tr>
<tr>
<td>77</td>
<td>72</td>
</tr>
<tr>
<td>6. Total</td>
<td>245.796</td>
</tr>
</tbody>
</table>

| #1 Identifiable | 324     | 226     | 330     |
| #2 Regional     | 3       | 100     | 900     |
| #3 Interest rates from 6 to 9% | 93 | 500 | 600 |
| #4 Reapture     | 1       | 376     | 383     | 400 |
| #5 Unemployed   | 393     | 750     | 800     |
| #6 Wasted funds | 256     | 700     | 200     |
| Grand Total     | 1,732   | 572     | 436.900 |

- 92 -
This Budget of Available Funds is only a token budget of what is really available. To be sure, it shows 2 trillion 737 billions of dollars. This figure alone is more than 27 times the $100 billion required to finance our national housing needs. It leaves enough left over for everything else needed to turn our country around from the disaster course on which we are so rapidly moving.

Some facts regarding this budget need clarification.

The budget is only semi-accurate, in that it contains a mixture of some figures that are one-shot, non-recurrent amounts, while others recur annually. An example of the former is the recapture of over-speculated land and real estate values. Some examples of the latter are the tax on corporate profits at the full legal level of 48%, the cutting of interest rates to 3% and the money generated by full employment.

Additionally, many billions, and perhaps trillions, of dollars would be added to the budget, if we were to extend nationally, the wastes, fraud and corruptions which in our budget are weighted so heavily on New York City and New York State. Also our listing of these illegalities hardly scratched the surface. They were selective and were intended merely as typical reminders of what each of us has read endless times over in the press.

One more note: A housing program of the sort projected herein, cannot be completed in one year. It would more likely take five or even more years as an optimum guess. Therefore, the ratio of the token budget of available funds would be multiplied five or ten times over, if the available funds were correlated to the amounts spent annually for housing.
5. CONCLUSION

The preceding pages contain eloquent facts. But they, of their own accord, will not usher in the vital changes that are needed. The forces of the status quo are powerful. They will give us nothing except that which our own strength can compel.

We need strong united organizations locally and nationally, organizations of people with clear minds and strong wills and without illusions. Such organizations are easier to bring into existence when we have the facts to dispel the murky clouds of landlord/banking propaganda that have bombarded us for centuries.

Of course we will be attacked. We will be denounced and ridiculed. Every device to undermine us and divide us will be employed. This is the classic response to any movement of the people in defense of their rights. What else but divide and conquer?

When the Congress of Industrial Organizations (C.I.O.) was forced to organize the unorganized in the 1930s, in response to the devastating poverty and unemployment of the Depression, the defenders of the status quo responded in just that way. The same nay-sayers cried "creeping socialism" at the entire New Deal of F.D.R., as well as at its program. Unemployment insurance, Social Security, the Wagner Labor Relations Act and Public Housing were "acts of subversion" that would bring doom on our country.

We need hardly argue that the status quo defenders were both inaccurate and insincere. Yet these same forces were silent and in complete agreement when for example the milked-dry subway system in New York City was taken over by the government and paid for in tax-exempt bonds, at prices
beyond their value. But the profitability of housing has not yet decayed to
that extent, so the anguished cries of the landlord/bankers are to be
expected—and disregarded.

As housing comes into the public domain, we must not repeat the er-
rors of the previous experiences. We must not further enrich the landlord/
bankers by buying them out, nor should we employ them as "experts" to run
housing. They would run it for their own ends and mismanage it in order to
both discredit the concept of Housing in the Public Domain in peoples' eyes,
and to reap their own hidden rewards. No, this time it must be run both by
and for the tenants.

If Housing in the Public Domain seems either radical or impossible,
it is no different than any of the other major social changes that history
has brought about. The important thing to remember is that it is quite
inevitable.

The American public will not continue to watch its cities collapse,
its housing decay and its rents rise beyond economic endurance while the
population increases and the housing stock diminishes, without taking the
inevitable course of action outlined herein. It is in our best tradition.
It will gain ever-wider acceptance. It will become a fact of life as did
other historic advances.
APPENDIX

LEGISLATIVE MEMORANDUM

MBR (Maximum Base Rent)

The Maximum Base Rent provision is an amendment to the New York City rent control law. Adopted in 1970, it allows annual 7% increases in rent with no prospect of reaching an ultimate ceiling, because the ceiling may be raised every two years. The law, according to the City administration, was not intended to benefit landlords per se, but to improve the New York City housing stock. The MBR was to give landlords a "fair" return on their investment, so that they could preserve and improve the housing, by making needed repairs. Because a building was supposed to be free of major violations for the annual increase to be issued, Landlords, it was hoped, would immediately bring their buildings up to code standards. As Metropolitan Council on Housing predicted when the law passed the City Council, this has proven to be a bitter farce.

The landlord is first granted his increase and then the tenant may file a protest. The rent office is so over-burdened that it cannot process the protests even now that two years have passed since the 1972 MBR orders were issued. The result is that many tenants are required under the law to pay the increases despite the existence of violations in their apartments and buildings. The only alternative is to move; with vacancy decontrol, that is not a meaningful alternative. Met Council has numerous, documented situations where tenants are living in deplorable conditions, and paying yearly increases, nonetheless. Many of these buildings have organized and are now on rent strike.

The MBR was supposed to improve the housing stock. Instead, the additional rent monies are going into the landlords' pockets. The Stein Commission has shown that major renovations and repairs for New York City apartments have decreased since 1970. So much for the unrealistic "hoped" of the City Council which passed the MBR law!

It has been repeated ad nauseam that landlords are making huge profits. Yet the constant wails of the landlords (who manage to get a good press to weep in) have given the impression that poverty and bankruptcy are around the corner. With the above in mind, let's examine just one aspect of landlord economics. Other aspects--as carefully dissected--will reveal equal horrors.

The MBR law conveys the impression that the landlord is guaranteed "only" an 8.5% annual return on his investment. That is not true. Let us take as an example a landlord who buys a building for $1,000,000. His cash investment is 10% (sometimes only 5%) of the purchase price, in this case, $100,000. Under the old rent control law, before MBR, the landlord was guaranteed an annual return of 6% of the assessed valuation and 2% for depreciation. The assessed value is approximately 60% of the market value.
In our example it breaks down approximately as follows:

Land ................................................. $240,000
Building .............................................. $360,000
Total Assessed Value ................................. $600,000

Under the old Rent Control law the landlord was entitled to a net return of $43,200, which was arrived at as follows:

Total Assessed Value ................................. $600,000

\[
\times \frac{6\%}{2\%} \quad \text{Housing Depreciation} \quad \times 2\% = \frac{36,000}{7,200}
\]

Guaranteed Annual Profit ................................ $43,200

Under the MBR formula the landlord is guaranteed 8.5% of the equalized assessed valuation. This EAV, as it is called, is intended to approximate the market value on a county-wide basis. It is arrived at by dividing the assessed value by a county-wide figure determined by the State of New York. In New York City, EAV varies from 45% in Richmond to 65% in Manhattan. The city-wide rate is 57%. Here is what happens when we base the landlord’s guaranteed profits upon the EAV:

Total Assessed Value ................................. $600,000

\[
+ \text{City-wide Rate of 57%} \quad \text{EB} \quad \times \frac{1,050,000}{1,031} = \text{EB}
\]

MBR Guaranteed Profit Rate ............................. \[
\times \frac{8.5\%}{0.57} \quad \text{Built into the MBR rent formula}
\]

Total Annual MBR Guaranteed Profit .......................... $89,474

Note that the profit has almost doubled. The landlord’s actual annual guaranteed profit under the MBR becomes 14.3% (in 1973--10/12) of the assessed value, instead of 6% + 2%

Even these examples do not tell the whole story. By any business standard, profits are measured by actual cash investment. 8.5% of the actual cash investment of $100,000 is $8,500.

In the above case the landlord has received more than ten times that amount. His real guaranteed annual profit is a whopping 89% of his cash investment! In one year and two months the landlord will have had returned to him his entire capital investment, and still own a property yielding guaranteed exorbitant and fantastic profits.

The City Council, at long last realizing that the MBR Law is an economic disaster for tenants, repealed it. Attorneys for the landlords, however, brought suit against the City for this action, claiming that the repeal was in violation of the Urstadt Law. Metropolitan Council on Housing was granted permission to intervene on behalf of tenants. The lower courts ruled in favor of the landlords and the higher courts upheld that decision.

The Legislature has the opportunity and the duty to remedy this economic atrocity by the simple expedient of repealing the Urstadt Law, so that the City Council’s repeal of the MBR law may become effective.

February 21, 1974 (Revised September 13, 1976)
Real estate/building today is a speculative game, played for tax shelters, rebates, fluid cash in the form of rent rolls, and maximum return on a cash investment of only 3% to 10%, known as leverage. Non-payment of taxes by landlords is part of the game.

Landlords have good reason for refusing to pay 1 billion, $100 million dollars in back taxes. Not only do they save the tax money, but they blackmail the city into more and more forms of "relief." So now we have 3-51, giving a landlord who "rehabilitates" a building an almost tax-free fifteen years. Beame's new budget trims real estate taxes and cuts the commercial rent tax by 10%. As far back as August 1, 1974 Real Estate Weekly, the industry mouthpiece, featured a major real estate organization urging refusal to pay water, sewer, and sanitation taxes, as well as sales tax on contractors' bills. Need I wonder at the 1 billion, $100 million dollars landlords owe in taxes?

Non-taxpaying landlords are further rewarded by upward spiraling rents. Since 1972, rent-controlled tenants have forked over 75% yearly in rent increases under the Maximum Allowable Rent (MAR) law. Last year, a one-year fuel cost passing further upped rents. And now a labor cost passing of up to 3% will cause "controlled" rents once again and be permanently added to the basic rent. Since 1972, due to MAR alone, total rent increases on rent-controlled apartments has been 90%.

In 1968, the Rent Stabilization Law was passed in New York City. In absentia buildings, the law set the annual rent percentage increase to be written into the lease.

In 1971, the Vacancy Decontrol Law completely decontrolled rent controlled apartments once the tenant moved out and also destabilized stabilized apartments once vacated. This meant new rents on these apartments could be set at the landlords' fancy. As the Stein Commission reported, from 1971-1974 rents on decontrolled apartments rose 51%. Tenants were harassed and evicted from their apartments at the landlords' whim, a whim which usually meant sharply increased rents. Rent jags had passed the bounds of sanity, even for New York City. That's why the Emergency Tenant Protection Act was passed in 1974.

Under the Emergency Tenant Protection Act (ETPA), vacancy decontrol still exists. New rents after decontrol are subject to no legal limitation. Only after the new base rent is set, does the law put some limit on further rent increases. Under rent guidelines, leased each year for lessee signed that year, percentage increases on rents are set. This year, for renewal leases, the guidelines are 4% for one year, 9% for two years and 11½ for three years leased. For a new tenant moving into that now stabilized apartment, add 5% to each one of these levels.

Let the figures speak for themselves. In 1971: 1,260,000 rent-controlled. In 1977: 5,200,000 rent-controlled apartments. Over 50% of rent-controlled apartments have been phased out. And every abandoned house, milked dry of profits and written off as a convenient tax loss, enriches the market and forces rent ceilings up.

From 1971-1976 according to the federal census, rents in NYC rose 7%, income 6½%. Where do the laws protect, landlord or tenant? As profits swell and rents rise, who is really being forced to flee the city, landlords or middle income and working people?

For further information write or call:

METROPOLITAN COUNCIL ON HOUSING
24 WEST 30 STREET, NEW YORK 10001
TEL: 725-4800 (1-3pm Mon. to 5pm, 11-1pm Thurs. and Fri.)
STATEMENT OF WILLIAM A. MOSES, CHAIRMAN OF THE BOARD, 
COMMUNITY HOUSING IMPROVEMENT PROGRAM, INC.

Mr. Moses, Mr. Chairman and members of the subcommittee, 
I want to thank you for inviting me here to express myself in 
connection with this issue. My name is William A. Moses. I am 
chairman of the Board of Community Housing Improvement Pro-
gram. I am here with Mr. Robert Durst from New York City. 

Our organization represents the owners of some 400,000 apart-
ments in New York City, both rent controlled and rent stabilized. 
The Federal credit agreement calls for Mayor Beame and now 
Mayor Koch to report on the evaluation of the condition of New 
York City's real estate tax base, abandonment, delinquently, and 
to assess the impact of the city and State loss.

They are supposed to report on a semianual basis, and to my 
knowledge, the report has never been made public, and may not 
even exist.

Our purpose here is to report something in connection with that 
and to make certain recommendations. We would like to report 
that there has been a reduction in the assessed values in New York 
City of some $21/2 billion over the last 3 years, approximately $700 
million per year.

We have some $815 million in canceled taxes and income taxes 
that have been remitted. We have accumulative tax arrears of some-
thing in excess of $1 billion.

New York City’s decline continues. The $2 billion that the Federal 
Government is coming forward with is not enough; and we have 
been reporting this since 1975, and we have been reporting it back 
to this committee since 1968, that New York City’s real estate tax 
base continues to erode, because rent control, first, and now in more 
recent years, because of rent stabilization.

We have not been alone in this opinion. The Treasury Department 
has reported it, the Comptroller General has reported it, the Federal 
Reserve System Chairman, Arthur Burns, has reported it.

New York City's own Temporary Commission on City Financing 
in 1977 reported it; and they said, if I may read:

Rent control and rent stabilization have already facilitated the destruction 
beyond repair of a significant portion of the housing inventory of New York 
City. Cumulatively, this subsidy to tenants has exceeded $20 billion by de-
pressing property tax assessments and promoting real estate tax delinquency 
and abandonment of properties, diminished receipts from the single most im-
portant of city revenues, the real property tax.

I would like to point to a portion of the Bronx, about half of the 
Bronx, which I have brought along here, which shows blocks in the 
Bronx, having substantial tax arrears of at least 1 year, as of 1976. 
This is reported by the South Bronx revitalization plan put out by 
the City of New York in December of 1977.

This map shows substantial numbers of blocks, throughout at 
least half of the Bronx, in which real estate taxes have not been 
paid for at least 1 year.

I would like to show you this photograph of a building on Mc-
Combs Road in the Bronx, a building built around 1890, an elevator
building. In 1955 it was assessed for $380,000. In 1970, the assessment was reduced to $180,000. In 1978, the assessment is $240,000, and that building is abandoned. That building either will be torn down, or substantial amounts of new funds will have to go into it to rebuild it.

This decline in evaluation took place at a time when throughout the United States we have had an increase in the values of real property. Certainly a building like that is a credit, had it been in good condition and not abandoned. That is a rent-controlled building.

Our proposal is that New York City needs to expand its economy via the private sector. We believe that this can be done if rent control and rent stabilization are phased out for at least the life of the guarantee, 15 years, which are being proposed; not as we had in the past, a vacancy decontrol law in June of 1971, which was followed in August of 1971 by Federal controls, which expired in 1973; and then State controls came back in in June of 1974.

There is no incentive to the private sector when they have to face continual reappraisal of rent regulations, whether they be city, State or Federal government.

The benefits to the city of New York and to the State of New York and to the country would be apparent with a program of phaseout. We would foresee yearly increases in real estate taxes collected of $220 million, as forecast by the Federal Reserve System of New York City.

We would project rehabilitation of apartments, which would reach $200 million a year. We would project an increase in employment, after a period of 5 years, of 100,000 to 200,000 jobs. We would project an increase in construction of new housing of at least $1 billion a year after a period of 4 or 5 years, and an increase in income and sales tax to the City and State and, of course, to the Federal Government.

It has been suggested that the poor are being protected by rent controls. They are not. In fact, many middle- and upper-income people are being subsidized by these rent controls. Mayor Koch himself lives in a rent-controlled apartment, paying $250 a month as reported, and in addition, lives in Gracey Mansion. He has the best of both worlds.

The president of the American Stock Exchange lives in a rent-controlled apartment.

In studies which have been made, we have found there are hundreds of thousands of people in New York City paying under 20 percent of their income for rent. There are plenty of apartments in New York City, and I have included that as a part of my written remarks, which I hope will be a part of my full testimony. These amounts exist in various boroughs, and in fact owners of buildings are offering 2 months free rent to get tenants to fill them up.

Now, we urge Congress to phase out rent controls and stabilization as part of the plan to aid New York City. We would be putting hundreds of thousands to work. We would have a city which would be back in business again.
If we don't have a phaseout, we are going to need more help from Congress. The $2 billion is not enough to handle it.

I want to make one last comment. That has to do with the rent control laws under the MBR system. The MBR system, which was established in 1970, does not cover interest cost for the operation of our buildings. Interest rates in the forties and fifties were 4 and 5 percent; and in 1977, if we can get a mortgage, we are paying 9½ to 11½ percent interest.

The MBR system did not aid owners faced with the increase in fuel oil prices in 1973, where prior to that, in the sixties, we were paying 6 to 8 cents a gallon, we were suddenly paying 33 to 44 cents a gallon for oil. We needed instant money which was not available.

The RAND Corp., in 1970, reported that rents were increasing from World War II on an average of 2 percent per year, but our expenses were increasing an average of 6 percent a year; and from 1969 to 1977, we have had 100 percent increase in the cost of operating our buildings.

The MBR had approximately 750,000 buildings in it in 1970. We believe there are about 25,000 buildings left in the system now. The other 50,000 buildings are not now getting the benefit of the MBR system.

The city of New York this year has projected they are going to take over 24,000 apartment buildings from the private sector, with approximately 300,000 people in them, and probably around 200,000 apartments, for failure to pay real estate taxes.

We don't know how the city of New York is going to be able to handle those buildings; they don't have the staff, they don't have the capability. The fact is, we have an impending disaster in New York City now.

We say to this subcommittee, aid New York City; but when you aid New York City, make sure as a condition of it you phase out these rent control and rent stabilization laws, or we will be forever on our hands and knees asking for more aid from Congress.

Thank you very much.

[The prepared statement of Mr. Moses, on behalf of the Community Housing Improvement Program, Inc., with attached material, follows:]

The 1975 Federal Loan Agreement with New York City mandates in Section 6.6.4 that the mayor provide the Secretary of the Treasury semi-annual statements evaluating the condition of the real estate tax base describing changes in the tax base, abandonments, delinquency rates in tax payments, and assessing the impact thereof on the laws and regulations of the City and the State. These reports have never been made public, and, indeed, may not even exist.

In a letter (together with supporting documents) submitted for inclusion in the Record of the October 28 and 30, 1975 hearings before the Subcommittee on Economic Stabilization of the House Banking Committee, I stated: "New York City's fiscal crisis cannot be dealt with effectively without restoring its real estate tax base. This cannot be accomplished unless rent controls and stabilization are phased out now." In the 2-1/2 years since making that statement, rent controls and rent stabilization have not been phased out; rather, the New York State Legislature has extended the life of these controls to 1981 without modification.

The city has failed to implement a phase-out plan during the last 2-1/2 years and:

1. The New York City Department of Finance reported a decline in assessed valuation of real estate in New York City of more than $2-1/2 billion.

2. The City Comptroller reported the cancellation and remission of $81.3 million in real estate taxes.

3. The City Comptroller reported cumulative unpaid real estate taxes of more than $1.2 billion.

New York City's decline continues, and $7 billion in federal guarantees are not enough to turn it around.
CHIP represents the owners of more than 400,000 rent controlled and rent stabilized apartments in New York City. During the more than eleven years of our existence, we have continued to point to the need to phase out rent control and stabilization or face the consequences of bankruptcy. We believe that New York City can strengthen its financial strength only through expansion, not contraction, of its economy.

Others have said the following:

1. Treasury Secretary Blumenthal stated before this Subcommittee on March 2, 1978: "The only way to break the downward spiral is to rebuild the private sector base."

2. Controller General of the United States (April 4, 1977): "The rapid deterioration in the city's fiscal and economic base is the root of the city's problems." .... "The loss of tax revenues due to rent control has been estimated by the Federal Reserve Board of New York to be more than $220 million in 1975."

3. Department of the Treasury (November 2, 1976): "Our office has carefully analyzed numerous objective studies which support the conclusion that rent control has adversely affected the city's economic condition." .... "...we will continue to take a firm stand on this matter, emphasizing the importance of phasing out rent control as quickly as possible. Only by such action can New York City strengthen its real estate tax base, slow the rate of abandonments, and foster a climate that will encourage investment in new construction and better maintenance of existing rental units."

4. Chairman of the Federal Reserve System, Arthur F. Burns (November 24, 1975): "There is no question in my mind that rent control has injured the financial base of New York City."

5. Temporary Commission on New York City Finances (June 1977): "Rent control and rent stabilization have already facilitated the destruction, beyond repair, of a significant portion of the housing inventory of New York City," ....cumulatively, this subsidy (to tenants) has exceeded $20 billion. ... "By
depressing property tax assessments and promoting real estate tax delinquency and the abandonment of rental properties, rent control and rent stabilization diminish receipts from the single most important source of city revenues, the real property tax.

Apartment construction in New York City has declined from a high of 60,000 units in 1963 to 5,000 units in 1976. More than 50,000 jobs have been lost due to this decline.

The removal of rent regulations will undoubtedly mean higher rents for many tenants in New York City. It should be noted, however, that the multiplier effect of higher rents is two times the normal multiplier. Dollars spent for rent are not the same as dollars spent for automobiles built in Germany, television sets built in Japan or cheese from Denmark, etc. Rental dollars spent for housing in New York City will remain in the city. Rent increases will result in the creation of new jobs for painting contractors, carpenters, superintendents, plumbers, electricians and countless other trades as their services are once again in demand.

We forecast that the regeneration of New York City’s tax base will enable it to rehire needed policemen, firemen, teachers and other employees required to provide services to our city. If controls are allowed to continue for another five to ten years, we do not believe the city will have the strength to regenerate itself and bankruptcy will result without unprecedented federal and state expenditures. Regeneration will not begin unless rent controls and stabilization are phased out now.

We believe the following benefits to the city will begin to accrue during three to five years, following a guaranteed program phasing out all rent regulations culminating in a multi-billion dollar renewal of New York City:

1. Yearly increases in the collection of real estate tax arrears of $220 million, increasing to $300 million.
2. An increase in expenditures for capital improvements of more than $200 million per year for the rehabilitation of apartments.

3. An end to annual decreases in real estate taxes of $50 million due to reductions in assessed valuations of real property, now averaging $700 million annually.

4. Increased employment in the construction and rehabilitation industries of 50,000 - 100,000 jobs during the first five years.

5. Increased employment from related businesses, such as new stores and other commercial enterprises, of 50,000 during the first five years.

6. Increased residential real estate tax ratables of $1 billion per year based on construction of 20,000 residential units annually after the first five years. Cumulative increases of $85 million in real estate taxes will be the result.

7. City, state and federal sales, income and other taxes emanating from expanded business activity.

In 1943 Congress enacted rent controls along with price controls for the entire United States. Instead of eliminating rent controls along with price controls after World War II, Congress permitted states to continue them at their own discretion. New York City, with its huge renter population, immediately became a serious political problem in terms of the ability of city or state legislators to remove controls and remain in office. In New York City, those regulations have been perpetuated by Democrats and Republicans in the City Council and State Legislature. Although we believe these rent regulations to be unconstitutional, the city has succeeded in thwarting our efforts in court. Despite being described as "temporary" controls, thirty-five years have passed during which every unit constructed through May, 1974 (in buildings of more than five families) is subject to various rent regulations. Virtually no private apartment construction has occurred since 1974.
City, state and federal programs attempting to deal with the deterioration and abandonment of housing in New York City have been unsuccessful. The federal government continues to pour hundreds of millions of dollars into Community Development funds and we have very little to show for it. The city and state Mitchell-Lama housing program is in shambles and is currently running at $100 million annual deficits.

As a result of new legislation passed in 1976, reducing the "in rem" period for non-payment of real estate taxes from three years to one year, the city faces the acquisition in the coming year of 24,000 apartment buildings, housing an estimated 300,000 people. The city does not have the capability required to manage these 24,000 troubled buildings, and we foresee new headlines charging Mayor Koch with being a "Super-Slumlord". During the last two years public officials, the City Council and the press have charged the city with forcing tenants to live without benefit of heat, hot water or other basic necessities for most of the time.

The poor are not protected by rent controls. Much of their housing is already abandoned or seriously sub-standard. However, rent controls do subsidize the rich. These controls were not meant to protect the president of the American Stock Exchange, Arthur Levitt, Jr., and yet the son of the State Comptroller lives in an eight-room rent controlled apartment on the fashionable east side of Manhattan, paying only half the rent his apartment is worth. Even our Mayor Koch lives in a rent controlled apartment, paying only $250 a month, approximately half its value. We are not asking His Honor and Arthur Levitt, Jr., to move out of New York City. We're not even asking them to move out of their apartments, merely that they pay "market" rents. The present rent laws do not provide for Mayor Koch being able to decontrol his own apartment. He appears to have the best of both worlds, living rent-free in Gracie Mansion and at the same time being subsidized in his controlled apartment. But while he and other high-income tenants deride
substantial financial benefits and subsidies from rent control, their fellow New Yorkers in Manhattan, Bronx, Brooklyn, Staten Island and Queens are faced with declining neighborhoods and deteriorating city services.

We urge Congress to demand that New York City immediately phase out all rent regulations as a part of the fiscal plan to rescue our city. The city must be committed to a specific plan which will encourage the private sector to invest again. Following that, the private sector -- owners, builders, bankers, developers, etc. -- will have the incentive to come back into the city and begin the multi-billion dollar job of rebuilding our great metropolis. Hundreds of thousands of new jobs will be created. More taxes will flow into city, state and federal treasuries and there will be more money available to support services essential to our city. Failure to remove these controls will result in a continued contraction of the city's economy and an ever-increasing need for federal assistance.

* * * * * *

[A Short History of New York City Rent Controls - Rent controls were established by Congress in 1943. When federal controls lapsed in 1950, New York State continued to administer them until 1962, when authority to administer rent control was granted to New York City. However, any unit constructed since 1947 was free of...*
controls until, in 1969, all units constructed between 1947 and 1969 were brought under rent controls in a system called rent stabilization. In 1971, the New York State Legislature decreed that all units becoming vacant after June 1971 were henceforth decontrolled (or destabilized in the case of post-1947 construction). Shortly afterwards, in August 1971, the federal government again froze rents, wages, prices, etc., and the issue became even more confusing until federal controls were ended in 1973.

In June 1974, the New York State Legislature again imposed controls on all apartments constructed during the period 1969 through 1974 and recontrolled all decontrolled and destabilized apartments which had been decontrolled in June 1971. However, apartments under the old rent control system, becoming vacant, were put into the rent stabilized sector. In 1977, these controls were extended to 1981.

What must be made very clear is that, although there is a multi-system of regulations, the fact remains that virtually all rental housing is under control of one kind or another. Out of a total of 1,475,000 privately-owned rental apartment units, rents on 1,255,000 are regulated, including 525,000 under rent control and 730,000 under rent stabilization.
In the Best of Blocks, Ripoff Rents for the Rich

Rent control...Who believes 15% of tenants shouldn't pay a fair rent?

KEN AULETTA

WHAT DOES the next mayor of New York have in common with the next president of the American Stock Exchange, a former candidate for governor, a wealthy real estate attorney, a vaunted Fifth Ave. cigar maker and many other rich and famous people? They all live in rent-controlled apartments.

Taxpayers subsidize ED Koch's $250-a-month Greenwich Village apartment. The fair market value of his apartment, claims a spokesman for his landlord—NYU—would be $400 to $450. If Koch and some of his neighbors paid a rental rent, the building would be assessed at a higher tax rate, meaning higher taxes for the landlord and more revenues for the city.

Like Koch, Arthur Louis Jr., the new president of the American Stock Exchange, lives in a rent-controlled apartment. The annual rent of the state controller pays $281 a month for an eight-room (high ceiling, wood-burning fireplace) apartment on E. 68th St. A fair market rental, says a spokesman for the landlord, would be $330 to $350 a month.

Dean Alfange, American Labor Party candidate for governor in 1942, owns a brownstone in Harlem and the state Liberal Party has a five-room, rent-controlled apartment overlooking the park on Central Park West. According to rent records, he pays $373 a month. The same non-controlled apartment, one floor below, rents for $650. A doctor on E. 82nd St. pays $915 for a suite of six rent-controlled rooms, including a sweeping view of the park from a 14th floor living room.

A few blocks away, in the same building, Mrs. Otto Ploetz has lived in the same building as Mrs. Barrett. Her two-bedroom apartment lists for $460 a month. Though the rent-controlled law requires that an apartment serve as a "primary" residence, Mrs. Ploetz acknowledges spending much of her year shuttling between homes in Palm Beach and California. Why? "I think a person of wealth should get anything they can get," she says into the phone, "I'm a parasite. I just spend money." Then she hangs up.

At 1055 Park Ave., an eight-room controlled apartment goes for $610 a month; a six-room controlled apartment for $475. At 847 Central Park South, where room service is provided by the Bell. Maids and deck Balbo Royce stand at attention in front of the long white conveys. 43 of the 142 apartments are rent-controlled. Carol Minturn, who owns the building, says if those who would assist it paid a fair rent, the building's 41.6 million assessment would jump 19%. A news test, she千年, would remove...
The issue of rent control received little ventilation in the public debate during the campaign, even though the candidate vowed to lower the rents. There were a number of proposals to lower the rents, and the candidates had to explain how they would do it, but the public was not very interested in the details.

The problem, of course, is that rent control is a complex issue. It involves trade-offs between the interests of landlords and tenants, and it requires a careful balancing of objectives. Rent control can provide some relief for tenants who are paying exorbitant rents, but it can also lead to a loss of investment for landlords, who may be less likely to maintain their properties. In the end, the decision about whether to implement rent control or not must be made based on careful consideration of all the factors involved.

The article suggests that a solution to this problem might be found in creative and innovative approaches. It encourages the use of technology to monitor and control rental prices, and it suggests that public-private partnerships could be used to finance rent stabilization programs. These are all promising ideas, but they require careful planning and execution to be successful.

In conclusion, the issue of rent control is complex, and there is no easy solution. It will require a careful balance of interests and a commitment to finding a solution that works for all stakeholders. The article provides some useful insights into the problem, but ultimately, the solution will have to be found through careful planning and execution.
COUNCIL MINUTES—STATED MEETING FEBRUARY 10, 1977

Res. No. 834

Resolution Calling Upon the Department of Real Estate to Institute a Program to Provide Heat and Hot Water to Tenants in City-Owned Buildings.

By Mr. Samuel; also Mr. Burden, Ms. Friedlander, Mr. Gerges, Mrs. Greitzer, Mr. Horowitz, Mr. Pinkett, Mrs. Ryan, Mr. Steinmetz, Ms. Stringer and Mr. Stern.

Whereas, There are hundreds of buildings which are owned by The City of New York and which house thousands of tenants; and

Whereas, Recent disclosures by the media and other sources reveal that a large number of these buildings are without heat, hot water and other basic services; and

Whereas, The present winter has already been described as the most devastating in the City's history and has had a particularly adverse and harmful effect upon the lives and well-being of these tenants, resulting in death, illness, hospitalization and financial hardship to many of these tenants some of whom are senior citizens and young children; and

Whereas, The City of New York has a legal as well as a moral obligation to said tenants, therefore, be it

Resolved, That the City Council call upon the Department of Real Estate, the Buildings Department and all appropriate agencies and departments of The City of New York having jurisdiction over and responsibility for these City-owned buildings to immediately undertake a crash program to ensure that the tenants of said buildings receive the basic services of heat, hot water and those other facilities which are necessary to the health and well-being of said tenants, and be it further

Resolved, That an appropriate Committee of the City Council be directed to monitor and report to the said Council the progress made in this regard.

On motion of the Vice-Chairman (Mr. Cuute), and adopted. The matter was made a General Order for the Day and unanimously adopted by a viva voce vote.
Harlem Tenants Join in Assailing Slumlord: The City of New York

By COLUMBIA HUNTER-GAULT

While Frances Smith returned to her Harlem apartment after a week in the hospital last month, she found that the gas had been turned off in a vacant apartment above hers.

Her neighbors had taken her food and brought it to the door. The fire in her room had been shut off and the water in her back yard had been turned off. Most of her furniture—a television set, a sofa, chairs, tables—was soaked or water-stained beyond repair.

In Local President’s apartment at 13 West 32nd Street, the stove and oven are still there, but the water has been turned off. All the money she has earned from her small job has been consumed by the cost of the water that has been constantly running since last summer.

Both Mrs. Smith and Mrs. Smith’s sisters have repeatedly complained to the landlord, and nothing has happened.

An elderly tenant in Mrs. Smith’s building who complained to the landlord was threatened with being evicted if he complained further. He was also threatened with being evicted if he allowed the children to play in the yard.

On the ground floor of the building is a tenant who has been living there for 25 years. He has been told that his lease will not be renewed unless he agrees to leave the building.

The City of New York has been informed of this situation, and has been working to resolve it. The landlord has been notified that the situation is illegal and that he must take action.

The problem is widespread in New York City, with many tenants facing similar issues. The city has been working to address the problem and has been working with tenants to find solutions.

In addition to the legal action taken by the city, tenants have been organizing to demand their rights. They have been working with community organizations and have been holding protests to bring attention to the issue.

The city has been working with tenants to find solutions, and has been working with community organizations to bring attention to the issue.
HOW TO BEAT THE HIGH COST OF LIVING

1 Bdrm $185
2 Bdrm $250
3 Bdrm $325

AND RENTS INCLUDE ELECTRIC & GAS

- Parks & Recreation
- Shopping
- Public and Parochial Schools
- Public Library
- Shopping Centers
- Houses of Worship
- Police & Fire Protection

All This & More When You Live At

Parkchester

THE COMPLETE COMMUNITY IN THE BOROUGHS

IMMEDIATE OCCUPANCY
MAY-be FREE RENT

200 E. Tremont Ave.
Bronx, N.Y. 10458

388
Mr. Lundine, Mr. Leventhal?

Statement of Nathan Leventhal, Commissioner, Department of Housing Preservation and Development, City of New York

Mr. Leventhal. Thank you, Mr. Chairman. May I ask at this time that my prepared statement, which I believe you all have copies of, be made a permanent part of the record?

Mr. Lundine. Without objection, it will be.

Mr. Leventhal. I think the greatest service I can be is to respond to your questions. I would like to make a few brief remarks, in summarizing my statement, and the statements you have just heard.

I am Nathan Leventhal, City of New York's Department of Housing Preservation and Development. I am the one governmental citizen here today referred to in the chairman's statement.

If I can lead off in one area, as the chairman noted in his statement, issues of rent control are particularly matters that are appropriate for local determination. I think, judging by the testimony we have just heard, you may continue to wish that it be a matter for local determination. It is an extremely difficult subject. It is a highly politicized subject, as it should be in many ways because it affects so many people.

There is no question that rent control is a complicated issue. In my prepared statement, and I think in the statement submitted by Ms. Benedikt, there has been an attempt to try to trace the changes in the law which have taken place, changes which have been very major and substantial in changing the system of rent control we now have.

I wouldn't dream of now trying to go into the nuances of rent control or stabilization for you, because we could spend hours on that alone. The key thing, it hasn't been clear yet this afternoon, or this morning, is that at one time—and for most of its tenure—rent control was a system of frozen rents. The amount of times—times the number of times a landlord could get an increase in rent were very strictly controlled. When a tenant moved out, and when he could show extreme hardship in terms of not getting anywhere near a fair return on his property.

That is what led to the kind of statement that we found in the Rand report which Mr. Moses just referred to, which was made in 1969 and 1970, which referred to the 2 percent per year increase in rents. But that was before the enactment of the MBR system. That report in large measure led to the enactment of the MBR system, which is a very different kind of system.

For the first time ever in rent control in the City of New York, landlords were receiving increases in rent without having to force a tenant out—or have a tenant die or move out, without having to demonstrate hardship. Rent increases for those buildings which were eligible were to go up at 7½ percent per year, and for those apartments which have been going up at 7½ percent per year, since the MBR law was enacted in 1970, those apartments would have received an 86 percent increase in rent, unless the rent was
already at the fair return value; in other words, that value and
that rent which was sufficient to support the operating costs of that
building, plus insure a fair return to the owner.
So that system of rent control you are looking at is very different
from the way it used to be. I think it is terribly unfair if we con-
sider it as the system of frozen rents, which, using the Rand report
would have us believe, because that report was issued before MBR
was even enacted.
I will just very briefly talk about some of the alleged abuses of
rent control, some of the problems that they have purportedly led
to. It is really the classic case of cause and effect; and what is the
cause, and what is the effect?
As I have indicated in my prepared statement—I urge that you
read it as carefully as possible—New York City's problems are
enormous, but they are not unlike the kinds of problems which are
being faced by municipalities around the country which have no
system of rent control. Abandonment, rent-estate tax arrears are
common problems throughout the country.
It is true there has recently been a great increase in the number
of buildings the City may have to foreclose on because of failure to
pay taxes. Contrary to the impression Mr. Moses left, it is not be-
cause there has been a great acceleration in level of tax arrears. It
is because the law has changed.
It used to be only after the buildings have been in arrears for 3
years can the City take control. The new law says after 1 year the
City takes control.
There is a reason for that law. The reason is: If we find these
buildings at an earlier stage, when they haven't been in arrears for
3 years and haven't been not maintained properly for 3 years, maybe
there is something we can do about those buildings before they look
like that. And that is the purpose of the law.
Obviously one of the fallouts of the law is that many more build-
ings have tax arrears for 1 year than have had in the past for 3
years. It was intended that that be the case. So that is not a factor
of having anything to do with rent control. It is a recognition by
the City that we must take steps to deal with these buildings at an
earlier stage.
Now, we can go to almost any city in this United States and
find a picture just like that. While it is very dramatic and it makes
a very interesting presentation, it has nothing to do with rent con-
trol. Rent control has been the whipping boy of every economic ill
the city of New York has faced in the years since it was enacted in
1943. And for a landlord to be sitting here and saying: "Landlords
are in favor of phasing out rent control, and we are not paying our
taxes across the city of New York." is proof that we have to get rid
of rent control; almost in a prideful tone.
There are many landlords who are having very difficult times
making ends meet; no question about it.
We have many City programs we are trying to implement to
deal with those problems; and that again could be the subject of
another hearing. But in neighborhood after neighborhood that we
are talking about, rent control is not a factor. It is laughable. The
MBR is set at a level upon vacancy, which is grossly in excess of rents anyone in that neighborhood could possibly get. I bet if we look at the MBR's for those buildings, if they are under rent control, the MBR would sound like a very high figure to us all.

If the landlord were getting those figures, everything would be fine. No landlord can get the MBR values in these neighborhoods. It has nothing to do with rent control.

Social changes, disinvestment, the old system of rent control phased out in 1970, had much to do with that, perhaps, and we might concede that for purposes of argument; but that is not the system of rent control we have before us.

And my last point before I respond to your questions—two last points: The Temporary Commission on New York City Finances made a statement that in its opinion, as to the relationship between rent control and the financial plight of New York City— I suggest in the orange report before you you will find a different conclusion. The economists differ. Even the commission report that Mr. Moses referred to said contrary to the early days of rent control, when it did not appear to be a well-targeted program, today 85 percent of the people living in rent-controlled apartments need it in order to survive; and that is a terribly significant figure, which is my last point, and which I urge you not to forget about.

We are not talking about solely an economic issue. We are not talking about solely a financial question facing the city of New York. We are talking about New York City, its landlords and tenants, both the right of the landlords to a fair return—which is present in the law we now have—and the right of the tenants, the need for tenants to live in decent apartments they can afford.

Without rent control, that cannot be the case. That is why city council after city council has enacted and reaffirmed rent control. The current vacancy rate 2.77 percent; if we reach the point where vacancies go above 5 percent, rent control can be phased out under the law. Until we reach that point, I ask you to keep in mind the situation in New York City, should you recommend the relief that we feel should be given to the City by Congress, that you not include as a part of that the phasing out of rent control or stabilization as a condition of that relief. It is essential that the citizens of New York have housing they can afford. Thank you.

[Mr. Leventhal's prepared statement follows:]

Mr. Chairman and members of the Subcommittee, thank you for inviting me to be here today.

I recently have been appointed by Mayor Koch to supervise the City's Department of Housing Preservation and Development, an agency that oversees the administration of the City's many housing programs -- from the enforcement of the housing maintenance codes to the management of its middle income housing developments; and from its urban renewal efforts to its rent control program.

I understand that some of you are particularly interested in rent control and its possible impact on the City's fiscal crisis; I am here today to give you, in the brief time we have, as much information as possible about it.
Between 1970 and 1973 I served as Mayor Lindsay's Chief of Staff and Assistant for Housing and as the City's Commissioner of Rent and Housing Maintenance. During those years I devoted major efforts to revising the 23-year old rent control program to make it relevant to our contemporary needs. My interest in the rent control issue continued through the more recent years when I was in private law practice and I have been serving as a member of the N.Y.C. Bar Association's Housing Committee and its Rent Control Subcommittee.

Although one cannot cover everything in a five-minute statement, there are three important areas I think you must be informed about and I will try to touch on today. They are: first, an overview of New York City's housing inventory, particularly its supply of renter units, which demonstrates the continued compelling need for a system of rent control in New York City. Second, you should know about the changes in New York City's rent regulations over recent years which had created a system of rent regulation far different from the "frozen rent" program of 1943. Third, I'd like to discuss some of the frequently heard criticisms of rent control, rent control is sometimes blamed for most of the City's problems -- an insupportable conclusion in my judgment.

I am not going to tell you that our present system of rent control is the perfect solution to the City's housing problems or that our previous systems of rent control exerted no impact on the City's financial condition. I am here to tell you, however, that our present system makes basic sense, responds to the needs of the City's tenant population, and exerts no adverse effects on the City's financial plight.
I. New York's Housing Inventory

If U.S. Census Bureau figures are correct, most of the nation's families own their own homes. This is not the case in New York City. Most of our families are renters. In fact 74% of all the households in New York City rented their housing accommodations in 1975 when the Census Bureau last conducted a survey for us. Yes, 1,999,000 households rent. This high proportion and number of renters is larger than any of the largest cities in the United States and has been for as long as we can remember. From your own experience you know that housing is usually the largest fixed cost in a household budget. If you are a house owner you generally know and can in some ways control what your monthly costs will be before you buy the house and while in occupancy. However, in a free market, renters have little knowledge and no control over their housing -- their major item of expense. When housing shortages or other market conditions unfavorable to the consumer-renter prevail, rents in New York and elsewhere tend to rise precipitously, thereby threatening the entire life style and stability of a renter's household. The rental vacancy rate in 1975 was a mere 2.77 percent in New York City, a dangerously low level.
Let me tell you about the people who are our renters in New York. I draw upon the findings of the 1975 Housing and Vacancy Survey conducted by the U.S. Bureau of the Census -- to my knowledge, the best portrait of New York City's housing we have, and one generally accepted by housing analysts and opponents and proponents of rent control as well.

Half of the renter families had a total annual income of less than $8,400 in 1974. Rent controlled tenants had even less to live on with a median income of $7,057. As a matter of fact 70 percent of all rent controlled households reported to the Census Bureau earnings of less than $12,500 a year, before taxes and not adjusted for the erosion of buying power as a result of inflation.

The data also tell us that the income level of all our renters increased by 17 percent between 1970 and 1975, but rent controlled tenants' income was only 11 percent higher.

Yet rents went up dramatically between 1970 and 1975. The median gross rent -- rents plus utilities -- was 37 percent higher than it was in 1970 for the controlled sector and 57 percent higher for the City as a whole. Please note that these changes occurred and continue with rent controls in New York.
It isn't surprising then to learn that half of all renters -- and rent controlled tenants as well -- were paying 25 percent of their total income for rent in 1975. The shocking figures released last week by the U.S. Bureau of Labor Statistics indicating that a typical household in the New York area spends 42 percent of its budget on all housing costs may well mean that the rent-income picture in the City has probably worsened since 1975.

Mr. Chairman and members of this Subcommittee, I fear to think of what will happen to these families if there were no controls. For example, there were 259,000 female-headed households in controlled units in 1975. Half of them paid 36 percent of their income for rent then. There were 110,000 who were over 65 and half of them spent more than 40 percent of their low income on rent.

I urge you to reflect on these facts when people tell you that tenants are receiving housing bargains in New York City. Yes, a few people who can afford to pay more may have "bargain" rent controlled apartments. But, as the government's own statistics indicate, the overwhelming majority of New York's rent-controlled tenants desperately need the continued protection of a system of rent regulation.
II.

Progressive Changes in the Nature of the City’s Rent Control Laws

When the Mayor was here last week he briefly described to you some of the recent changes in rent regulations in New York. I’d like to amplify that report for you today.

One sometimes gets the impression that people think that renters in New York City have been paying the same rents since 1943. As I’ve indicated, this is not so.

It is true that through the 1950’s and 60’s only one across-the-board increase was allowed, along with hardship increasers, improvement increases and increases when a new tenant moved in. But, by the late 1960’s it became clear to City officials, and I was one of them, that new systems had to be developed to deal with sweeping inflation that was affecting owners of rental property.

The laws regarding rent regulation have changed drastically since that time. In 1970 a Local Law required that an economic rent be established for buildings with rent controlled units. This rent covers the cost of operating a building, its taxes and a competitive return to the owner. Every two years the City reviews the economic rent to assure that the allowable rents will cover any new changes in the costs of operating and maintaining buildings.
Owners were allowed an average 12% increase in 1970 and have been allowed 7 1/2% increases a year thereafter in continuously occupied units which are below the economic ceiling. (The law requires proper maintenance in exchange for those increases.) In these continuously occupied rent controlled apartments, the rents have gone up in this decade by at least 86 percent since 1970.

On the other side of the coin however, tenants in the late 1960's, were threatened by exorbitant rental increases in newer buildings, which had never been under a system of rent regulation. A system (rent stabilization) still in existence helped New York keep its middle class by offering tenants security of tenure through leases and advance notice of increases, but also required rental increases to cover increased costs to landlords.

Beginning in 1971, as a result of State law, all rent controlled and stabilized apartments that become vacant have been rented at their economic or market rent, even though there has been a continued shortage of housing. Since 1974 vacant rent controlled apartments in large buildings have come under the rent stabilization system at their market or economic rent.

Thus, between 1970 and 1975 primarily as a result of the vacancy decontrol provision, about one-half of all units that were rent controlled left rent control's jurisdiction because of turnovers in tenancy and were free to be rented at economic or market rents. That movement toward
decontrol continues to this day. According to the U.S. Census Bureau, 642,000 units were subject to rent control in 1975 as compared with 1.2 million in 1970. The figure as of today may well be below 500,000.

New York City, then, is out of the "dark ages" in rent control. To summarize, the City allows regular rental increases to law-abiding landlords of apartments that are still subject to rent control. These increases move the rents to a fair economic level. The number of apartments subject to rent control decreases every day whenever vacancies occur. Apartments leaving rent control may be rented at market rents. Apartments in the rent stabilized sector start out at market level and get regular increases to cover increased costs to landlords.

The impact of all these changes in the Rent Laws has been to give more money to landlords who need it to operate their buildings but, at the same time to increase the rent-paying burden on our citizens who have had to endure the ravages of unemployment and inflation themselves.

New York City's current rent control policies attempt to maintain a delicate balance between the needs of owners and the needs and rent-paying capabilities of tenants. Neither side is perfectly satisfied with the arrangement all the time, and we ourselves have tried and will continue to attempt to improve the system. You may be interested in knowing that the State legislature recently created a commission to review all rent regulation in the State and their report and recommendations are due at the end of this year.
Nonetheless, there is no question in my mind that any decision to make the end of rent regulations in New York a condition of Federal loans or loan guarantees will create havoc for our needy families, our middle class families, and the neighborhoods they live in. The end of rent regulation may provoke economic and social turmoil by threatening the very stability New York needs so desperately.
III. Unfounded Criticisms of Rent Control

I'd like now to turn to some of the major criticisms leveled against rent control. We are constantly aware and alarmed by the type and extent of misinformation that circulates about rent control. In a way it would at least be simple if rent control were in fact to blame for many of the problems the City faces. But the answers are not that simple at all. New York City has problems that other older municipalities also have, and they have had no rent controls.

Take housing abandonment for example -- rent control is blamed for it. Yet there are very severe problems of abandonment in Newark, St. Louis, Cleveland, Baltimore and many other cities where there is no rent control. A study by the Urban League and a recent New York Times report on conditions in our cities since the Kerner Commission report confirm that abandonment is an unfortunate urban ailment resulting from many complex social and economic factors including poverty, unemployment, discrimination, rapid population shifts and realising by mortgage institutions but is not caused by rent controls.

Disinvestment in housing is related to abandonment -- in
fact, its forerunner. Yet rent control in New York is billed as the reason for disinvestment or put another way: rent control is said to be a disincentive. Let's look at both issues. Two serious studies interviewed landlords in New York City. They both interviewed landlords who had stopped paying taxes. They were asked what their biggest problems were and whether rent control caused their difficulties. In both studies (one by the Women's City Club; one in 1967 by Rutgers Professor George Sternlieb) landlords indicated that rent control was not the major reason for their difficulties.

Of course, not all landlords have great difficulties either. I was delighted, in fact, to read an editorial in the February 13, 1978 major real estate newspaper in New York, Real Estate Weekly. The editorial was called A Good Year and I will quote you part of it:

"This past year has been a good one for the real estate industry. There has been an upswing in the market and we are all excited about a change for the better. The ebullient mood at the recent Real Estate Board dinner was not without basis!"
"The commercial market has tightened up considerably in the past year. There is a shortage of office space in good locations and new construction of office buildings is planned.

"The residential market is also doing well. The demand for luxury apartment buildings remains unabated."

So, you see things really are not as bad as some people may think.

Rent controls are also blamed for real estate tax arrearages in the City. An increase in arrearages is another phenomenon observed in other older urban areas without rent control. I understand that the staff of New York's rent agency tried to match residential building addresses that were in tax arrears for four quarters or more in 1975/6 with addresses that had rent controlled units. Only 12 percent of the buildings in arrears showed up on the rent control rosters. To hear some critics, one might have expected a 100 percent match. I truly don't know all the reasons why owners don't pay real estate taxes on time. Surely, it's one way of keeping cash on hand. With more than six years
of vacancy decontrol, rent control can't be the major reason for this problem. It's likely that in small structures and in poor neighborhoods tenants simply can't pay more rent -- rent control is irrelevant.

We also hear that if there were no rent regulations there would be more construction in the City and more jobs. I've heard that before. In 1971 when the State vacancy decontrol law was signed we were told by the builders -- in fact they pledged -- that the relaxation of controls would bring immediate new plans to be followed soon by construction starts. About three years later, amid cries of rent gouging by tenants and various charges of unfair rental practices and no appreciable increase in construction -- when the decontrol proponents were asked where the new building was -- the answer was that zoning laws would have to be changed first. Now it's the zoning laws.

I will stop here to give you the chance to ask questions. We are sending you the report on the last Census survey of housing in New York, for your information and study.

My staff and I are available to discuss these issues in further detail if you wish.
I do want to add one final thought:

I truly hope that in your deliberations you will avoid oversimplification and what may seem at first to be "the easy answer" on this issue. When there is a widespread, repeated and demonstrated need for rent regulation it is a sign that something is severely wrong with the supply and cost of housing. Rent regulation may not be the perfect answer -- we haven't found that or a better answer yet. Let's then opt now for a responsible flexible rent program. Our only other choice now will lead to pain, suffering, upheavals and an exodus from the City of the very people we are trying to keep.
Mr. Garcia. The report for the record, that Mr. Lевenthal talked about, is entitled "The Housing Rental Situation in New York City, 1975."

At this particular point, I guess Mr. Kelly——

Mr. Kelly. Thank you, Mr. Chairman.

Since the bailout of New York in 1977 and 1978, the deterioration of the situation you have described has been abated. I mean it has been reversed, and everything is getting better.

Mr. Moses. I am sorry if that is the impression I gave you. I said the deterioration continues.

Mr. Kelly. Continues.

Mr. Moses. Continues unabated.

Mr. Kelly. There have been so many commendations and so many statements about how everything is all right in New York now, except for the fact that it is bankrupt. I thought maybe everything had gotten all right with this problem, but you say it persists.

Mr. Moses. No; I say it not only persists, but it gets worse. We are not proud of the fact owners are not able to pay their real estate tax, because I for one have paid my real estate taxes, and when I find my neighbors aren't paying theirs, it means that someone else will have to pick up the additional taxes.

Mr. Kelly. Who do you suppose represents more voting power, the landlords or the people that Ms. Benedict represents?

Mr. Moses. Ms. Benedict, she has us hands down there; 75 percent of the people in the City are renters.

Mr. Kelly. The temporary commission reported, it seems to me, that there had been $20 billion in subsidy taken by force from the property owners in New York and given to the people that rent their property.

Mr. Moses. That is correct.

Mr. Kelly. I don't see why you complain about that. I mean, it is true what they say about landlords, you are heartless. You don't want to give $20 million of your money to somebody else. Do you admit that?

Mr. Moses. To the extent we have given them the $20 billion, it would seem we are soft-hearted, but that was taken from us and not given by us.

We don't think the city of New York can long survive with this kind of subsidy being taken from the private sector.

Mr. Kelly. We seem to go from one absurdity to the other. I take it you believe in the free enterprise system—in the concept of private property. You are not a socialist.

Mr. Moses. Everything you said is true. I believe in private property and I am not a socialist.

Mr. Kelly. And you think you should be able to make a profit.

Mr. Moses. Yes; and run my buildings, and have my fellow property owners run their buildings, at a profit.

Mr. Kelly. You don't feel as a matter of right, someone that has made no investment, has no interest in the property at all, can move in one of the apartments, then he has a right not to be evicted.

Mr. Moses. He not only has the right to move in, but once he is there, he has the right to stay there.
Mr. Kelly. Is that a new concept in property ownership?

Mr. Moses. It is something we have going in New York City.

Mr. Kelly. Do you give him a deed when he comes in? How does he acquire the property interest in your building?

Mr. Moses. The New York City laws give him that instant right, as soon as he is accepted as a tenant and moves in.

Mr. Kelly. Then the fact that the Federal Government financed New York City to the point of $23 billion hasn’t caused them to make any changes with regard to rent control?

Mr. Moses. Congressman Kelly, they have not made any change, in fact it has become worse because last year, the State legislature extended the rent regulations that were imposed in 1974. They passed an extension of those laws for another 4 years. So we have no hope that either the State legislature having passed this 4-year extension, nor a mayor who himself lives in a rent-controlled apartment, that either the City or the State is going to do something to end controls. That is why we have come down here and are addressing ourselves to Congress.

Mr. Kelly. Let me ask you this: This photograph that you have displayed to the subcommittee, it shows that a building that was valued at about half a million dollars during a period of inflation depreciated in value?

Mr. Moses. That is correct.

Mr. Kelly. And it is destroyed now, abandoned. There are no taxes being paid on it, no one is able to live in it. It is a blight on the face of that city.

Mr. Moses. It is.

Mr. Kelly. But isn’t the true significance, what that building is a monument to, is the fact that the Government has stolen that property from the private ownership in the name of compassion.

Mr. Moses. Part of the $23 billion subsidy came out of that building.

Mr. Kelly. This is the skeleton, after they got the meat off of it. This is the bones.

Mr. Moses. That is correct. Commissioner Leventhal has said that no one would rent in that building or not even pay the MBR rents in that building, and he is correct, but what he is not saying is, not acknowledging, is the fact that rent controls turned that building around years ago, and it began its downward spiral to the point where the people who lived in it before would no longer live in it. They moved out, and new people would not want to pay any amount of rent after it became abandoned.

Mr. Kelly. Is this a unique situation or does that happen a lot in New York?

Mr. Moses. No; that happens often. There are some 300,000 apartments that have been abandoned like that over the last 10 years, not only in buildings that look this way; some are worse. I have the photographs if you would like to see them.

Mr. Kelly. You are an investor in private property yourself, aren’t you?

Mr. Moses. Yes.

Mr. Kelly. Do you think this would be calculated to encourage private investment to come to New York?
Mr. Moses. No. The owners of property in New York City try, in most cases, to find someone to sell them to, and to get out of the business. The problem is finding someone to sell them—sell the buildings to. Owners will not invest in building new apartment houses in New York City.

In 1963, they built something on the order of 60,000 apartment units in New York City, most of them privately financed and privately owned. In 1966 or 1967, the construction was down to about 5,000 units, and most of them were publicly subsidized.

Mr. Kelly. Have you heard of the Metropolitan Council on Housing?

Mr. Moses. Yes; I certainly have.

Mr. Kelly. They say the Metropolitan Council on Housing, is calling for housing in the public domain under tenant control, would direct allocation of funds—in other words, they are going to take taxpayers' moneys and buy buildings, and give them to the tenants; then the tenants can run them. That might be popular with the tenants, wouldn't you think?

Mr. Moses. The tenants would probably like it for a while.

Mr. Kelly. They say, this has to be a program unlike those that have been developed before, which takes the profit out of housing to be built in vast quantities.

Mr. Moses. I am familiar with that; yes.

Mr. Kelly. It would seem to me as though you are just shortsighted. If we can just get rid of you, we will have all kinds of housing. I am not sure it will come after the rain like the mushrooms, or would the taxpayers pay for it? I wonder how that will all come about. Do you know?

Mr. Moses. I briefly looked at the program. It calls for construction of 200,000 units in a year in New York City, which is going to be paid for out of the Federal or State or, perhaps, City coffers. I estimate that will run $10 billion a year. To have a program for the entire country which calls for some 50 million units a year which I estimate would cost $250 billion a year to implement, and I just don't subscribe to their program, and I don't think the rest of the country will either.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Linstead. Mr. Chairman, may I suggest that perhaps, as I understood the purpose of the forum, we might have a chance to comment on each other's answers. Would that be appropriate? I think there are a number of things we could talk about.

With respect to the real estate investment in New York, I think it is very useful to note that just less than a month ago, Real Estate Weekly, a major real estate newspaper in New York, published an editorial and said, despite—they didn't say this—despite the fact rent control is continuing, this past year has been a good one for the real estate industry. "There has been an upswing in the market, and we are all excited about a change for the better. The residential market is doing well. The demand for luxury apartment buildings remains unabated." These are owners talking, not the tenants.

Mr. Lundine. Without objection, that will be received.

Mr. Kelly. Was that on a percentage basis—
Mr. Lundine. Mr. Kelly, I have been trying to be patient on the
time. I will reclaim the time and allow the witness to go ahead. I
think you questioned for at least twice the standard 5 minutes.

Mr. Kelly. Mr. Chairman, I will be glad to be quiet, but I don’t
want to be lectured. Now, you make your ruling, and I will accept
that.

Mr. Lundine. I will——

Mr. Kelly. You can take your lecture somewhere else.

Mr. Lundine. We will get back to you. Your time has expired.

Mr. Leventhal. One or two other remarks, Mr. Chairman.

First of all, when Mr. Moses states in response to Mr. Kelly’s
question, the law has been extended, nothing is being done about it.
That is not quite so.

Governor Carey has commissioned a commission to study rent con-
control, and they will recommend changes which might be appropri-
ate, which is the way State and local government should be handled.

I am not here to tell you the system of rent control is perfect. I
think the one we have now is much better than the one we had be-
fore, and which forms the basis for the kind of statistics Mr. Moses
presented; even this one which is much better than the old one is not
perfect, but it is actively under discussion now. We haven’t had a
blanket extension of the law. I think that is terribly important to
keep in mind.

I think I might give Ms. Benedict as well a chance.

Mr. Lundine. Within the limits of the remaining time that I have
of 5 minutes, if there are matters that you feel you have not had an
opportunity to respond to, we would be happy to hear what you have
to say.

Ms. Benedict. Thank you sir. I will make a couple of brief com-
ments. First of all, I would like to request, since it is a formality, that
the statement I submitted be put in the record.

Mr. Lundine. They all were.

Ms. Benedict. Also the “Housing in the Public Domain,” which
I am delighted to see Mr. Kelly has an advance copy, because I
haven’t submitted that to the subcommittee, but I would like to sub-
mit that too.

Mr. Lundine. Without objection.

[The publication referred to by Ms. Benedict, “Housing in the
Public Domain” follows her prepared statement and may be found
on p. 368.]

Ms. Benedict. I also indicated I would submit copies of our news-
paper which I am also submitting for the record.

Mr. Lundine. That will likewise be entered in the record.

Ms. Benedict. A couple of comments, because I covered much of
what has been said in terms of abandonment.

It is not an act of rent control. It is a process of 20 years, or more
sometimes, sometimes less, but I am not going to repeat my com-
ments. There are areas of New York City where we can take any
visiting delegation who cares to come to show you what has happened
to housing, not because of rent control, but because the landlords
have allowed the thing to be milked over the years.

I reemphasize that.
The comments that have been made in terms of there are more tenants than landlords, this is always said. I say it is said by both sides. Everybody knows that a voting—an electorate is not a very solid voting bloc.

Not every tenant is clear about all the issues in a terribly complex picture. I wish I could tell you with all my heart, that tenants all voted together on certain issues.

It is not so.

On the comments of the rate of profit, and the rate of property to a building, I think one counterposes that housing today is not something that one can take at will.

It is necessary to have a roof over one's head and the right to human—the right of human beings to live in housing is a distinct obligation of government, it is certainly the obligation of any earnest and serious urban center and the administration of that center.

The "Housing in the Public Domain," a document which we consider a serious document, not a laughing matter, the possibility of housing within this society not being for profit, since profiteering landlords have not made in success, is a distinct possibility and a concept, if I may say, that is fast growing and far beyond the Metropolitan Council on Housing and far beyond New York City.

Those are the only comments I wish to make.

Mr. Langone. Thank you.

Mr. Garcia.

Mr. Garcia. I would like to make some brief remarks, if I may. I think Congressman Kelly was starting to touch on something that he sensed but I have known for many years. That picture is just one of many pictures that you will see in the South Bronx. If somebody would be kind enough to put that tax arrears sign up, I think I can speak with a great deal of experience about that particular picture.

I think I can speak with a great deal of experience about that particular location, because I happened to be born and raised there, and I have lived my entire 45 years within that circled black line.

One of the incomplete comparisons that comes out of all of this, frankly, is that this process started—and Ms. Benedict is absolutely correct—with the financial institutions of New York, deciding many years ago that this part of New York City was not going to have money made available to it, that the insurance rates in this area would be skyrocketing, and so that we today are faced with the situation that the South Bronx has become a national situation in terms of urban blight.

I would dare say, Mr. Moses, in terms of those properties, and in terms of that picture that you have there on Macombs Road—I don't know if that is Macombs Road, because I can't see it that clearly—I would like to find out how many owners have owned their buildings since the first day they were built and the first tenant moved in.

That is the first step. I would also like to find out the same figures for the building on the right-hand side and the building on the left-hand side in the picture.

It seems to me that one of the basic problems with rent control—because there are some pluses and minuses to rent control in terms of
the free dollar and the free market—is that those of us who have suffered from the very beginning because of rent control must find ourselves in the position—whether it is political or not political—whether there is a larger constituency in terms of the numbers of people who vote for us or don't vote for us as elected officials whether it should be our position of being morally committed to the fact that New York City should be for all of its citizens, and therefore have a commitment to men.

The real estate lobby and real estate people in New York must demonstrate they are willing to share with all of us, not just for all of those that live from 90th Street south, but all of us.

You should have brought a map showing the East Side of Manhattan and the West Side, as well as the Bronx, because that would be a complete comparison. Not an incomplete comparison, as you demonstrate here.

The fault is not the city of New York. We are now trying to bail ourselves out.

And I will tell you, Mr. Moses, the reason I accepted the assignment on this committee is to save the city of New York, in whatever way I can. To have you come and tell us that the major problem of the city of New York is rent control and leave some people on this subcommittee, who do not have the complete picture, with the impression that rent control is the reason why we are in this particular situation, I think is unfair. You can respond to that, Mr. Moses, if you would like.

But I just think that is unfair.

Mr. Moses, I would like to say that I am not intending to leave the impression that the only thing wrong with New York City is rent control.

What I am trying to state is, no matter what is done by Congress, New York City is not going to pull itself out of its present dilemma, unless something is done about rent control, and that the $2 billion in guarantees are not going to be enough, because the tax base is eroding.

I totally agree with you.

I deplore the fact that that is going on, in any part of New York City, or in any part of the country, but we are concerned with New York City.

I am interested in the survival of New York City, as you were. I too was born in New York City and so was my father and, and I would like to live and have my children be able to live in New York City. And I am not going to be able to do it if New York City goes into bankruptcy and goes through all the terrible chaos it is going through.

I don't want to see the spread of this kind of blight.

I will respond to you positively.

I will go and check the ownership of the Macombs Road building and buildings on either side of it. I myself ran a piece of property as an agent across the street from this, and I haven't in several years done that, but I drove past it looking at the building I ran, which is still not abandoned, and saw this across the street, and I was appalled, because that is a West Bronx property. That is not even an East Bronx piece of property.
I say to you, I would like to join with you and with Mr. Green and the other members of the New York City delegation in doing something to bring the private sector back in.

They are not coming back in, as long as you collectively, as government, whether here, in Albany, or New York City, as long as you keep slapping on successive rent control laws.

First one was World War II. That one Congress brought to us. They got out of it in 1950. The State said, anything you build from 1947 on will not be subject to rent control.

Then in 1969 we had rent stabilization imposed on the 375,000 units that had been built since 1947.

Mayor Lindsay said there will be no more rent control on apartments built after 1969, and that was great until we turned around and we found in 1971, Congress, the President, brought in more rent control, together with all kinds of other controls, and then that was done away with.

Then we had the State of New York saying, "Hey, we will control everything from 1969, all the way up to 1974. But anything built after that, isn't going to be subject to rent control." How many times can you do it to a private owner, builder, where you say, you aren't going to do it, then you turn around and do it.

We don't have faith in government and that is why I have said, if the Congress in its determination to give a 15-year guarantee were to write into that, that as a part of that guarantee, rent control must be phased out, and no new rent control of any kind will be put onto the private sector, then you can say to the private sector, OK, fellas, now we have given you what you have been asking for all of these years, now put it to work, get things going.

Then we will be in a position to do that, not until then.

I will work every way I can with you, Congressman, to help rebuild New York City.

Mr. Garcia. One further question? OK?

Mr. Lundine. No further questions.

Mr. Moses. As a part of that statement I would like to put in the record the report by the city's own Temporary Commission on City Finances.

Mr. Lundine. Without objection, it will be entered into the record.

[Text resumes on p. 473.]

[The report referred to by Mr. Moses, "The Effects of Rent Control and Rent Stabilization in New York City," by the Temporary Commission on City Finances, follows:]
THE EFFECTS OF RENT CONTROL
AND RENT STABILIZATION
IN NEW YORK CITY

Fifteenth Interim Report to the Mayor
by the
TEMPORARY COMMISSION
ON CITY FINANCES
Other reports of the Temporary Commission on City Finances:


STATE ASSUMPTION OF COURT, PROBATION, AND CORRECTION SERVICES IN NEW YORK, January 1976.

SYNCHRONIZING STATE AND FEDERAL AID TO NEW YORK CITY, January 1976.

FINANCING MASS TRANSIT IN NEW YORK CITY, March 1976.


AN HISTORICAL AND COMPARATIVE ANALYSIS OF EXPENDITURES IN THE CITY OF NEW YORK, October 1976.

THE EFFECTS OF TAXATION ON MANUFACTURING IN NEW YORK CITY, December 1976.


THE EFFECTS OF PERSONAL TAXES IN NEW YORK CITY: SOME PROPOSALS FOR A MORE RATIONAL SYSTEM, February 1977.

PUBLIC ASSISTANCE PROGRAMS IN NEW YORK CITY: SOME PROPOSALS FOR REFORM, February 1977.


THE ROLE OF INTERGOVERNMENTAL FISCAL RELATIONS IN NEW YORK CITY, May 1977.

Author of this report:

Frank S. Kristof
Vice-President, Planning and Program Development,
New York State Urban Development Corporation

The views expressed by Dr. Kristof in this report are his own and in no way represent views of the Urban Development Corporation.
CONTENTS

Summary .......................................................................................... 1

Section I: Historical Perspective on Housing Policies in New York City .............................................................. 4
A. The Introduction of Rent Control ............................................. 4
B. Rent Control and Politics: 1955-1969 ..................................... 4
C. The Economic and Statutory Basis of Rent Control ............. 7
D. Rent Control and Demographic Trends ............................... 10
E. Rent Stabilization in 1969 ....................................................... 12
F. Maximum Base Rent in 1970 .................................................. 12
G. Vacancy Decontrol in 1971 ..................................................... 13

Section II: Rent Control and Rent Stabilization in 1977 .......... 14
A. Summary of the Current Rental Market ............................... 14
B. The Impact of the City's Changing Economic and Demographic Structure Upon the Rental Housing Market ................................................................................................. 14
C. Housing Deterioration ............................................................ 15
D. Housing Abandonment ......................................................... 15
E. The Effects of Rent Control on Population Migration ........ 19
F. The Ability to Pay for Housing .............................................. 20

Section III: Costs and Benefits of Rent Control and Rent Stabilization .............................................................. 24
A. Rent Control, Property Valuations, and Real Estate Taxes ...................................................................................... 24
B. Rent Control: Costs and Benefits of a $20 Million Subsidy ...................................................................................... 25

Section IV: Conclusions and Recommendations .................. 28
A. Conclusions ........................................................................... 28
B. Recommendations ................................................................. 30

Appendix A: New York City's Housing Shortage ....................... 40
Appendix B: Tables B-1 to B-8 ..................................................... 45
### TABLES

**Table I:** Selected Characteristics of Primary Families and Individuals in Renter-Occupied Units by Income Category and Control Status, New York City: 1968

**Table II:** Changes of the White, Nonwhite, and Puerto Rican Population, New York City: 1940-1970

**Table III:** Components of Inventory Change with an Estimate of Housing Units Lost Through Abandonment as a Residual, New York City: 1960-1970

**Table IV:** Components of Inventory Change with an Estimate of Units Lost Through Abandonment as a Residual, New York City: 1970-1975

**Table V:** Percentage of Renter-Occupied Households by Indicators of Quality of Housing Maintenance

**Table VI:** Median Gross Rent for New York City and Five Major Rental Cities: 1950, 1960, 1970

**Table VII:** Income, Rent, and Rent/Income Ratios, New York City: 1960-1975

**Table VIII:** Renter-Occupied Housing Units, Rent as a Percentage of Gross Income by Control Status Category, New York City: 1975

**Table IX:** Condition and Plumbing Facilities by Tenure, New York City: 1975

**Table X:** Increase in Estimated Rental Income to Owners and in Real Estate Taxes to the City from Recommended Phase Out of Rent Control and Rent Stabilization in New York City Over First Five Years
Summary

The Fifteenth Interim Report of the Temporary Commission on City Finances addresses a subject of critical importance to New York City, that is, the future of rent control and rent stabilization. Recently, the State Legislature approved a four-year extension of the Emergency Tenant Protection Act, which, in effect, authorizes the continuance of a widespread rent stabilization program in New York City. This action had strong political support, but is inconsistent with New York City's attempt to solve its financial and housing problems.

More than 500,000 residential units in New York City are subject to rent control; another 900,000 units are subject to rent stabilization. With the exception of one- and two-family rental units and post-1947 rental structures having less than six units, virtually all unsubsidized housing in New York City is regulated by rent control or rent stabilization.

Rent control and rent stabilization reflect a succession of trade-offs made among political, economic, and social variables, the inevitable consequences of which public officials fail to perceive. Calculation of the costs versus the benefits of these policies, with regard to the city's housing, finances, and economy, clearly demonstrates the net adverse effect of rent control and rent stabilization.

The effect, if not the purpose, of rent control and rent stabilization is the subsidization of renters by owners. Cumulatively, this subsidy has exceeded $20 billion. Wholly aside from the question of fairness involved in a government-imposed requirement that one segment of the private sector subsidize another, there is no doubt that the imposition of controls on rent increases, without similar imposition of controls on the expenses incurred in the operation of apartment buildings, has caused and continues to contribute markedly to the deterioration of New York City's housing stock. Rent control and rent stabilization have already facilitated the destruction, beyond repair, of a significant portion of the housing inventory in New York City, and until rents are permitted to reflect the true costs of operating urban housing, the premature decay of rental structures will persist.

Continuance of rent control and rent stabilization as permanent features of the New York City real estate market has also meant: 1.) a loss of investment for countless New Yorkers whose savings went into producing the city's housing stock; 2.) the destruction of the concept of owner-management; 3.) the withdrawal of mortgage finance institutions from most of the rental market and 4.) the avoidance of new construction by responsible investors.

Moreover, rent control and rent stabilization programs have a severe, adverse impact on the finances of the City of New York. By depressing property tax assessments and promoting real estate tax delinquency and the abandonment of rental properties, rent control and rent stabilization diminish receipts from the single most important source of City revenues, the real property tax. This report concludes
that elimination of rent control and rent stabilization, as recommended, would increase real property tax receipts by $100 million or more annually. Maintaining, and perhaps even reducing, real property taxes in order to stimulate economic development is highly desirable. The prospect of this happening would be greatly increased by eliminating rent control and rent stabilization and, thereby, expanding the real property tax base.

Precisely because the elimination of rent control and rent stabilization programs is so long overdue, the attendant political problem has been exacerbated and it is hardly likely that many New Yorkers will readily accept the conclusion that it is in their best interests to rescind laws that have artificially maintained the cost of rental housing at below market levels. Nonetheless, with due consideration to the human problems involved in the elimination of a major subsidy program that has been in effect for 33 years, the Temporary Commission on City Finances has concluded that it is in the best interests of the City, as a whole, that rent control and rent stabilization be phased out.

The Temporary Commission on City Finances, therefore, recommends the simultaneous implementation of the following:

(1) The State Legislature should repeal the recently enacted extension of the Emergency Tenant Protection Act.

(2) The administration of rent control should be removed from the City of New York where it is inadequate and has become subject to local political influences.

(3) A State Rent Stabilization Board should be created to plan and administer the phasing out of rent control and rent stabilization.

(4) All rent-controlled and rent-stabilized housing under the jurisdiction of the State Rent Stabilization Board should be made subject to lease renewal increases based on Bureau of Labor Statistics cost data with an additional 1.5 percent increase to establish a fair return on equity over a reasonable period of time. Hardship increase rules under rent stabilization should be redesigned to permit a fair return under all circumstances.

(5) Automatic decontrol should be applied to all rent-controlled and rent-stabilized units voluntarily vacated or vacated through legal eviction proceedings.

(6) Implementation of a needs criteria test should be applied to all rent-controlled units whose occupants have annual gross family income in excess of $20,000.

(7) In order to facilitate apartment ownership the Goodman-Dearie Law, which requires 35 percent tenant approval for conversion of rental housing to cooperative or condominium status even if conversion will not be accompanied by the eviction of nonpurchasers, should be allowed to expire on June 30, 1977. Nonpurchasers, upon conversion, would be then gov-
armed by State rent control and rent stabilization laws, and have 2 years to find alternative housing.

(8) Government at every level should encourage the conversion of conventionally financed housing to forms of apartment ownership because apartment owners invest in capital improvements in their own apartments and cause the upgrading of building plant, service and management. Furthermore, the spread of apartment ownership reduces landlord-tenant strife and the spill-over effects into the political process, and involves the assumption by apartment dwellers of responsibility for the preservation and improvement of their housing stock.
<table>
<thead>
<tr>
<th>Income Category and Control Status</th>
<th>Number of Households</th>
<th>Median Gross Rent</th>
<th>Gross Rent as a Percentage of Income</th>
<th>Median Number of Rooms</th>
<th>Median Persons per Room</th>
<th>Percentage of Units Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Renter Households*</td>
<td>1,878,506</td>
<td>$100</td>
<td>21%</td>
<td>3.6</td>
<td>.63</td>
<td>95%</td>
</tr>
<tr>
<td>Controlled</td>
<td>1,266,829</td>
<td>88</td>
<td>21</td>
<td>3.6</td>
<td>.58</td>
<td>93</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>611,677</td>
<td>147</td>
<td>22</td>
<td>3.6</td>
<td>.64</td>
<td>98</td>
</tr>
<tr>
<td>Less than $3,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>281,235</td>
<td>75</td>
<td>35+</td>
<td>3.3</td>
<td>.44</td>
<td>90</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>49,546</td>
<td>107</td>
<td>35+</td>
<td>3.0</td>
<td>.48</td>
<td>94</td>
</tr>
<tr>
<td>$3,000-$3,999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>148,219</td>
<td>82</td>
<td>27</td>
<td>3.7</td>
<td>.56</td>
<td>88</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>31,196</td>
<td>113</td>
<td>35+</td>
<td>3.3</td>
<td>.62</td>
<td>97</td>
</tr>
<tr>
<td>$4,000-$5,999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>285,037</td>
<td>85</td>
<td>22</td>
<td>3.6</td>
<td>.61</td>
<td>91</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>91,140</td>
<td>123</td>
<td>28</td>
<td>3.5</td>
<td>.64</td>
<td>96</td>
</tr>
<tr>
<td>$6,000-$7,999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>219,161</td>
<td>92</td>
<td>17</td>
<td>3.5</td>
<td>.64</td>
<td>98</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>103,373</td>
<td>138</td>
<td>25</td>
<td>3.7</td>
<td>.64</td>
<td>94</td>
</tr>
<tr>
<td>$8,000-$9,999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>139,086</td>
<td>96</td>
<td>12</td>
<td>3.8</td>
<td>.67</td>
<td>96</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>92,363</td>
<td>147</td>
<td>21</td>
<td>3.6</td>
<td>.67</td>
<td>99</td>
</tr>
<tr>
<td>$10,000-$14,999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>135,550</td>
<td>108</td>
<td>10</td>
<td>3.8</td>
<td>.66</td>
<td>97</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>149,249</td>
<td>163</td>
<td>17</td>
<td>3.7</td>
<td>.68</td>
<td>99</td>
</tr>
<tr>
<td>$15,000+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>59,541</td>
<td>150</td>
<td>8</td>
<td>3.9</td>
<td>.59</td>
<td>99</td>
</tr>
<tr>
<td>Not Controlled</td>
<td>94,810</td>
<td>250+</td>
<td>12</td>
<td>3.9</td>
<td>.60</td>
<td>99</td>
</tr>
</tbody>
</table>

*Excludes single-room-occupancy (rooming house) type of units and public housing.

A consequence of this situation is that the city's renters have been divided into two classes—the "haves" and the "have-nots." The "haves" are families who retained occupancy of their controlled apartments or who were lucky enough to acquire one. The "have-nots" are the low- or moderate-income families who, unable to acquire controlled apartments, had to rent uncontrolled apartments at a median rent approaching twice (1.67 times) that for controlled apartments.

Neither the need for space nor the ability to pay for housing has had any part in determining who would be fortunate enough to acquire (or retain) a controlled apartment. The ludicrous results that follow are summarized below in an extract from Table I that compares the rent control experience of a high-income and a low-income group in 1968:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rent Controlled Occupancy</th>
<th>Uncontrolled Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Households</td>
<td>$10,000-$14,999</td>
<td>$4,000-$5,999</td>
</tr>
<tr>
<td>Median Monthly Gross Rent</td>
<td>$108</td>
<td>$123</td>
</tr>
<tr>
<td>Gross Rent as a Percentage</td>
<td>10%</td>
<td>28%</td>
</tr>
<tr>
<td>of Income (Median)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In short, because of the accident of rent control status granted to the renters of the City of New York by its local legislators to protect them from "exactions of unjust, unreasonable and oppressive rents...and to forestall profiteering, speculation and other disruptive practices," we find that this protection effectively has been provided to a large number of families with high incomes while a major segment of the poor, who do not enjoy this protection, pay high rents and excessive rent-income ratios that in fact contribute to the support of protected high-income families through the taxes embodied in their higher rent.

Given the foretold illustration, it becomes clear why the political backbone of rent control comprises not only low- and modest-income families who need its protection, but also the city's politically potent affluent classes, who, on this issue, ignore political affiliation. Had the reformers of rent control ever succeeded in establishing a needs test as a qualification for rent control protection such as the 25 percent rent-income ratio mandated for Federally-assisted housing, its middle-class political support largely would have eroded and a dismantling of the system would have become infinitely easier.

C. The Economic and Statutory Basis of Rent Control

The extension of wartime rent controls in New York State essentially was regarded as a temporary measure. For this reason, a vacancy rate of 5 percent was established in the legislation as the criterion of the restoration of a normal supply.
demand relationship in the housing market. Anything short of a 5 percent vacancy rate would be prima facie evidence of a continued "housing shortage." Given the limited experience with this type of legislation, few persons, except a handful of theoretical economists, raised questions about such a determination. In short, the basis for the establishment of rent control in 1930, and its ultimate perpetuation in New York City, was the "desperate housing shortage." The claim of a housing shortage, in New York City particularly, has been both politically and statutorily sustained by the persistent and abnormally low vacancy rate experienced in the city since the end of World War II even while other major rental cities, whose wartime controls were ended, realized substantial increases in vacancies since 1950.6

A fundamental defect of the vacancy rate as a measure of housing shortage is the linkage between the price of and the demand for housing. This point was made in the City Rent Agency's official report in 1964: "Although its influence is not readily separated from other factors, the relatively low supply price for controlled units has increased the demand for rental housing in New York City."7 It is a basic economic fact that any time the price of a commodity artificially is depressed below its market price, the demand for that commodity will increase. The demand for rental housing is not exempt from this principle. The fact that the median gross rent of uncontrolled apartments in 1960 was 54 percent higher than that of controlled units largely explains the persistence of a low vacancy rate and a tight housing market in New York City at a time when vacancies had become plentiful in major rental cities without controls.8

This point is illustrated clearly in the extended discussion in Appendix A which demonstrates that the city's rental housing supply was in no significant way different from other major rental cities in terms of the amount of available housing relative to the population served. Furthermore, the intensity of use of the occupied housing space since 1950 has been little different for rent-controlled New York City than for uncontrolled renters in other major rental cities. Finally, the term "housing shortage" and the city's low vacancy rate since 1950 become hollow and misleading terms in the face of the abandonment by owners of some 200,000 housing units over the past 15 years, partially a consequence of the City's rental housing policies.

As far back as 1946, economists Milton Friedman and George J. Stigler made the following penetrating and prescient observations on the subject of rent control:

The present housing shortage appears so acute, in the light of the moderate increase in population and the actual increase in housing facilities since 1940, that most people are at a loss for a general explanation . . .

Actually, the supply of housing has about kept pace with the growth of civilian non-farm population, as the following estimates based on government data show:
<table>
<thead>
<tr>
<th>Date</th>
<th>Occupied Dwelling Units</th>
<th>Civilian Population</th>
<th>Persons per Occupied Dwelling Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 1940</td>
<td>27.9 million</td>
<td>101 million</td>
<td>3.6</td>
</tr>
<tr>
<td>June 30, 1944</td>
<td>30.6 million</td>
<td>101 million</td>
<td>3.3</td>
</tr>
<tr>
<td>End of Demobilization</td>
<td>More than</td>
<td>About</td>
<td>Less than</td>
</tr>
<tr>
<td>(Spring, 1946)</td>
<td>31.3 million</td>
<td>111 million</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Certain areas will be more crowded in a physical sense than in 1940, and others less crowded, but the broad fact stands out that the number of people to be housed and the number of families have increased by about 10 percent, and the number of dwelling units has also increased by about 10 percent.

Two facts explain why the housing shortage seems so much more desperate now than in 1940, even though the amount of housing per person or family is about the same.

The first fact is that aggregate money income of the American public has doubled since 1940, so that the average family could afford larger and better living quarters even if rents had risen substantially.

The second fact is that rents have risen very little. They rose by less than 4 percent from June 1940 to September 1945, while all other items in the cost of living rose by 33 percent.

Thus, both the price structure and the increase in income encourage the average family to secure better living quarters than before the war. The very success of OPA in regulating rents has therefore contributed greatly to the demand for housing and hence to the shortage, for housing is cheap relative to other things.

Unless, then, we are lucky (a revolutionary reduction in the cost of building apartments and houses), or unlucky (a violent deflation), or especially unwise (the use of subsidies), the 'housing shortage' will remain as long as rents are held down by legal controls. As long as the shortage created by rent ceilings remains, there will be a clamor for continued rent controls. This is perhaps the strongest indictment of ceilings in rents. They, and the accompanying shortage of dwellings to rent, perpetuate themselves, and the progeny are even less attractive than the parents.
D. Rent Control and Demographic Trends

A number of disparate factors operative during the 1960s combined to create a crisis in the rent-controlled housing inventory in 1969. Aside from the political necessity of maintaining rent control, the City's administrations had pursued vigorous programs of publicly-assisted low- and middle-income housing construction which, during the late 1960s, had begun to have a perceptible effect upon the city's housing situation in conjunction with the demographic trends of the post-war period (Appendix B, Table B-8).

There were adverse demographic trends, notably an exodus of predominantly white middle-class families from the city and, within the city, to its outer rings. During the decade of the 1960s the city experienced a net loss of 1.2 million white persons; an additional 825,000 white persons were lost by out-migration during the 1960s. These losses were offset only by the combined effect of black and Hispanic in-migration and the high birth rate among these groups (Table II).

The enormous exchange of minority populations for white accelerated the racial changeover of many of the city's neighborhoods, particularly in the boroughs of the Bronx and Brooklyn. Thus the normal pull of the suburbs for middle-class white families was accentuated by the push on white families created by prejudices and fears of new neighborhood conditions with which they did not know how to cope. The problem was both social and economic since the existing population in changing neighborhoods found the mores and behavior patterns of many of the incoming lower-income minority families alien and threatening.

Both the conventionally-financed as well as the subsidized middle-income housing programs carried out in the city contributed to the reshuffling of white and minority residential patterns. Public housing, both the new and the old, increasingly became tenanted by black and Hispanic minorities at the same time as subsidized middle-income and privately-financed full-taxpaying housing was tenanted predominantly by white middle-class families, most of them fleeing older changing neighborhoods. Public policy efforts to avoid these results only temporarily retarded these developing patterns.

As fast as white families evacuated older rent-controlled neighborhoods they were replaced by minority families, almost invariably of lower incomes than their predecessors. By 1969, a new phenomenon in the city became clearly observable. This was the widespread abandonment of apartment structures in racially changing neighborhoods. Estimates at that time indicated that, between 1965 and 1968, 100,000 rental apartments in the city's changing neighborhoods had been lost through abandonment. This stunning discovery, revealed by periodic census housing surveys required under the City's rent law, led to cumulative pressures for a re-examination of the entire rent control system.
<table>
<thead>
<tr>
<th>Item</th>
<th>Total</th>
<th>White</th>
<th></th>
<th>Nonwhite</th>
<th></th>
<th>Puerto Rican</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Natural Increase</td>
<td>Net Migration</td>
<td>Total</td>
<td>Natural Increase</td>
<td>Net Migration</td>
</tr>
<tr>
<td>Population, 1970</td>
<td>7,892</td>
<td>5,350</td>
<td>1,733</td>
<td>1,733</td>
<td>812</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change, 1960-70</td>
<td>113</td>
<td>-703</td>
<td>122</td>
<td>-825</td>
<td>617</td>
<td>257</td>
<td>359</td>
</tr>
<tr>
<td>Population, 1960</td>
<td>7,782</td>
<td>6,053</td>
<td>1,116</td>
<td>1,116</td>
<td>613</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population, 1950</td>
<td>7,892</td>
<td>6,890</td>
<td>736</td>
<td></td>
<td>246</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change, 1940-50</td>
<td>437</td>
<td>-17</td>
<td>472</td>
<td>-489</td>
<td>285</td>
<td>68</td>
<td>217</td>
</tr>
<tr>
<td>Population, 1940</td>
<td>7,455</td>
<td>6,907</td>
<td>471</td>
<td></td>
<td>77</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

E. Rent Stabilization in 1969

One outcome of the changing residential patterns was that market pressures of the white middle-class population upon the new high-rent housing in the city created sharply rising rents, violent complaints, and a political reaction that in 1969 led to new municipally imposed controls over all post-1947 rental construction previously free of controls.11 This was regarded by rental property owners and their mortgage lenders as a shabby betrayal of trust and led to virtual cessation of private new rental construction until, three years later, the city again lured some investors into the market with a ten-year modified tax exemption program for new conventionally-financed rental housing.12 The new controls placed upon post-1947 residential construction were not as onerous as was the City's rent control system. Termed rent stabilization, it is an industry-policed system that provides for voluntary self-regulation of the formerly free-market buildings through a Rent Guidelines Board, an industry-run Rent Stabilization Association which was required to provide a code for the stabilization of rents and a Conciliation and Appeals Board designed to handle landlord-tenant complaints.

The nine-member Rent Guidelines Board is appointed by the Mayor. Its function is to establish, once a year, a guideline for rent increases for renewal leases or for new tenants in stabilized buildings. The Rent Guidelines Board enlisted the assistance of the Bureau of Labor Statistics to provide the Board with an annual index of changes in costs of operating the city's stabilized structures; this became the basis for establishing the amount of permissible rent increases for new leases. For this reason rent stabilization has been reasonably successful in maintaining the ability of owners of stabilized buildings to keep rents up with increases in operating costs. The single exception was the 1973-1974 oil price jump. Because of the existence of two- and three- (as well as one-) year leases, it took two years before families with two-year leases received a catch-up rent increase while families who entered into three-year leases between July 1, 1973 and June 30, 1974 totally escaped any increase in rent caused by the oil embargo by the time their leases came up for renewal in 1976-1977.

On balance, however, the principle of regular increases in rents upon lease expiration was established and, on the average, rents in stabilized buildings have increased between 4 and 5 percent annually.

F. Maximum Base Rent in 1970

On the other side, cumulative evidence of deterioration, disinvestment, and abandonment in the controlled housing inventory in 1970 led to the first major reform of rent control since 1950. New local legislation created a "maximum base rent (MBR)" which represents an approximation of the rent required to operate controlled buildings under current costs including an 8 percent return on equalized assessed value. The MBR is required to be adjusted bi-annually. Rents are permitted to rise by 7½ percent annually until the MBR is reached. When apartments are
vacated, the next renter could be charged the full MBR then prevailing, irrespective of the percentage increase it represented over the previous rent. Though conceptually sound, the program worked poorly because of administrative complexity.

The maximum base rent (MBR) law was designed to be a computerized system. The input data forms proved far too complex to be completed accurately by most owners, while the short time allowed to collect and “clean up” the data overwhelmed an inadequate staff. The whole system finally collapsed and reverted to a hand-tooled operation that never met its statutory time deadlines. More important, a last-minute City Council amendment of the law destroyed its usefulness to building owners who most needed its benefits. This arose from the provision that denied rent increases to owners who could not certify that their buildings either were free of building code violations or that such violations were being removed. An estimated 30 percent of the controlled inventory never obtained MBR rent increases because owners were unable or unwilling to make the expenditures required to remove violations.41

G. Vacancy Decontrol in 1971

In 1971, the State intervened in New York City’s housing situation by legislating a Vacancy Decontrol Law which permitted all apartments, stabilized or controlled, that were voluntarily vacated by tenants to be rented at a free market rent. This law became effective on July 1, 1971 and survived only until July 1, 1974 when, after a bitter political struggle, it was replaced by new state legislation that terminated the concept of vacancy decontrol for stabilized properties but retained the substance of the concept for rent-controlled properties except that, after a negotiated market rent was agreed upon for a vacated unit, it thereafter came under the rent stabilization system.41
Section II
Rent Control and Rent Stabilization in 1977

A. Summary of the Current Rental Market

With the exception of 90 percent of one- or two-family rental units and all post-1947 rental units in less than six-unit structures, virtually all unsubsidized rental housing today is under rent control or rent stabilization. Most of the pre-1947 structures contain both stabilized and controlled units, and thus are subject to two separate administrative entities. Rents under both systems now move up regularly—at least 7½ percent annually for qualified rent-controlled units (to the extent that the market permits) and about 5 percent annually for post-1947 stabilized buildings. The difference is less than it appears since stabilized structures were much nearer market rents at the time they were initially placed under controls in 1969 than are their rent-controlled counterparts. On the other hand, more controlled units each year approach their market price through vacancy turnover. In 1975, about one-half (642,000) of the city’s 1,265,000 rent-controlled housing inventory of 1970 remained under rent control (Appendix B, Table B-1). As of January 1977, it is estimated that about 500,000 units remain under the rent control while the number of units under rent stabilization number some 900,000 units.

Although the maximum base rent system and vacancy decontrol have led to the sharpest increases in rents since the end of World War II, the disruption of the rental housing market caused by the twists and turns of rent legislation has had devastating effects. Except for savings and loan institutions, which have only limited alternatives such as one- and two-family owner-occupied houses, the financial community has largely abandoned both the financing of new rental housing and the refinancing of existing rental housing in New York City. However, financing for cooperative and super-luxury rental apartments is still generally available.

B. The Impact of the City’s Changing Economic and Demographic Structure Upon the Rental Housing Market

Coupled with the disastrous economic effects of the 1974-1975 recession, which for New York City began as far back as 1971, both economic and demographic trends have turned sharply negative for the rental housing industry.

For the first time in its history, between 1970 and 1975 the city lost both population and households. The decrease in population numbered 413,000 persons and there were 72,000 fewer households in 1975 than in 1970. After taking into account natural increase in population, the foregoing figures mean that net population out-migration (predominantly white) numbered nearly 600,000 persons. These outflows equal or exceed the city’s out-migration of the 1950s and 1960s.
During the years 1970-1975, the city also lost 500,000 jobs, more than wiping out the gain accumulated over the years 1950-1970. On the housing side, losses through abandonment numbered approximately 200,000 (mostly rental) housing units in the ten years 1965-1975 (Tables III and IV). And finally, for six perilous months during 1975-1976 the City skirted the road of fiscal bankruptcy.

What do these events foretell for the future of rental housing in New York City? The answer is necessarily a complex one and can more efficiently be addressed by examining a number of individual components.

C. Housing Deterioration

The City's 1975 housing and rental survey for the first time permitted a glimpse of the extent of deterioration in rent-controlled apartments compared with decontrolled apartments of similar age groups. The data in Table V show that in every maintenance category except one (rodent infestation) the proportion of deficiencies in the controlled sector exceed those in the uncontrolled sector up to 100 percent or more. The deficiencies in the decontrolled sector, meanwhile, are reasonably comparable to those for rental housing in all central cities of the Northeast Region.

D. Housing Abandonment

The city's rising tide of rental housing abandonment over the past ten years has focussed attention upon rent control as a contributory factor. There is little dispute about the contribution of rent control in accelerating under-maintenance, with its consequent deterioration and disinvestment in rental housing, as well as influencing the withdrawal of institutional investment from this sector.

It is clear, however, that the problem of abandonment extends beyond the influence of rent control; it is signalled by the collapse of demand to the point where tenants are unable or unwilling to pay even the prevailing controlled rents for housing in deteriorated neighborhoods. This is indicated by the fact that abandonment is a nationwide phenomenon of older (and some newer) cities, small as well as large and virtually all of which are not affected by rent control. It would be difficult to assert that much of the abandonment now occurring would not have occurred in the absence of rent control. It is equally certain that rent control has created the pre-conditions for abandonment that do not exist in other areas.

When examined in this context, we are pushed toward a conclusion that the cause of abandonment must be traced to the complex of economic, demographic, and social factors affecting cities across the nation that led to a weakening and collapse of the market for older rental housing. The maturation of the automobile age caused unprecedented scattering of people. Decentralized industry in efficient single-story plants designed to accommodate the automobile taps widely dispersed labor market areas. The loss of population and jobs from obsolete and noncompeti-
### TABLE III

Components of Inventory Change with an Estimate of Housing Units Lost Through Abandonment as a Residual, New York City: 1960-1970

(in thousands of units)

<table>
<thead>
<tr>
<th>Description</th>
<th>1960 Census</th>
<th>1970 Census</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Units Completed</td>
<td>369</td>
<td></td>
</tr>
<tr>
<td>Units Added Through Conversions</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Total Additions</td>
<td>410</td>
<td></td>
</tr>
<tr>
<td>Losses: Demolitions</td>
<td>-160</td>
<td></td>
</tr>
<tr>
<td>Mergers</td>
<td>-14</td>
<td></td>
</tr>
<tr>
<td>Total Losses</td>
<td>-174</td>
<td></td>
</tr>
<tr>
<td>Balance, 1970</td>
<td>2,995</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>1970 Census</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Housing Units</td>
<td>2,918</td>
</tr>
<tr>
<td>Missing—Presumably Vacant, Abandoned, and Not Recorded as Part of Housing Stock</td>
<td>77</td>
</tr>
<tr>
<td>Estimated Number of Abandoned Units</td>
<td>20</td>
</tr>
<tr>
<td>Included in Demolitions Figure Above</td>
<td></td>
</tr>
<tr>
<td>Estimated Number of Units Abandoned, 1960-70</td>
<td>97</td>
</tr>
</tbody>
</table>

Source:  
1 The City of New York, Department of City Planning.  
2 Building Department records indicate that 110,000 units were demolished during the decade; an estimated 50,000 units in demolished Class B multi-family buildings (for which unit counts are not recorded) have been added to this total.  
3 It is estimated that about 90 percent of this abandonment occurred in the years 1965-1970.
### TABLE IV

Components of Inventory Change with an Estimate of Housing Units Lost Through Abandonment as a Residual, New York City: 1970-1975

(in thousands of units)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Housing Units, 1970 Census</td>
<td>2,918</td>
</tr>
<tr>
<td>New Units Completed¹</td>
<td>97</td>
</tr>
<tr>
<td>Units Added Through Conversion¹</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total Additions</strong></td>
<td>109</td>
</tr>
<tr>
<td>Losses: Demolitions²</td>
<td>66</td>
</tr>
<tr>
<td>Mergers³</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Losses</strong></td>
<td>72</td>
</tr>
<tr>
<td>Balance, 1975</td>
<td>2,955</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Housing Units, 1975²</td>
<td>2,884</td>
</tr>
<tr>
<td>Missing—Presumably Vacant, Abandoned, and Not Recorded as Part of Housing Stock</td>
<td>71</td>
</tr>
<tr>
<td>Estimated Number of Abandoned Units Included in Demolitions Figure Above</td>
<td>33</td>
</tr>
<tr>
<td>Estimated Number of Units Abandoned Since 1970</td>
<td>104</td>
</tr>
</tbody>
</table>

Source:

¹Data for 1970-1974, from The City of New York, Department of City Planning.

²Building Department records indicate that 56,000 units were demolished; an estimated 10,000 units in demolished Class B multi-family buildings and hotels have been added to this total.

<table>
<thead>
<tr>
<th>Item</th>
<th>New York City</th>
<th>Central Cities Northeast Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dilapidated or Lacking Plumbing Facilities</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Breakdown of Toilet</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Breakdown in Heating System</td>
<td>34</td>
<td>13</td>
</tr>
<tr>
<td>Broken Plaster, Peeling Paint</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Holes in Walls, Ceiling</td>
<td>30</td>
<td>16</td>
</tr>
<tr>
<td>Holes in Floor</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Rodent Infestation</td>
<td>28</td>
<td>31</td>
</tr>
</tbody>
</table>

tive residential and industrial facilities in cities inevitably follows. All other things being equal, with or without the existence of rent control, it is likely that the middle-class migration from cities to suburbs has been part of demographic and economic trends that were unlikely to be appreciably affected by public policy.

E. The Effects of Rent Control on Population Migration

It is a matter of speculation whether New York City's out-migration would have been hastened or slowed by a phasing out of rent control in the immediate post-war period. Much would have depended upon the extent to which the rapid immigration of rural black and Hispanic persons would have been slowed in the face of a major jump in rents in the early 1950s. Certainly there might have been substantial dislocation of families lodged in bargain housing they never could have afforded in the absence of rent control. On the other hand, such displacement would not necessarily have driven these families out of the city. They would have had to face up to the prospect of paying the market price for their housing or to move to housing in locations that they more readily could afford. Clothing the market discipline that families must occupy the housing they can afford with terms such as "speculative, unwarranted and abnormal" increases in rents (as defined by whom?) only results in distortions of the market whereby families in controlled housing frequently pay a fraction of the rent paid by higher-income families, but often do so for poorer housing—a common result of rent control. The ethics of such a set of conditions has not yet been explained by rent control adherents. As much as a 50 percent rent increase for a family at the city's median rent-income ratio of 19 percent in 1950 would have increased its rent-income ratio to 28.5 percent which, although financially inconvenient, would not necessarily have resulted in unbearable budgetary hardship. It may be noted that young families who bought new homes in the suburbs at that time frequently undertook housing expense-to-income ratios of 30 percent or more.

On the other hand, the likelihood is that the rate of minority in-migration would have been slowed somewhat in the face of sharply rising rents while out-migration might have accelerated, with a result that the pressure on the existing housing stock would have been relieved. This eventually would have resulted in a stabilization of rents at a level about one-third higher than that of controlled rents as indicated in Table VI which shows that the difference in the average increase in median rents for the five other major rental cities compared with New York City for the period 1950-1960 was 31 percentage points (71 versus 40 percent). This is further supported by the observed differences between median controlled and de-controlled rents in the years 1960 to 1975 (Appendix B, Table B-2) which ranged between 24 and 44 percent.

On the other hand, a compensating factor might have been the more vigorous exploitation of the Federal Housing Administration's (FHA) Section 608 insured rental housing program. This program offered unprecedented 90 percent loan-to-value mortgages (as against the previous 80 percent) to stimulate new post-war
rental housing construction. These loans frequently became 95 to 100 percent mortgages through generous FHA land value appraisals and resulted in the production of nearly 100,000 new apartments in the New York-Northern New Jersey Standard Metropolitan area in the years 1948-1952. This and other conventional new construction would have tended to moderate the overall rise of rents, a feat that clearly was achieved in uncontrolled Washington, D.C., where median rents between 1950 and 1970 increased no more than did New York City's controlled rents (Table VI).

Given the speculative character of any discussion about what would have happened had the City shifted to a free market in 1950, the ultimate impact of a shift to market rents would have depended upon the short-term match between jobs and the number of persons in the labor market and the ensuing population flows arising from these relationships in conjunction with the impact of higher housing costs. It is difficult to conjecture to what extent the migration of rural black population into the city would have been deflected given the displacement of some 3.5 million black persons from rural farm areas of the South between 1950 and 1970.19

Under the foregoing conditions, however, it is possible that the abandonment of older, obsolete housing would have occurred even earlier than it did although not on the massive scale that has been experienced by the city over the past ten years, nor with the same extent of neighborhood deterioration. The tempering factor in moderating the rate of deterioration and abandonment would have been the existence of market rentals that could sustain better maintenance and the economic viability of existing housing in neighborhoods where demand remained strong. As occurred in all other areas of the nation, the rearrangement of the population under a market-rent system would have led to many adjustments in the usage of housing space relative to household decisions about rental expenditures. It is a reasonable conclusion, however, that the abandonment of housing under a market-rent system in New York City would not have followed the same pattern experienced over the past decade. This follows from the fact that a major component of a market-rent system is the continued availability of mortgage financing for housing renovation and improvements, a condition that has not existed in New York City for many years except to the extent that public sector financing has been substituted for dwindling private investment.

F. The Ability to Pay for Housing

One of the consequences of the city's enormous exchange of in-migrant minority population for out-migrating white families is that "New York has the incongruity of being the world's wealthiest city and the nation's major repository of the poor and helpless."20 Between 1963 and 1972, the city's welfare population grew from 375,000 to 1.2 million persons. About three-quarters of the total are Aid to Dependent Children (ADC) families, the great majority of whom are black and Hispanic. "The poor are not a novelty in our major cities. The older core areas'
TABLE VI
Median Gross Rent for New York City and Five Major Rental Cities:
1950, 1960, 1970

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1950</td>
<td>1960</td>
<td>1970</td>
</tr>
<tr>
<td>New York City</td>
<td>$49</td>
<td>$73</td>
<td>$109</td>
</tr>
<tr>
<td>Five Major Rental Cities*</td>
<td>$48</td>
<td>$82</td>
<td>$118</td>
</tr>
<tr>
<td>Boston</td>
<td>49</td>
<td>82</td>
<td>126</td>
</tr>
<tr>
<td>Chicago</td>
<td>48</td>
<td>88</td>
<td>121</td>
</tr>
<tr>
<td>San Francisco</td>
<td>42</td>
<td>73</td>
<td>135</td>
</tr>
<tr>
<td>St. Louis</td>
<td>37</td>
<td>66</td>
<td>90</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>37</td>
<td>81</td>
<td>119</td>
</tr>
</tbody>
</table>

*Five largest cities, other than New York City, with 60 percent or more of their housing occupied in rental units; data show average of the medians.

declining capacity to deal with them, however, may be relatively new. The American City is no longer the focus of relatively unskilled factory work . . . the immigrant finds little demand for his labor in the city . . . As a result, the city, rather than serving as a staging ground for upward mobility, instead has become a terminus for many. In this respect . . . New York City is the classic example of the urban dilemma. While office employment has increased, blue collar employment jobs are fast disappearing . . . An estimated 40,000 jobs in the city vanished with the automation of elevators alone."

The ability of the city's renter families to pay for housing has deteriorated steadily as the proportion of low-income black and Hispanic families has increased. In 1950 these groups comprised 12 percent of all renter households; by 1975 the proportion was 34 percent. In 1950 the median income of the city's renter families was 122 percent of that for all renter families in the United States; in 1970 the percentage fell to 113 percent. Similarly, in 1950 median income of renter families was 71 percent of that for owner families; in 1970 and 1975 the figure had fallen to 62 percent.

In the five years 1970-1975, median income of the city's renters increased by 17 percent while median rents jumped by 57 percent, sending the median rent-income ratio from 19.1 percent to a post-World War II record of 24.7 percent. The experience of families in controlled units was similar. Median income rose a scant 11 percent while the 37 percent increase in median rent matched that experienced for the entire previous decade (Table VII). The subnormal income increases during the city's 1970-1975 recession combined with the sharpest five-year jump in rents since the inception of rent control has placed its renters in the most difficult housing situation since the depression of the 1930s. Thus, after 33 years of public policy in trying to shield its renters from housing price increases, the city has lost a preponderance of families able to afford market housing prices and retained a "major repository of the poor and helpless."
### TABLE VII

**Income, Rent, and Rent/Income Ratios, New York City: 1960-1975**

#### Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
<td>Percent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner-occupied</td>
<td>$7,000</td>
<td>67</td>
<td>51,700</td>
<td>51,300</td>
<td>54,000</td>
<td>67</td>
<td>$1,300</td>
<td>15</td>
</tr>
<tr>
<td>Renter-occupied</td>
<td>5,700</td>
<td>15</td>
<td>7,200</td>
<td>8,400</td>
<td>1,500</td>
<td>26</td>
<td>1,200</td>
<td>17</td>
</tr>
<tr>
<td>Controlled</td>
<td>3,800</td>
<td>10</td>
<td>6,400</td>
<td>7,400</td>
<td>600</td>
<td>10</td>
<td>700</td>
<td>11</td>
</tr>
<tr>
<td>Decentralized</td>
<td>6,000</td>
<td>35</td>
<td>8,100</td>
<td>9,500</td>
<td>2,500</td>
<td>35</td>
<td>1,400</td>
<td>17</td>
</tr>
<tr>
<td>Stabilized</td>
<td>n.a.</td>
<td>n.a.</td>
<td>9,600</td>
<td>9,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-1947</td>
<td>n.a.</td>
<td>n.a.</td>
<td>7,400</td>
<td>7,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-1947</td>
<td>8,200</td>
<td>36</td>
<td>11,100</td>
<td>14,200</td>
<td>2,900</td>
<td>36</td>
<td>3,700</td>
<td>33</td>
</tr>
</tbody>
</table>

#### Rent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
<td>Percent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Renters</td>
<td>$73</td>
<td>49</td>
<td>109</td>
<td>51,700</td>
<td>171</td>
<td>$36</td>
<td>49</td>
<td>$62</td>
</tr>
<tr>
<td>Controlled</td>
<td>72</td>
<td>47</td>
<td>97</td>
<td>133</td>
<td>136</td>
<td>25</td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td>Decentralized</td>
<td>89</td>
<td>47</td>
<td>131</td>
<td>191</td>
<td>104</td>
<td>47</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Stabilized</td>
<td>n.a.</td>
<td>n.a.</td>
<td>203</td>
<td>203</td>
<td>203</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Pre-1947</td>
<td>n.a.</td>
<td>n.a.</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>25</td>
<td>49</td>
<td>66</td>
</tr>
<tr>
<td>Post-1947</td>
<td>127</td>
<td>49</td>
<td>189</td>
<td>255</td>
<td>255</td>
<td>62</td>
<td>66</td>
<td>66</td>
</tr>
</tbody>
</table>

#### Rent/Income Ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Points</td>
<td>Percent</td>
<td>Points</td>
<td>Percent</td>
<td>Points</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Total Renters</td>
<td>18.2</td>
<td>24.7</td>
<td>20.9</td>
<td>5</td>
<td>5.6</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Controlled</td>
<td>17.2</td>
<td>24.5</td>
<td>20.3</td>
<td>1.5</td>
<td>9</td>
<td>5.8</td>
<td>31</td>
</tr>
<tr>
<td>Decentralized</td>
<td>20.3</td>
<td>25.4</td>
<td>19.8</td>
<td>1.2</td>
<td>6</td>
<td>6.3</td>
<td>33</td>
</tr>
<tr>
<td>Stabilized</td>
<td>n.a.</td>
<td>26.8</td>
<td>n.a.</td>
<td>n.a.</td>
<td>0</td>
<td>3.3</td>
<td>0</td>
</tr>
<tr>
<td>Pre-1947</td>
<td>n.a.</td>
<td>29.4</td>
<td>n.a.</td>
<td>1.6</td>
<td>8</td>
<td>1.8</td>
<td>8</td>
</tr>
<tr>
<td>Post-1947</td>
<td>19.8</td>
<td>22.9</td>
<td>23.1</td>
<td>1.6</td>
<td>8</td>
<td>1.8</td>
<td>8</td>
</tr>
</tbody>
</table>

*Note that income data for 1960, 1970, and 1975 refer to incomes for the calendar years 1959, 1969, and 1973, respectively.


Section III
Costs and Benefits of Rent Control and Rent Stabilization

A. Rent Control, Property Valuations, and Real Estate Taxes

For 23 of its 33-year history, the magnitude of the cost of rent control effectively has been concealed. Its contribution to housing abandonment has become evident over the past ten years. But only in recent years has rent control's contribution to the City's diminishing real estate tax base and reduced tax collections become apparent. In the thirteen years prior to fiscal year 1974-1975, aggregate real property assessed values in New York City increased at an average of $1 billion annually. Although the dollar amount remained fairly constant, the percentage increase gradually decreased over time. In fiscal years 1973-1974 and 1974-1975, the increases were $6 and $7 billion, respectively; in fiscal year 1975-1976 it fell to $3 billion. In fiscal year 1976-1977 total assessed values recorded the first loss since the depression of the 1930s—a decrease of $8 billion.

Another new phenomenon is the rise in outstanding unpaid real estate taxes. This figure has crept up from relatively modest figures of $150 million-$200 million of the late 1960s to new peaks in recent years. The *City Record* of Sept. 2, 1976 shows the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76 Unpaid Real Estate Taxes</td>
<td>$242,569,502</td>
</tr>
<tr>
<td>1974-75 and Earlier</td>
<td>328,388,719</td>
</tr>
<tr>
<td>Unpaid Water and Sewer Taxes Through 1975-76</td>
<td>119,281,669</td>
</tr>
<tr>
<td>Cancellations and Remissions 1971-75</td>
<td>440,100,000</td>
</tr>
<tr>
<td></td>
<td><strong>$1,130,339,890</strong></td>
</tr>
</tbody>
</table>

Aside from the cancellations and remissions which are already written off, it is not known how much of the remaining $690 million will be collected given the precarious state of the private real estate market today although some or all of these obligations represent the ostensible support for $1.45 billion of currently outstanding tax anticipation notes. This kind of financial accounting is part of the reason for the existence of the Emergency Financial Control Board (EFCB) chaired by the Governor. As commented by City Comptroller Harrison J. Goldin, in discussing the tax deficiency account in a recent report, "This deficiency becomes a part of the City's accumulated deficit as exposed by the new accounting and budgeting reforms which will bring an end to the spending of phantom revenues."28

A major contributor to the foregoing state of affairs, both the cessation of growth in assessed values as well as the cumulating real estate tax deficiencies, is rent control. The latter is directly responsible for the drop in average market values.
of controlled buildings from five and six times the annual rent roll in the early 1960s to one or less today. This in turn forms the basis for reductions in assessed valuations as well as the inability of owners to pay taxes on their occupied buildings due to inadequate controlled rents. Chronic tax delinquency inevitably leads to loss of the building either through in rem proceedings or by abandonment.

The other major factor in abandonments is caused by the outright inability of tenants to pay permissible levels of rents. This has resulted in the collapse of the rental market in many depressed neighborhoods where the only potential tenants for buildings are families at poverty or near-poverty income levels.

A graphic picture of the intertwined effects of poverty, rent control tax assessment, and tax collections has become available from a 1974 property-by-property study of 16 blocks in a poverty area of the Bronx containing 393 parcels. The study found that over 40 percent of the 393 parcels had been taken by the City in in rem proceedings (tax delinquent three or more years); an additional 25 percent of the parcels were seriously behind in taxes. Over one-quarter, 28 percent, of the parcels were vacant in 1974 (structures demolished) compared with 14 percent in 1972. After eliminating tax exempt parcels, the study showed that tax collections were current on only 29 percent of the parcels in the area in 1974.21 This example makes clear why tax assessments in the Bronx have declined in five of the past six years. More important, it illustrates the devastating impact of the poverty culture on normal economic parameters of a middle-class society.

B. Rent Control: Costs and Benefits of a $20 Billion Subsidy

It is worth repeating some observations elsewhere made of the costs and benefits of rent control in New York City.22 The Rand Corporation in 1969 estimated that the difference between the economic rents and controlled rents of some 1,240,000 housing units under rent control aggregated about $807 million or $650 per family for the year 1968.23 Using this analytical approach, the writer estimates that, over the 33-year life of rent control, an estimated income transfer to tenants of some $20 billion has been made from controlled apartment owners and their mortgage lenders. At the inception of rent control in 1943, 80 percent of the city’s families (all tenants) were recipients of this benevolence, whether millionaire or welfare recipient. Over the years, this proportion has declined somewhat but not greatly given today’s combination of rent control and rent guidelines.

Costs

An annual subsidy to tenants of roughly 35 percent of the estimated economic rent of the city’s rent-controlled housing far exceeds normal owner profits from rental housing. Therefore, this subsidy represents a cost to owners, tenants, and the City, summarized as follows:

1. The elimination or diminution of owners’ operating profits is a result of rental revenues depressed below market values. A side consequence of this
has been the destruction of the life savings of small investors for whom real estate investment has been a classic method of ensuring an income in the retirement stage of life. This is reflected by the decline in value of rent-controlled properties from five to six times the annual rent roll in the early 1960s to one times the rent roll or less today. Nearly half (46 percent) of all rent-controlled apartments in the city in 1968 were in the hands of small investors who owned one to three buildings. This type of owner, who tended to pay close attention to the operations of his buildings, largely has been replaced by absentee owners today who, in the investment climate to which the controlled rental market has degenerated, can profit on such investments only by making the buildings and abandoning them when the tenants move or refuse to pay the rent.

2. The reduction or minimization of services to tenants follows as a result of rental revenues which have not kept pace with the increasing costs of operating urban housing.

3. Minimal maintenance, deferral of repairs, and deterioration of the building reflect the disincentive for owners to make capital improvements based on expectations of declining revenues relative to increasing costs.

4. Loss to the City of taxes from (a) low rents that trigger certiorari proceedings for reduced assessments, and (b) owner tax delinquencies in the period prior to abandonment of the building are consequences of rent control policies. The City's cumulative real estate tax delinquencies (including cancellations and remissions of 1971-1975 taxes) as of June 30, 1976 were $1.1 billion, equal to 32 percent of the City's $3.4 billion real estate tax levy for fiscal year 1975-1976. A third loss to the City is forfeiture of tax ratables through abandonment, which totaled some 200,000 housing units between 1965 and 1975. The assessed value of the housing alone approximates $800 million.

5. There are other costs that cannot be measured by the dollar subsidies to tenants. The losses of older but essentially sound housing through abandonment has caused widespread disruption of families' lives by the necessity of finding alternative accommodations.

6. Probably the most damaging cost of long-term rent control in a community is the psychological attitudes it engenders. The rent control syndrome among New York City's tenants is that of the tenant's right to enjoy possession of his apartment without being disturbed by periodic rent increases irrespective of rising costs that create the need for them. Since 1970, this attitude has been disrupted by the 7½ percent annual increase required under the Maximum Base Rent (MBR) system. Nevertheless, the reluctance about rent increases among long-term, rent-controlled tenants has spilled over into the City's publicly-assisted middle-income housing programs where tenants have taken the position that the rent burdens caused by increased interest rates, operating, and fuel costs should be shoulders by the City treasury, not by the tenants.
7. Widespread withdrawal of mortgage financed institutions from the financing of multi-family rental housing in New York City for many years is a direct consequence of the City's restrictive rent laws. Despite the fact that a free flow of mortgage lending funds to the multi-family housing sector is essential for its survival, the gravity of the problem only recently has become manifest. The problem has been addressed by the public sector in terms of the "redlining" of neighborhoods—the unwillingness of financial institutions to make mortgage loans in certain areas. Although this situation basically was created by rent control, it has been exacerbated by the social and economic deterioration of "redlined" neighborhoods, a rising tide of abandonment and the increasing incidence of violence and crime to the point where these neighborhoods are avoided by apartment seekers who have any locational choices. Legislative proposals to proscribe "redlining" practices so far deal with the effects of the problem, not with their causes. Furthermore, private financial institutions have a fiduciary responsibility to their depositors. These institutions have no responsibility, or even right, to invest funds under social, economic, or public policy conditions that create high risks of loan defaults. Until public policy addresses this basic impediment to private investment, the life blood of mortgage financing for multi-family housing will not be available to property owners from most lending institutions. Public sector attempts to circumvent the ability of lending institutions to reject high-risk loans must be accompanied by steps to insure the safety of such loans. Otherwise such efforts either will be struck down by the courts or will force lending institutions out of business.

Benefits

1. At its inception, rent control covered the city's entire renter population, irrespective of the need for this protection. Over the years, however, the proportion of high income tenants in the controlled sector gradually has diminished as services and maintenance have deteriorated. By 1970, 62 percent of rent-controlled occupants had incomes less than $8,000 annually. To such families, rent control was important as a means of providing adequate space at modest rents.

2. On the other hand, up to 1960, it may be estimated that a third of the rent-controlled households had incomes sufficient to pay full rents. By 1970, the proportion was nearer 13 percent. The benefits of rent-control to this group included downpayments on suburban single-family homes or on retirement condominiums or homes in Florida, California, Arizona, and New Mexico. Other benefits included vacation trips abroad and finally substantial increments to tenants' savings accounts. In short, a substantial proportion of the rent-control benefits to families in the controlled sector have been unwarranted subsidies to families whose need for these benefits was minimal. This was noted as early as 1960 when the rent-to-income ratio of nearly two-fifths of the rent-controlled households was observed to fall below 15 percent, which would require rent increases of 67 to 100 percent or more to bring these families to a 25 percent rent-income ratio required for families who obtain the benefits of Federally-subsidized, moderate rent housing.
A. Conclusions

Since the late 1950s and up to the present time, rent control has been a political football between the State Legislature and the City of New York, to a degree that the original intent of "moving ahead from a controlled to an uncontrolled housing market as fairly and speedily as possible" not only has vanished from sight but has disappeared from the legislation authorizing rent control. Introduced in 1943, the present rent controls have been perpetuated as a permanent institution on legal grounds that appear increasingly dubious and an economic rationale that largely has eroded.

Within the context of this background, the experience of 33 years of rent control in New York City may be summarized in a single phrase—unmitigated disaster. As a housing tool it is blunderbuss dispersing unnecessary and never-intended benefits to more than one-half of its beneficiaries initially, and to 15 percent of the families under controls today. It is contributing to the deterioration of the sound housing stock of the city and of its good neighborhoods. It is a major contributor to the City's real estate tax delinquency problem. Hundreds of millions of dollars are lost annually through reduced tax assessments on rent-controlled properties or are lost in building abandonment and demolition.

Finally, rent control and rent stabilization have gone far toward bankrupting or demoralizing the real estate industry and undermining the financial status of institutions that have substantial mortgage investments in rent-controlled properties.

The concept of owner-management has largely been destroyed; experienced owners and managers have withdrawn steadily from the rent-controlled sector; the city's mortgage finance institutions have largely withdrawn from new commitments to the rent-controlled stock, while few are willing to finance new rental construction. In summation, it may fairly be posited that few efforts of public policy have caused as much economic and fiscal chaos to a community as this example of legislative mismanagement has achieved for New York.

The necessity to liquidate rent controls and rent stabilization in New York City today is more urgent than ever before even while the difficulties of achieving this objective have escalated. This is due to the fact that the cost of operating and maintaining existing housing has reached new and higher levels than ever before recorded—impacted particularly by the aftermath of the 1973-1974 Arab oil embargo that has more than doubled the costs of heat, hot water, and electricity since 1973. With renter incomes rising more slowly than at any time since the end of World War II, rent-income ratios of one-half of the city's renter households equals or exceeds 25 percent (Table VIII).
<table>
<thead>
<tr>
<th>Rent as a Percentage of Gross Income</th>
<th>Total Renter Occupied</th>
<th>Controlled</th>
<th>Decontrolled</th>
<th>Stabilized</th>
<th>Built Pre-1947</th>
<th>1947 or Later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Less than 10 percent</td>
<td>4.7</td>
<td>7.9</td>
<td>5.1</td>
<td>2.8</td>
<td>2.2</td>
<td>3.9</td>
</tr>
<tr>
<td>10 to 14 percent</td>
<td>14.0</td>
<td>15.7</td>
<td>13.9</td>
<td>11.7</td>
<td>9.2</td>
<td>16.0</td>
</tr>
<tr>
<td>15 to 19 percent</td>
<td>17.1</td>
<td>15.8</td>
<td>16.6</td>
<td>15.4</td>
<td>12.4</td>
<td>20.8</td>
</tr>
<tr>
<td>20 to 24 percent</td>
<td>13.0</td>
<td>11.7</td>
<td>13.8</td>
<td>15.6</td>
<td>15.0</td>
<td>16.6</td>
</tr>
<tr>
<td>25 to 29 percent</td>
<td>11.0</td>
<td>9.7</td>
<td>8.7</td>
<td>12.7</td>
<td>12.8</td>
<td>12.6</td>
</tr>
<tr>
<td>30 to 34 percent</td>
<td>7.3</td>
<td>7.3</td>
<td>7.7</td>
<td>7.4</td>
<td>8.0</td>
<td>6.2</td>
</tr>
<tr>
<td>35 to 39 percent</td>
<td>5.6</td>
<td>5.8</td>
<td>5.5</td>
<td>5.9</td>
<td>5.9</td>
<td>5.8</td>
</tr>
<tr>
<td>40 percent or more</td>
<td>23.2</td>
<td>26.2</td>
<td>28.7</td>
<td>28.5</td>
<td>34.6</td>
<td>18.2</td>
</tr>
<tr>
<td>Median</td>
<td>24.71</td>
<td>24.52</td>
<td>25.36</td>
<td>26.76</td>
<td>29.41</td>
<td>22.90</td>
</tr>
</tbody>
</table>

B. Recommendations

Despite the foregoing it is more necessary today then ever to liquidate the long-standing uncertainties over this subject that have paralyzed the real estate industry. If the staggering remnants of the industry are to have any hope of survival, the following steps represent a minimal program to achieve this result:

1. Repeal of the recently enacted extension of the Emergency Tenant Protection Act by the State Legislature.

2. State legislation to revoke local administration of rent control and rent-stabilization in all communities in the state.

3. Creation of a State Rent Stabilization Board to administer the phasing out of rent control and rent stabilization for New York City and other municipalities where controls have been established.

4. Placement of all presently rent-controlled and rent-stabilized housing under administration of the State Rent Stabilization Board. The Board will establish rent guidelines annually based upon Bureau of Labor Statistics studies similar to those carried out under the City's present rent stabilization system. Rent increases accompanying lease renewals should incorporate an additional increase of 1.5 percent as a means of establishing a return on equity over time. Hardship increase rules under rent stabilization should be redesigned to permit a fair return under all circumstances for owners.

5. Automatic decontrol of all rent-controlled and rent-stabilized units voluntarily vacated (or legally vacated through eviction proceedings).

6. Establishment of a needs criterion for rent control for families living in controlled units whose annual gross family income exceeds $20,000, as follows:
   a. If present rent-income ratio is less than 15 percent, rent may be decontrolled or raised to 25 percent of gross family income, whichever is less.
   b. If present rent-income ratio is between 15 and 24 percent, rent may be raised to 25 percent of gross family income.

7. Encouragement by all levels of government of home ownership through conversion of apartment buildings to cooperative and condominium status, and conversion of suitable structures to single-family ownership. A distressing aspect of rent control in New York has been the phenomenon whereby rental occupancy progresses to virtually life-time tenure for rental tenants as a result of their resistance to conversion efforts. Not only has rental housing been made an unviable economic activity under present rental housing policies, but efforts to shift to ownership—the only form of tenure in which residents become willing to accept the responsibility for housing costs and property maintenance—persistently have been blocked (Table IX).
### TABLE IX

**Condition and Plumbing Facilities by Tenure, New York City:**

**1975**

<table>
<thead>
<tr>
<th>Item</th>
<th>Renter occupied</th>
<th>Total</th>
<th>Homeowner</th>
<th>Co-Op and Condominium</th>
</tr>
</thead>
<tbody>
<tr>
<td>All housing units</td>
<td>1,999,037</td>
<td>719,750</td>
<td>576,713</td>
<td>143,037</td>
</tr>
<tr>
<td>Percentage</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

**Standard:**

| Not Dilapidated, with All Plumbing Facilities | 93.7%          | 99.0%       | 98.7%       | 100.0%                 |

**Substandard:**

| Not Dilapidated, Lacking Some or All Facilities | 0.6%          |              |             | 0%                     |
| Dilapidated, with All Plumbing Facilities      | 5.4%          | 1.0%        | 1.2%        |                        |
| Dilapidated, Lacking Some or All Facilities    | 0.3%          |              |             | 0%                     |

*Note: Dash (-) indicates less than 0.1 percent.*

*Source: U.S., Bureau of the Census, 1975 *New York City Housing and Vacancy Survey*, Series 1B, Table 15027, p. 77.*
Two major steps to correct this situation are:

a) Permit the Goodman-Dearie Law, which requires approval by 35% of tenants for conversion of a rental structure to a condominium or cooperative, to lapse on June 30, 1977. Tenants who do not choose to purchase their apartments should be permitted two years from the date the cooperative is declared effective, to find alternative accommodations, and until that time, should remain under the current State rent control and rent stabilization laws.

b) Facilitate conversion of structures originally designed as single-family structures back to single-family ownership with eviction applications to be effective one year after plans to convert are approved by the State Rent Stabilization Board.

The foregoing recommendations fall short of the direct phase out of controls that in earlier years could have been effected. Given the City's current economic situation, and with no assistance short of welfare to avoid serious hardship to 250,000 rent controlled tenants with rent-income ratios presently in excess of 30 percent, these proposals represent realistic and politically feasible measures. They have the added advantage that they previously have been used and were demonstrably effective in achieving a reasonably rapid return to market rents without displacement of occupant tenants. If the above recommendations were in effect, about 85 percent of the controlled and stabilized units would be returned to the free market within ten years.

Even the foregoing proposed gradual phase out of rent control and rent stabilization would have a significantly favorable effect upon the City's financial condition. It is certain that within the viable areas of the City which contain more than half of the controlled-stabilized housing, the decontrol of approximately 15 percent of the outstanding balance of this housing annually would go far toward stemming the rising tide of tax delinquencies, would contribute toward the reduction of accumulated tax delinquencies, and would permit improved maintenance of buildings now suffering from delayed repairs and improvements. The ultimate loss to the City from unpaid real estate taxes for the years 1971-1975 will, at minimum, amount to $200 million annually, about one-half to two-thirds of which arises from the residential sector.

A gradual improvement in the financial conditions of buildings that benefit from decontrol of apartments will result from increases in rents that would average about 15 percent above the amounts that would be realized from otherwise controlled or stabilized rents. The estimated financial impact upon both owners and the City over the first five years of the proposed program is shown in Table X. Thus at the minimum, the City's real estate tax revenues will improve, on the average, by at least $50 million annually (in 1975 dollars) over the first five years of a phased decontrol program.
**TABLE X**

Increase in Estimated Rental Income to Owners and in Real Estate Taxes to the City From Recommended Phase Out of Rent Control and Rent Stabilization in New York City Over First Five Years

(in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase in Rental Revenues(^a)</th>
<th>Increase in City's Tax Revenues (30 percent)(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>567</td>
<td>$20</td>
</tr>
<tr>
<td>Year 2</td>
<td>124</td>
<td>37</td>
</tr>
<tr>
<td>Year 3</td>
<td>173</td>
<td>52</td>
</tr>
<tr>
<td>Year 4</td>
<td>214</td>
<td>64</td>
</tr>
<tr>
<td>Year 5</td>
<td>249</td>
<td>75</td>
</tr>
<tr>
<td>5-Year Average</td>
<td>$165</td>
<td>$50</td>
</tr>
</tbody>
</table>

\(^a\) Calculated in constant 1975 dollars.

\(^b\) Estimated liquidation of accrued tax delinquencies plus payments on increased assessments.
Other benefits to the City and its fiscal condition will result from a slowing of tax delinquencies as a result of more positive owner attitudes generated by the knowledge that there is a financial future in attempting to hold onto buildings that merely have been breaking even or showing cash-flow losses.

The same forces also will slow the process of physical deterioration that ultimately leads to abandonment. In stable neighborhoods it will have a more positive effect where owners will be compelled to make improvements in apartments in order to realize the higher rents permitted by decontrol. It is difficult to place a dollar value on this component but it may be suspected that its effects probably will more than double the previously estimated annual increase in tax revenues as a result of higher assessed values, reductions in tax delinquencies, and a decline in the rate of abandonment.

The social benefits to neighborhoods in which the rate of deterioration of the housing stock is reversed, stemmed, or even slowed are incalculable in dollar terms. Nor can the gradual restoration of confidence among financial institutions and the renewed flow of mortgage lending that inevitably will follow in response to a restoration of a free housing market easily be measured in dollar terms. Without question, however, the cumulative results will go far toward slowly building a new climate of confidence with respect to the long-term prospects for the City and its housing stock.

On balance, it would have been far more preferable if the vacancy decontrol law of 1971 had been permitted to complete its phase out of controls. The events of the last three years, however, have sufficiently eroded the rental housing situation of renters as well as owners so that gradual phase out of controls is the only possible course of action today.

The Section 8 housing assistance program for existing housing (1974 Housing and Community Development Act) is admirably suited to render assistance of the kind needed to make a more rapid phase out of rent controls possible. But the Section 8 program at present is insufficiently funded to provide the extent of assistance required to support a more direct dismantling of the existing system. Moreover, there is little evidence of a disposition in the Congress to allocate the disproportionately large amount of rental assistance to the city's renter families that now is required as a consequence of several decades of mismanagement of rent policy in New York City.

A large part of the City's private rental housing inventory is beyond salvation, including large portions of Harlem, the South Bronx, and Brooklyn. Given the City's fiscal straits, there appears to be no end in sight for the "unplanned shrinkage" and creeping demise of what previously had been a vibrant portion of the city's economy—the private real estate industry. The spillover of tenant attitudes towards the payment of the cost of housing generated by rent control also is
costing the public sector dearly. The shortfall in rents of the middle-income housing tenants in both City and State programs will require public budgetary support in excess of $30 million this year. It can fairly be estimated that less than half of this loss is attributable to inability to pay; the larger portion is due to an unwillingness of tenants to pay a fair share of already heavily subsidized housing costs. The downward path of the city cannot be reversed until the political strictures that have created a frightening pull over the private real estate sector are removed. These have driven the city's ablest developers to every corner of the nation except New York City. They further have made the city a marginal investment for mortgage lending funds. If New York City has been "redlined," it is in large part attributable to its own rental housing policies. If these are not reversed there can be no hope for the private rental-housing sector or the long-term economic viability of the City.
1. Emergency Housing Rent Control Law, N.Y. Session Laws 1950, Ch. 250, Section 3.

2. Although illegal under the rent law, the practice of curtailing services nevertheless was widespread.


5. For example, some of the classic constitutional tests of the law fought through the highest courts were cases between wealthy landlords and their equally wealthy tenants.

6. For a comparison, see Appendix A, Table A-1.

7. The City of New York, City Rent and Rehabilitation Administration, People, Housing and Rent Control in New York City, 1964, p. 39.

8. “Major rental cities” is defined here as the six largest cities (New York City, Boston, Chicago, St. Louis, San Francisco, and Washington, D.C.) with 60 percent or more of their housing occupied as rental units.


11. Apartment structures with six or fewer rental units were excepted.

12. The building of conventionally-financed new rental housing had violent ups and downs in New York City since the end of World War II. The adoption of a new zoning ordinance in 1961 led to an enormous burst of conventional rental construction during the years 1961-1965 under the more liberal provisions of the old zoning ordinance that permitted more intensive use of building parcels. By 1966, completions under the old zoning ordinance had paled but developers had so flooded the market and depressed new construction rents during the years 1963-1965, that a combination of caution and resentment with the strictures of the new zoning ordinance caused a sharp drop in new conventional starts after 1965. Thus the market was unprepared for the strong rental demand of 1967-1968 that caused free-market rents to jump vigorously, climaxing by City Council imposition of rent stabilization in 1969.
13. The unwillingness arose from previous experience that many owners had of the inventiveness of tenants in creating code violations to prevent restoration of rent-cuts imposed under "rent-impairing" violation provisions of the City rent law.

14. Rent-stabilized units that had been decontrolled during the period that the vacancy decontrol law was in effect, were, meanwhile, returned to the rent stabilization system.

15. About 125,000 of this decrease in controlled units is due to demolitions and abandonments.


17. There is one major physical difference—the decontrolled apartments are in structures of one to five units compared with controlled units in structures of six or more apartments. The City's 1960 rent study, however, in comparing the characteristics of three- to nine-unit structures with those with ten or more units (all under control) concluded that "little in the foregoing description of the housing . . . of small versus large structures indicates fundamental differences between these two types of housing [except for] the better quality of units in large structures . . . ." (p. 124)

18. For a comparison, see Ira S. Lowry, Rental Housing in New York City, Vol. 1, Confronting the Crisis, (New York: The Rand Institute, 1970) and George Steinleib, The Urban Housing Dilemma, (Rutgers University: Center for Urban Policy Research, 1972).

19. This occurred as the nation's farm population dropped from 23 million to 10 million over the two decades.


21. Ibid., pp. 9, 10.

22. Between December 1975 and March 1976 the City defaulted on $280 million of these notes. Emergency State legislation classified these nonpayments as a "moratorium," which since has been struck down by the courts.


27. George Sternlieb, *The Urban Housing Dilemma*, (The City of New York: Department of Rent and Housing Maintenance, 1972), Exhibit 12-1, p. 454, provided the basis for this estimate.


31. This is based upon a 15 percent average annual rate of reduction in the "outstanding balance" of controlled units resulting from State's 1971-1974 vacancy decontrol legislation and the continued removal of units from the controlled sector through the Tenants Emergency Protection Act of 1974 as derived from special tabulations of the 1970 Census of Housing and the Bureau of the Census' 1975 *Housing and Vacancy Survey of New York City*.

32. Over $400 million of tax delinquencies were written off in the years 1971-1975.

33. This takes into account that a significant proportion of the units that would be decontrolled under this program already are at or near market rents.
Appendix A

New York City's Housing Shortage
The rationale for the perpetuation of rent control in New York City has been the persistently low rental vacancy rate which statute sustained what proponents of rent control termed the city’s “desperate housing shortage.” Aside from its vacancy rate, however, the major utilization characteristics of New York City’s housing inventory are and have been so similar to those of other major rental cities of the nation that the term “housing shortage” necessarily must then apply to all these cities despite their sharply higher vacancy rates compared to that of New York City. The vacancy rate for all six major rental cities in 1950 ranged between 1 and 2 percent. In the 20 years since 1950, New York City’s vacancy rate crept up from 1.2 to 2.0 percent while that of the other five (uncontrolled) major rental cities in 1970 ranged from 4.7 (San Francisco) to 12.3 percent (St. Louis).

The data compiled in Table A-I show that, in addition to similar vacancy rates in 1950, in no significant manner were the occupancy characteristics of the cities of Boston, Chicago, St. Louis, San Francisco, and Washington, D.C. different from those of New York City then or since 1950. With respect to household size (average number of persons per unit) New York City’s figure of 3.08 persons per unit was closely clustered with those of Boston (3.17), Chicago (2.97), St. Louis (2.96), and Washington, D.C. (2.84) in base year 1950, at which time the latter cities just had been decontrolled. Only San Francisco had a significantly smaller household size (2.44 persons) than the other cities, a characteristic that persisted into subsequent decades even with free-market rents.

Given the effect upon the vacancy rate created by the excess demand for space generated by below-market controlled rents, the intensity of use of housing space becomes a more accurate barometer of “housing shortage” than the vacancy rate. One measure of intensity of use is the average number of persons per room. By this criterion, New York City had a slightly above-average density with .83 persons per room in 1950 compared with the other five major rental cities; St. Louis had a higher density (.91), Washington, D.C. had about the same (.83), Chicago had slightly lower (.81), while Boston (.76) and San Francisco (.65) had appreciably lower densities. Nothing in the data over the two subsequent decades in any way sustains the appellation of “housing shortage” for New York City in comparison with the other major rental cities either in absolute or relative terms. Given a virtually stationary population between 1950 and 1970, New York City’s density standards improved perceptibly. Equally significant, density standards also improved for the five major rental cities without the benefit of rent control. Thus, while density for New York City decreased by 13 percent, for St. Louis the drop was 21 percent, Boston 17 percent, Chicago 16 percent, and Washington D.C. 12 percent. Although San Francisco’s decrease in density was only 3 percent, it retained the twin status of smallest household size and lowest density of the six cities.

By another density standard, crowding (households with 1.01 or more persons per room), New York City was at the upper end of the scale in 1950. Two cities were well below New York City on this score, Boston with 14.2 percent and San Francisco with 10.0 percent of their rental units classified as crowded. Washington, D.C.’s 17.3 and Chicago’s 18.4 percent were clustered with New York City’s 18.9
### APPENDIX TABLE A-1
Relative Indicators of “Housing Shortage” for Six Major Rental Cities: 1950-1970

<table>
<thead>
<tr>
<th>Year</th>
<th>New York</th>
<th>Boston</th>
<th>Chicago</th>
<th>St. Louis</th>
<th>San Francisco</th>
<th>Washington</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Occupied Housing Units (in thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>2,358</td>
<td>218</td>
<td>1,087</td>
<td>283</td>
<td>258</td>
<td>234</td>
</tr>
<tr>
<td>1960</td>
<td>2,655</td>
<td>232</td>
<td>1,157</td>
<td>249</td>
<td>292</td>
<td>252</td>
</tr>
<tr>
<td>1970</td>
<td>2,837</td>
<td>218</td>
<td>1,138</td>
<td>215</td>
<td>295</td>
<td>263</td>
</tr>
<tr>
<td>1975</td>
<td>2,765</td>
<td>218</td>
<td>1,138</td>
<td>215</td>
<td>295</td>
<td>263</td>
</tr>
<tr>
<td></td>
<td>All Occupied Rental Units (in thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>1,908</td>
<td>164</td>
<td>757</td>
<td>168</td>
<td>163</td>
<td>152</td>
</tr>
<tr>
<td>1960</td>
<td>2,708</td>
<td>163</td>
<td>760</td>
<td>154</td>
<td>179</td>
<td>177</td>
</tr>
<tr>
<td>1970</td>
<td>2,168</td>
<td>158</td>
<td>741</td>
<td>128</td>
<td>198</td>
<td>189</td>
</tr>
<tr>
<td>1975</td>
<td>2,045</td>
<td>158</td>
<td>741</td>
<td>128</td>
<td>205</td>
<td>205</td>
</tr>
<tr>
<td></td>
<td>Occupied Rental Units as a Percentage of Total Occupied Units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>.81%</td>
<td>.75%</td>
<td>.70%</td>
<td>.65%</td>
<td>.63%</td>
<td>.68%</td>
</tr>
<tr>
<td>1960</td>
<td>.78%</td>
<td>.72%</td>
<td>.66%</td>
<td>.61%</td>
<td>.65%</td>
<td>.69%</td>
</tr>
<tr>
<td>1970</td>
<td>.76%</td>
<td>.72%</td>
<td>.65%</td>
<td>.59%</td>
<td>.67%</td>
<td>.72%</td>
</tr>
<tr>
<td>1975</td>
<td>.74%</td>
<td>.72%</td>
<td>.65%</td>
<td>.59%</td>
<td>.67%</td>
<td>.72%</td>
</tr>
<tr>
<td></td>
<td>Rental Vacancy Rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>1.2</td>
<td>1.0</td>
<td>1.0</td>
<td>0.7</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>1960</td>
<td>2.2</td>
<td>5.1</td>
<td>5.2</td>
<td>5.4</td>
<td>4.4</td>
<td>3.8</td>
</tr>
<tr>
<td>1970</td>
<td>2.0</td>
<td>6.0</td>
<td>6.7</td>
<td>12.3</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td>1975</td>
<td>2.8</td>
<td>2.47</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### ALL OCCUPIED RENTAL UNITS

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number of Persons (in thousands)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>5,579</td>
<td>230</td>
<td>2,250</td>
<td>498</td>
<td>397</td>
<td>438</td>
</tr>
<tr>
<td>1960</td>
<td>5,693</td>
<td>242</td>
<td>2,151</td>
<td>433</td>
<td>406</td>
<td>457</td>
</tr>
<tr>
<td>1970</td>
<td>5,586</td>
<td>393</td>
<td>1,984</td>
<td>332</td>
<td>413</td>
<td>470</td>
</tr>
<tr>
<td>1975</td>
<td>5,855</td>
<td>424</td>
<td>2,190</td>
<td>463</td>
<td>484</td>
<td>539</td>
</tr>
<tr>
<td></td>
<td>Average Number of Persons Per Unit</td>
<td>3.08</td>
<td>2.97</td>
<td>2.96</td>
<td>2.92</td>
<td>2.99</td>
</tr>
<tr>
<td>1950</td>
<td>2.74</td>
<td>2.70</td>
<td>2.83</td>
<td>2.81</td>
<td>2.74</td>
<td>2.80</td>
</tr>
<tr>
<td>1960</td>
<td>2.58</td>
<td>2.48</td>
<td>2.66</td>
<td>2.59</td>
<td>2.58</td>
<td>2.59</td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Number of Rooms (in thousands)</td>
<td>7,323</td>
<td>2,781</td>
<td>545</td>
<td>615</td>
<td>531</td>
</tr>
<tr>
<td>1950</td>
<td>7,461</td>
<td>2,744</td>
<td>524</td>
<td>610</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>1960</td>
<td>7,778</td>
<td>2,910</td>
<td>463</td>
<td>655</td>
<td>644</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>7,346</td>
<td>2,910</td>
<td>463</td>
<td>655</td>
<td>644</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average Number of Persons Per Room</td>
<td>.83</td>
<td>.81</td>
<td>.91</td>
<td>.65</td>
<td>.83</td>
</tr>
<tr>
<td>1950</td>
<td>.76</td>
<td>.67</td>
<td>.68</td>
<td>.63</td>
<td>.66</td>
<td>.75</td>
</tr>
<tr>
<td>1960</td>
<td>.72</td>
<td>.67</td>
<td>.68</td>
<td>.63</td>
<td>.66</td>
<td>.75</td>
</tr>
<tr>
<td>1975</td>
<td>.69</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average Number of Rooms Per Unit</td>
<td>3.68</td>
<td>3.67</td>
<td>3.24</td>
<td>3.77</td>
<td>3.49</td>
</tr>
<tr>
<td>1950</td>
<td>3.59</td>
<td>3.74</td>
<td>3.40</td>
<td>3.21</td>
<td>3.44</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>3.39</td>
<td>3.93</td>
<td>3.52</td>
<td>3.31</td>
<td>3.41</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage of Units With 1.0 or More Persons Per Room</td>
<td>18.3%</td>
<td>14.2%</td>
<td>16.4%</td>
<td>25.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>1950</td>
<td>14.3%</td>
<td>14.3%</td>
<td>20.3%</td>
<td>7.2%</td>
<td>14.6%</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>11.7%</td>
<td>11.0%</td>
<td>14.8%</td>
<td>7.7%</td>
<td>14.4%</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>8.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

42
percent, while St. Louis had the highest incidence of crowding at 25.6 percent. Calculating the percentage changes in crowding for these cities between 1950 and 1970 (from Table A-1), we find that crowding had diminished substantially in Boston (—45 percent), St. Louis (—43 percent), Chicago (—40 percent), New York (—38 percent), and moderately in San Francisco (—23 percent) and Washington (—17 percent). Thus, by no objective standard can the contention of a housing shortage be sustained for New York City that cannot be applied as readily to sister cities that dispensed with rent control at the end of World War II.

The 1975 Census Housing and Vacancy Survey of New York City indicated a dramatic reduction of nearly 600,000 (predominantly white) persons in the rental housing sector between 1970 and 1975, part of the continued exodus of the middle-class from the city. For the first time, a measurable loss of some 74,000 black persons through out-migration indicated that the black middle-class was part of the outward movement from the city during this five-year period. Another first for this city was a decrease in the absolute number of housing units despite the addition of 109,000 units. These were more than offset by the loss of 143,000 units through demolition and abandonment, the first time in the city’s history that housing losses exceeded additions to the inventory (Table A-2).

The substantial loss of rental housing population had a perceptible impact upon utilization of the rental housing inventory. Average household size decreased from 2.58 to 2.47 persons, the average number of persons per room decreased from 1.72 to .69 persons and households with more than 1.01 persons per room (crowded) diminished from 11.7 to 8.0 of all rental households. In short, at no time since such data have been assembled has the rental housing inventory of the city been less intensely utilized. At the same time, approximately 71,000 housing units in some 6,000 buildings scattered across the city in the form of abandoned, burn-out, or boarded-up hulks stand as a mute testimony to a demand for rental housing that no longer matches the available supply at rents necessary to permit owners to continue rendering the services of these buildings.
APPENDIX TABLE A-2

Components of Inventory Change with an Estimate of Housing Units Lost Through Abandonment as a Residual, New York City: 1970-1975

(in thousands of units)

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total housing units, 1970 Census</td>
<td>2,918</td>
</tr>
<tr>
<td>New units completeda</td>
<td>97</td>
</tr>
<tr>
<td>Units added through conversionb</td>
<td>12</td>
</tr>
<tr>
<td>Total additions</td>
<td>109</td>
</tr>
<tr>
<td>Losses: demolitionsb</td>
<td>66</td>
</tr>
<tr>
<td>mergersb</td>
<td>6</td>
</tr>
<tr>
<td>Total losses</td>
<td>72</td>
</tr>
<tr>
<td>Balance, 1975</td>
<td>2,955</td>
</tr>
<tr>
<td>Total housing units, 1975c</td>
<td>2,884</td>
</tr>
<tr>
<td>Missing—presumably vacant, abandoned and not recorded as part of housing stock</td>
<td>71</td>
</tr>
<tr>
<td>Estimate of abandoned units demolished (50%)</td>
<td>33</td>
</tr>
<tr>
<td>Estimated number of units abandoned since 1970</td>
<td>104</td>
</tr>
<tr>
<td>Annual average number of abandoned units</td>
<td>21</td>
</tr>
</tbody>
</table>

aThe City of New York, Department of City Planning, data for years 1970 through 1974.
bBuilding Department records indicate that 56,000 units were demolished; an estimated 10,000 units in demolished Class II multi-family buildings and hotels have been added to this total.
Data Sources, Tables B-1 through B-8


### APPENDIX TABLE B-1

Control Status of Renter-Occupied Units, New York City: 1950-1975

(Thousands of units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Renter Occupied</th>
<th>Controlled</th>
<th>Total</th>
<th>Decontrolled</th>
<th>Never Controlled</th>
<th>Post-1947</th>
<th>Pre-1947</th>
<th>1-2 Rooms Lacking Facilities</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>1,908</td>
<td>1,832</td>
<td>7</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1960</td>
<td>2,078</td>
<td>1,746</td>
<td>362</td>
<td>163</td>
<td>199</td>
<td>--</td>
<td>--</td>
<td>129</td>
<td>111(\text{b})</td>
</tr>
<tr>
<td>1965</td>
<td>2,145</td>
<td>1,363</td>
<td>532</td>
<td>199</td>
<td>333</td>
<td>--</td>
<td>--</td>
<td>113</td>
<td>138(\text{b})</td>
</tr>
<tr>
<td>1968</td>
<td>2,122</td>
<td>1,280</td>
<td>619</td>
<td>224</td>
<td>395</td>
<td>--</td>
<td>--</td>
<td>79</td>
<td>144(\text{b})</td>
</tr>
<tr>
<td>1970</td>
<td>2,167</td>
<td>1,365</td>
<td>257</td>
<td>158</td>
<td>75(\text{a})</td>
<td>350</td>
<td>--</td>
<td>63</td>
<td>257(\text{c})</td>
</tr>
<tr>
<td>1975</td>
<td>1,999</td>
<td>642</td>
<td>404</td>
<td>251</td>
<td>153(\text{d})</td>
<td>303</td>
<td>467</td>
<td>18</td>
<td>165(\text{d})</td>
</tr>
</tbody>
</table>

\(\text{a}\) Public housing.
\(\text{b}\) Post-1947 apartments in structures with six or fewer units.
\(\text{c}\) Includes 156,000 public housing units, 34,000 regulated units, and 66,000 units for which controlled status was not ascertained.
\(\text{d}\) Free-market and regulated units.
**APPENDIX TABLE B-2**

Median Gross Month Rent for Renter Households by Control Status, New York City: 1950-1975

<table>
<thead>
<tr>
<th>Year</th>
<th>Renter Occupied</th>
<th>Renter Controlled</th>
<th>Total</th>
<th>Decontrolled</th>
<th>Never Controlled</th>
<th>Post-1947</th>
<th>Pre-1947</th>
<th>1-2 Rooms Lacking Facilities</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>$49</td>
<td>$49</td>
<td>$111</td>
<td>$89</td>
<td>$127</td>
<td>$52</td>
<td>$85</td>
<td>$75(^a)</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>74</td>
<td>72</td>
<td>114</td>
<td>107</td>
<td>149</td>
<td></td>
<td>$62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>90</td>
<td>78</td>
<td>146</td>
<td>116</td>
<td>161</td>
<td></td>
<td>$82</td>
<td>85(^a)</td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>96</td>
<td>88</td>
<td>168</td>
<td>131</td>
<td>162(^b)</td>
<td>$189</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>109</td>
<td>97</td>
<td>204</td>
<td>191</td>
<td>230(^b)</td>
<td>255</td>
<td>$176</td>
<td>130</td>
<td>101(^a)</td>
</tr>
<tr>
<td>1975</td>
<td>171</td>
<td>133</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\)Public housing.

\(^b\)Free-market and regulated units.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Renter Occupied</th>
<th>Total Renter Controlled</th>
<th>Not Controlled</th>
<th>Stabilized</th>
<th>1-2 Rooms Lacking Facilities</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Decontrolled</td>
<td>Post-1947</td>
<td>Pre-1947</td>
</tr>
<tr>
<td>1950</td>
<td>$3,300</td>
<td>$3,300</td>
<td>$6,200</td>
<td>$6,600</td>
<td>$8,800</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>4,900</td>
<td>4,600</td>
<td>7,600</td>
<td>6,300</td>
<td>8,800</td>
<td>-</td>
</tr>
<tr>
<td>1965</td>
<td>5,800</td>
<td>5,300</td>
<td>9,929</td>
<td>7,000</td>
<td>9,900</td>
<td>-</td>
</tr>
<tr>
<td>1968</td>
<td>6,000</td>
<td>5,400</td>
<td>9,500</td>
<td>8,100</td>
<td>10,200(b)</td>
<td>$11,000</td>
</tr>
<tr>
<td>1970</td>
<td>7,200</td>
<td>6,400</td>
<td>11,300</td>
<td>9,500</td>
<td>12,300(b)</td>
<td>14,800</td>
</tr>
<tr>
<td>1975</td>
<td>8,400</td>
<td>7,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(a\) Public housing.
\(b\) Free-market and regulated units.
APPENDIX TABLE B-4

Gross Rent as a Percentage of Income for Renter Households by Control Status,
New York City:
1950-1975

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Renter Occupied</th>
<th>Controlled</th>
<th>Not Controlled</th>
<th>Stabilized</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Post-1947</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Decontrolled</td>
<td>Pre-1947</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Never</td>
<td>Facilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Controlled</td>
<td></td>
</tr>
<tr>
<td>1950a</td>
<td>17.9%</td>
<td>18.4%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>18.2</td>
<td>17.2</td>
<td>-</td>
<td>20.3%</td>
</tr>
<tr>
<td>1965</td>
<td>20.4</td>
<td>19.7</td>
<td>-</td>
<td>21.9</td>
</tr>
<tr>
<td>1968</td>
<td>21.0</td>
<td>21.0</td>
<td>21.7%</td>
<td>22.0</td>
</tr>
<tr>
<td>1970b</td>
<td>20</td>
<td>19</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>1975</td>
<td>24.7</td>
<td>24.5</td>
<td>24.4</td>
<td>25.4</td>
</tr>
</tbody>
</table>

*Public housing.
*Reported at nearest whole percentage.
*Free-market and regulated units.
## APPENDIX TABLE B-5

Median Number of Persons Per Unit for Renter Households by Control Status,
New York City:
1950-1975

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Renter Occupied</th>
<th>Controlled</th>
<th>Total</th>
<th>Decontrolled</th>
<th>Never Controlled</th>
<th>Post 1947</th>
<th>Pre-1947</th>
<th>1-2 Rooms Lacking Facilities</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>2.9</td>
<td>2.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
<td>2.6</td>
<td>2.3</td>
<td>-</td>
<td>-</td>
<td>1.2</td>
<td>-</td>
</tr>
<tr>
<td>1965</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>3.0</td>
<td>2.2</td>
<td>-</td>
<td>-</td>
<td>1.1</td>
<td>3.6²</td>
</tr>
<tr>
<td>1968</td>
<td>2.2</td>
<td>2.1</td>
<td>2.3</td>
<td>2.7</td>
<td>2.1</td>
<td>-</td>
<td>-</td>
<td>1.1</td>
<td>3.4³</td>
</tr>
<tr>
<td>1970</td>
<td>2.1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>-</td>
<td>-</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1975</td>
<td>2.0</td>
<td>1.8</td>
<td>2.4</td>
<td>2.5</td>
<td>2.3²</td>
<td>1.8</td>
<td>2.1</td>
<td>1.1</td>
<td>3.0³</td>
</tr>
</tbody>
</table>

²Public housing.
³Pre-market and regulated units.
### APPENDIX TABLE B-6

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Renter Occupied</th>
<th>Total Renter Controlled</th>
<th>Not Controlled</th>
<th>Stabilized</th>
<th>1-2 Rooms Lacking Facilities</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>3.7</td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>3.6</td>
<td>3.7</td>
<td>3.5</td>
<td>3.7</td>
<td>3.4</td>
<td>1.1</td>
</tr>
<tr>
<td>1965</td>
<td>3.6</td>
<td>3.6</td>
<td>3.7</td>
<td>4.3</td>
<td>3.4</td>
<td>1.1</td>
</tr>
<tr>
<td>1968</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>4.2</td>
<td>3.3</td>
<td>1.1</td>
</tr>
<tr>
<td>1970</td>
<td>3.5</td>
<td>3.5</td>
<td>3.4</td>
<td>4.4</td>
<td>3.9b</td>
<td>3.0</td>
</tr>
<tr>
<td>1975</td>
<td>3.6</td>
<td>3.6</td>
<td>4.2</td>
<td>4.4</td>
<td>3.9b</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Not Controlled: Total Decontrolled Never Controlled Post-1947 Pre-1947

Stabilized: 1-2 Rooms Lacking Facilities All Other

---

*a* Public housing.

*b* Free-market and regulated units.
### APPENDIX TABLE B-7

Renter Households by Race and Ethnic Group,
New York City:
1950-1970

(in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>White NPR</th>
<th>Black NPR</th>
<th>Puerto Rican</th>
<th>Not Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950a</td>
<td>1,908</td>
<td>1,682</td>
<td>176</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>1960a</td>
<td>1,967</td>
<td>1,531</td>
<td>249</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>1965b</td>
<td>2,077</td>
<td>1,344</td>
<td>316</td>
<td>175</td>
<td>242</td>
</tr>
<tr>
<td>1968b</td>
<td>2,096</td>
<td>1,456</td>
<td>394</td>
<td>210</td>
<td>36</td>
</tr>
<tr>
<td>1970b</td>
<td>2,167</td>
<td>1,399</td>
<td>583</td>
<td>185</td>
<td></td>
</tr>
<tr>
<td>1975c</td>
<td>1,990</td>
<td>1,181</td>
<td>475</td>
<td>238</td>
<td>105</td>
</tr>
</tbody>
</table>

---

*aKristof: Table 47, p. 88.
bSternich: Exhibit 4-17, p. 88.
cBlooming: Table 5.18, pp. 99.
APPENDIX TABLE B-8
New Dwelling Units Completed
New York City:
1950-1970

<table>
<thead>
<tr>
<th>Year</th>
<th>Grand Total</th>
<th>Public</th>
<th>Publicly Aided</th>
<th>Private</th>
<th>1 Family</th>
<th>2 Family</th>
<th>3+ Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>34,413</td>
<td>8,953</td>
<td>1,299</td>
<td>24,170</td>
<td>7,174</td>
<td>5,194</td>
<td>11,802</td>
</tr>
<tr>
<td>1951-1960</td>
<td>323,330</td>
<td>12,955</td>
<td>1,159</td>
<td>24,299</td>
<td>5,723</td>
<td>3,648</td>
<td>19,527</td>
</tr>
<tr>
<td>1951</td>
<td>49,012</td>
<td>9,298</td>
<td>784</td>
<td>27,392</td>
<td>4,439</td>
<td>6,250</td>
<td>16,603</td>
</tr>
<tr>
<td>52</td>
<td>25,277</td>
<td>9,344</td>
<td>314</td>
<td>15,869</td>
<td>4,748</td>
<td>4,310</td>
<td>6,611</td>
</tr>
<tr>
<td>53</td>
<td>22,265</td>
<td>3,734</td>
<td>512</td>
<td>18,019</td>
<td>3,894</td>
<td>3,038</td>
<td>11,087</td>
</tr>
<tr>
<td>54</td>
<td>27,395</td>
<td>9,865</td>
<td>626</td>
<td>16,904</td>
<td>4,799</td>
<td>3,294</td>
<td>8,811</td>
</tr>
<tr>
<td>1956</td>
<td>29,202</td>
<td>2,111</td>
<td>809</td>
<td>26,282</td>
<td>4,689</td>
<td>4,556</td>
<td>17,037</td>
</tr>
<tr>
<td>57</td>
<td>27,508</td>
<td>6,344</td>
<td>514</td>
<td>20,650</td>
<td>1,466</td>
<td>5,354</td>
<td>10,830</td>
</tr>
<tr>
<td>58</td>
<td>32,296</td>
<td>7,413</td>
<td>6,254</td>
<td>18,629</td>
<td>3,875</td>
<td>5,858</td>
<td>8,896</td>
</tr>
<tr>
<td>59</td>
<td>37,104</td>
<td>8,206</td>
<td>3,857</td>
<td>25,141</td>
<td>3,734</td>
<td>7,044</td>
<td>14,363</td>
</tr>
<tr>
<td>60</td>
<td>35,247</td>
<td>2,464</td>
<td>1,904</td>
<td>30,879</td>
<td>3,089</td>
<td>8,440</td>
<td>19,350</td>
</tr>
<tr>
<td>1961</td>
<td>35,127</td>
<td>2,086</td>
<td>4,297</td>
<td>28,744</td>
<td>2,779</td>
<td>7,158</td>
<td>18,807</td>
</tr>
<tr>
<td>62</td>
<td>47,300</td>
<td>6,031</td>
<td>11,825</td>
<td>35,456</td>
<td>3,528</td>
<td>7,830</td>
<td>21,850</td>
</tr>
<tr>
<td>63</td>
<td>60,031</td>
<td>2,950</td>
<td>11,825</td>
<td>45,256</td>
<td>2,933</td>
<td>7,314</td>
<td>35,054</td>
</tr>
<tr>
<td>64</td>
<td>51,919</td>
<td>7,222</td>
<td>9,926</td>
<td>34,771</td>
<td>2,794</td>
<td>6,082</td>
<td>25,895</td>
</tr>
<tr>
<td>65</td>
<td>49,452</td>
<td>7,179</td>
<td>16,513</td>
<td>25,760</td>
<td>2,607</td>
<td>5,862</td>
<td>16,971</td>
</tr>
<tr>
<td>1966</td>
<td>32,131</td>
<td>5,253</td>
<td>5,870</td>
<td>21,008</td>
<td>2,301</td>
<td>5,172</td>
<td>13,535</td>
</tr>
<tr>
<td>67</td>
<td>23,936</td>
<td>2,860</td>
<td>6,345</td>
<td>14,031</td>
<td>1,650</td>
<td>4,234</td>
<td>8,147</td>
</tr>
<tr>
<td>68</td>
<td>17,242</td>
<td>1,439</td>
<td>5,784</td>
<td>10,019</td>
<td>1,874</td>
<td>5,140</td>
<td>3,005</td>
</tr>
<tr>
<td>69</td>
<td>17,469</td>
<td>2,997</td>
<td>4,314</td>
<td>10,158</td>
<td>1,677</td>
<td>4,944</td>
<td>3,537</td>
</tr>
<tr>
<td>70</td>
<td>14,354</td>
<td>1,519</td>
<td>2,712</td>
<td>10,103</td>
<td>1,631</td>
<td>4,316</td>
<td>4,156</td>
</tr>
<tr>
<td>1971</td>
<td>19,463</td>
<td>2,283</td>
<td>10,085</td>
<td>7,095</td>
<td>1,261</td>
<td>3,464</td>
<td>2,370</td>
</tr>
</tbody>
</table>

Mr. Lundine, Mr. Garcia?

Mr. Garcia. If, in fact, tomorrow rent control was eliminated, how many investors would go into the South Bronx?

Mr. Moses. First of all, we haven't asked for the end of the rent control tomorrow. I said in my testimony it is going to take 4 or 5 years for the rebuilding process to begin to evolve.

It takes owners a long time to get together with the bankers and the building department and all the other agencies. It will take a few years, 3, 4, 5 years, then you will see the process of rebuilding, because owners, if they are given opportunity will go back into construction of private housing.

Mr. Garcia. That is what the advocates say to you, 3 or 4 years of rent control, say, 3 or 4 years, now you are saying 3 or 4 years.

The advocates in 1974, they said 1976—isn't that what you said in your statement? Every 3 years they say in 3 years we are going to eliminate rent control?

Mr. Moses. No. What they did in 1969 was to say everything that has been built from 1947 to 1969 is under rent control, called rent stabilization, and anything built after that will not be; then they turned around in 1974, and they put everything built since 1969 under control.

That is the process that we say stands in the way of the private sector coming back in.

We have been burnt too often. It will take some time to get us back in.

Mr. Kelly. I have a parliamentary inquiry.

The situation on the subcommittee, we have three members present, four members present, three of them are from New York. Two of them are not on this subcommittee. I have——

Mr. Lundine. I beg your pardon. Who is not on the subcommittee?

Mr. Kelly. They are not. I have no objection to these members. I think they have vital interests. I welcome them here, but the idea that the rest of the Nation then is limited to one round of questioning while New York City has three, does not seem to be symmetrical to me, it doesn't seem to be fair.

I wonder if the rules don't provide for some latitude on the part of the Chair to give some balance to the procedure.

Mr. Lundine, Mr. Kelly, the rules also provide that the majority shall be recognized two times for every one time the minority is. I have foregone my own questioning before, and the rules further provide that members of the full committee may question the witnesses under rule 7, subparagraph (f), and so I don't think the presence of these two members who are members of the full committee is an abridgement of our rules.

I would be glad to recognize you again.

Mr. Kelly. I didn't suggest that. I am just suggesting that we are here to develop the truth. I think we have three people that have a direct interest and only one person who doesn't, and the Chair, disturbed about the length of time I inquired, I am willing to abide by the rules, but I would like to have enough latitude from the Chair, to balance the inquiry.

That is all.
I think these gentlemen ought to be here. I commend them for being here. I welcome them. I want them to have the opportunity, but I do think that the presentation ought to be balanced, so that we can develop information for the Congress that will be balanced.

That is all, that is my request to the Chair.

Mr. Lundy. Your request is noted. Mr. Green?

Ms. Benedos. Is it possible to say something?

Mr. Lundy. No, ma'am, I am sorry, it is not.

Mr. Green. My questions are of Commissioner Leventhal, and they may be a little more technical than the last few questions.

Part of the rent control program involves a tax abatement to the landlords who hold down rents for elderly householders. Do you know what the dollar value, what the annual value of that tax abatement is?

Mr. Leventhal. No, I have to get that for you. I don't know. There is that provision in both the rent control and stabilization.

Mr. Green. At one point, I believe it was the March 29, 1976, financial plan submitted by Mayor Beame to Senator Proxmire—I may be a little off on the date—there was a suggestion that the mayor proposed to use or give a priority in section 8 funding in New York City to elderly tenants who would otherwise get the benefit of that provision of the law, so the need to provide that subsidy would not exist; the city could have those tax revenues, and in essence the rents on those units could rise to the administratively determined fair market value. Is that under consideration?

Mr. Leventhal. Yes, you should know, as I expect you do, being formerly a Regional Administrator for HUD, that the city's allocation for section 8 is very, very small. It will finance only 2,300 units of housing.

There is additionally set aside under section 202 for senior citizen relief, so while we are sensitive to that and doing everything we can, when you are talking about 2,300 units subsidized—talking about rehabilitation and new construction; but with respect to existing housing the allocation of 4,500 units, 2,500 or 2,000 units were immediately taken back by HUD to finance their own projects which are in need of this kind of subsidy.

HPD is out of section 8 existing housing. We are—in fact, at the time of this hearing there is a meeting between Federal and city officials to try and do something about that problem, so that remains a priority. I think we have to always keep in mind the restraining influences or the numbers given by the Federal Government.

Mr. Green. One part of the city's national plan all along has involved the permanent financing of the Mitchell-Lama projects that were in temporary financing, using the Federal section 223(f) program.

What is the status of that?

Mr. Leventhal. We projected a plan of $280 million revenues from the refinancing pursuant to 223(f) of the national housing law. We are somewhere around the level of $150 million or $140 million.

While not wildly optimistic about making the $280 million, we are doing everything we can.

One thing there, one particular project which we can refinance, is not eligible because of the amendment in the HUD regulations
effective January 1. We have requested that regulation be amended so we can refinance that project, which we anticipate alone would bring us an additional $60 million.

We are trying to meet that figure. I am hopeful we will.

Mr. Green. What is the project?

Mr. Leventhal. Manhattan Plaza, and it is exempt now because it received Federal housing subsidy.

Mr. Green. Another part of the plan involves federalization of some of the city- and State-financed public housing. I know that is not directly in your jurisdiction. I was wondering what the status of that is, and whether the funds are adequate to deal with that.

Mr. Leventhal. Secretary Harris, who I think has been extremely helpful to us in a lot of these kinds of problems, met recently with Mayor Koch and myself and the budget director to discuss these problems, one of which you just mentioned.

The housing authority will be submitting a request for a third-phase assumption of those costs by the Federal Government. I am hopeful it will be looked upon favorably by Secretary Harris.

Mr. Green. Do you know the number of units that would be involved in that third phase?

Mr. Leventhal. The one I heard was 13,000 units. That would be a rough estimate.

Mr. Lundine. I am going to forgo asking questions on another round, except to ask Ms. Benedict: Did you have something that you wanted to say prior to this?

Ms. Benedict. I would like to say something. Thank you very much.

I do believe there have been references to the banks and to the rate of interest, and the role of the banks in this. Now, the role of the banks in the whole debate over controls and over housing in general is one of standing silently behind the real estate interest, and standing behind the scenes.

However, there are publications, of course, of the banking interest that make their position on rent control clear. I think it does have to be said that in housing today the financing of housing is some 50 to 60 cents of every rent dollar, and that has to be recognized.

The matter of the high interest rates, which indeed Mr. Moses mentioned, is a very important component of the whole housing picture; and when we talk about controls, we cannot talk about controls without talking about the entire financing.

Today money is made through subsidy. Manhattan Plaza, which was just mentioned, was built by Richard Ravitch, whose name is certainly not unknown to you. I am sure, as the head of HRH Construction, a nationwide company. He made $7 million overnight when he sold that development, which was funded with Mitchell-Lama funds, which is public funding for a very special kind of housing in New York City, Mitchell-Lama funds, which he sold to S. J. Lauder and her then husband, Alexander Kohn, for $11 million, and he made $7 million overnight.

He still has an interest in that. They have the depreciation on this enormous development, which is now being supported by section 8 funds.
What I am saying is—and this is not rent control—what I am saying is, with that kind of speculative picture, it is no wonder I must say that real estate is saying—some of it—that it isn’t getting what it wants.

I don’t say that with one iota of sympathy, I am simply saying you have to see the whole housing picture. This is why tenants across the country are demanding controls, because with the subsidy, the speculative nature of this kind of building, with very high rents which are then kept up to a level in New York City of $684 for a 2-bedroom apartment, for the possibility of section 8 supplement so a tenant pays 25 percent of income and the balance is borne by all of our taxes out of Federal money.

These are matters that must be understood as to why tenants of all kinds, not simply locally in New York City, are demanding controls, because they see what is happening with the use of funds—city, State, or Federal—in a speculative real estate game.

I want to say one more thing about the South Bronx. The South Bronx is that area for which the former administrator of the then Housing and Development Administration, Roger Starr—whom I am glad to say has been succeeded by Mr. Leventhal—Roger Starr put forward a policy which was clearly not his own. He was the spokesman, rather brashly, for a whole group of people; and he talked about planned shrinkage.

You cannot talk about the South Bronx and those buildings and the role of banks and the entire picture without understanding that in the South Bronx there is a predetermined plan in the minds of certain people that the South Bronx is not to have in it the people who are living there now, but is to be redeveloped. This is not just rent control.

Therefore, what we are saying to you is that many of the issues, which are apparently debatable and cause a great deal of heat around rent control have their roots in far deeper and far more fundamental issues.

I want to say one more thing about the nonpayment of taxes on the part of real estate. I know Mr. Moses will not be pleased, because he and I have debated each other before, and I am afraid I always exhibit this.

The Real Estate Weekly of August 1, 1974, reports on the first page: A seminar was held by the organization in which the landlords were urged, among other things, not to pay their taxes as a means of pressure upon the city. This is not the single issue. It is the opening gun.

You have all the following issues in a complete file, in which there was followup in order to pressure the city in that particular instance on a fuel cost passalong, the nonpayment of taxes, the statements of many people, one of whom I just point out once before, is Harry Helm, who is no small realtor.

The obvious indication is that in order to bring pressure, many of the taxes are not being paid until those who want what they get, get what they want.

Mr. LUNDINE. Mr. Kelly?

Mr. KELLY. Ms. Benedict, I would like to ask you: As I understand your statement, you say that some individual profited to the
extent of $7 million on a project that was financed by Mitchell-Lama funds, and then ultimately by section 8 funds?


Mr. Kelly. It would seem to me as though you are suggesting that these are bad programs that permit profiteering. I don't know if that necessarily is justification for saying to other people, who may or may not have profited by such Government programs and who have invested their money in property, that they will have their property confiscated for the benefit of some other citizen, that is, rent control.

In other words, you tell them: You have your money invested. You can't get out of here. We have you nailed down because you have a capital investment; so we are going to make you give part of what you have to someone else so that they will like us better than they do you.

Ms. Benedict. May I answer that, sir?

Mr. Kelly. Yes.

Ms. Benedict. First of all, I must disagree that anybody is saying to a real estate owner: We are taking what you have got.

We are saying that people have a right to housing, and there is a role of government, as I indicated before, and that landlords as well as tenants, as well as all of us, are regulated in one area or another; and the right of an owner to his property is not the right to exploit beyond human endurance.

Unfortunately, that is what has happened on many occasions. That is the concept of some government regulations in the philosophy of rent control.

Mr. Kelly. In other words, you are of the view that, if a person owns property, you can't decide who comes on his property?

Ms. Benedict. We have social security, income taxes, we have all kinds of regulations which say to people: You may not do everything precisely the way you want. Where there is human welfare involved it seems to me regulation of rent is a small price to pay.

Sir, may I answer the rest of the question?

Mr. Kelly. No, because I want an answer to my question.

Ms. Benedict. Your question had to do with the subsidies. May I answer that?

Mr. Kelly. I ask you: Did you feel as though he had improperly profited from the program.

Ms. Benedict. I think it is improper. I am not sure it is illegal.

Mr. Kelly. For that reason, the program is bad?

Ms. Benedict. That is what I would like to answer. I do feel many of the programs are misused. We do feel many of the programs—although I want to state very flatly—are delighted if a person who is a poor person and qualifies for section 8 has a supplement that says that person need only pay 25 percent of income, we don't grudge that—

Mr. Kelly. I am talking about the aspect—

Ms. Benedict. Congressman, I can only answer it my way, if you will let me.

Mr. Kelly. I don't want an answer to another question. I asked about profiteering, and you went on to another question about benefits.
Ms. Benedict. You asked me if I approved or disapproved of these programs.

Mr. Kelly. Because they are subject to profiteering.

Ms. Benedict. Yes, they are, and it is a deplorable situation.

Mr. Kelly. There was a question raised here about the fact that in the area of the Bronx that is described in your display, that the people there had been legislated against because insurance rates went up and investments went down.

Now, as I understand the arrangement in a free society, an individual has a responsibility, and the responsibility is to try as a free man to support the whole. Now, if an individual decides he is going to throw rocks through windows and burn the place down, it is quite logical that insurance rates are going to go up, because the cost of business goes up.

Now, I would like to get your comment on this. Is it your understanding that the private sector in New York City has a conspiracy against neighborhoods, or is it true that some people in some neighborhoods don’t keep the neighborhood clean, that they don’t assume their responsibility as individuals, and that because of the conduct of people in those areas, the risk for capital investment and for insurance is exacerbated—made more difficult?

Mr. Moses. Owners throughout the city of New York are attempting to hold on to their investments, to improve their investments, and to improve their prospects of their neighbors, because they know that when their neighbor is in trouble, they are in trouble. There is no conspiracy on the part of owners to do anything to harm the city of New York.

Mr. Kelly. Would the investors, as far as you know, be willing to go into every area of the city if they could expect to make a profit?

Mr. Moses. Yes. In fact, what happened is when the city of New York in this coming year takes the 24,000 buildings that have failed to pay their real estate taxes under the new program, those 24,000 buildings are going to end up right back into the private hands through a cycle that the city itself produces. They have monthly auctions.

I would be glad to submit this, with your approval, a copy of the auction of January 26, 1973, in which they take these buildings that they have taken from the owners and turned around and sell them; with all the violations, with all the problems, with all the difficulties that are attached to them, they turn around and sell them at auctions.

Some of them, based on the assessed valuations, 10 cents on the dollar—that is, if a building is assessed for $20,000, it might be sold for $2,000. It might also be sold for $100 and still be on the city's record as being assessed at $20,000.

With your permission, I would like to submit a brochure of the city's own auction sale record for January 1973, Mr. Chairman.

Mr. Lunden. Without objection, it will be put in the record.

[Text resumes on p. 529.]

[The brochure referred to by Mr. Moses entitled "Auction Sale: Surplus City-Owned Real Estate," by the city of New York Division of Real Property, follows:]
DIVISION OF REAL PROPERTY

NEW DEPOSIT REQUIREMENTS
SEE PAGE 2 FOR DETAILS

AUCTION SALE
JAN. 26, 1978
SURPLUS CITY-OWNED REAL ESTATE
To the Purchasing Public:

This brochure lists the entire group of properties being offered, subject to any withdrawals, at this public auction sale.

I strongly urge prospective purchasers to carefully read the "Standard Terms and Conditions of Sale" printed at the rear of this booklet, which set forth, among other requirements, the monetary obligations of purchasers at the auction sale as well as the procedures which follow thereafter.

Please note that new changes in the "Terms of Sale" are being put into effect for this sale and for all subsequent sales. The major changes are as follows:

- A requirement that a portion of the upstate price, 20% in most cases, be paid by cash or certified check only.
- A condition that title to the property is to revert to the City of New York if, within two years from the date of closing of title, all class B and C housing code violations of record, shall not be cleared, satisfied and removed. Such housing violations refer to multiple dwellings only.
- Purchasers and assigns will be required to sign affidavits verifying, among other things, that they do not own any property located in the City of New York which is delinquent in the payment of real estate taxes for a period exceeding one year. (See Paragraph 23).
- Other important changes include a requirement that balance payments be made within 30 days from the date of sale and that title objections be submitted within 30 days from date of sale.

In order to minimize confusion and possible mistakes purchasers should also inspect and investigate properties in which they are
interested prior to the date of the sale, as to exact location, improvements, physical condition, legal use, assessed valuations and annual real estate taxes. Assistance in such matters can be obtained at the offices of the City Planning Commission, the Building Department and the Real Property Assessment Department.

Personal inspection of properties can be arranged by telephoning the Bureau of Property Management of this Division. Telephone numbers for inspection of property in the respective borough are listed at the beginning of this brochure.

Further questions you may have in connection with this sale can be answered by our Bureau of Sales at 566-7530.

Very truly yours,

[Signature]

Stephen Fisher
Commissioner
SUGGESTED FORM OF LETTER OF BROKER'S AUTHORIZATION

(TO BE FILED IN THE OFFICE OF THE DIVISION OF REAL PROPERTY
AT LEAST ONE DAY PRIOR TO THE DATE OF SALE)

DIVISION OF REAL PROPERTY
2 Lafayette Street
New York, New York 10007

Dear Sir—

In connection with the Public Auction of City-Owned Properties to be held on JANUARY 26, 1978 at
the Statler Hilton Hotel, 7th Ave., 32nd St., to 33rd St., New York City, I may bid on

PARCEL NO. (If blanket, rather than specific, authorization is desired, enter ALL)

as designated in the Auction Booklet, and hereby authorize

(Name of Broker — Please Print) (Address) (Zip Code) (Borough)

N. Y. STATE BROKER'S LICENSE NO. EXPIRATION DATE

to act on my behalf as real estate broker.

BROKER'S TELEPHONE

Very truly yours,

(Client's Signature)

(Address) (Zip Code)

Please Print Client's Name Here

NOTICE

In connection with Auction Sales of City-owned property any representative
of the purchaser signing the Memorandum of Sale for the purchaser will be
required to produce a properly executed and acknowledged power of attorney,
which must contain the signature and affidavit of the attorney in fact and shall
not authorize the attorney in fact to delegate another.
Information regarding the Tax Map Dotes for all properties listed in this brochure may be obtained at the offices of the Division of Real Property, 2 Lafayette Street, New York, N. Y. — Bureau of Sales — Room 1903.

FOR PERSONAL INSPECTION OF THE PROPERTY PRIOR TO SALE

ARRANGEMENTS FOR THE INSPECTIONS CAN BE MADE BY TELEPHONING THE BUREAU OF PROPERTY MANAGEMENT.

MANHATTAN — EAST & WEST

From Battery to 96th Street — 566-7740
From 97th Street to 117th Street — 566-7505
From 118th Street to 134th Street — 566-7501
Above 134th Street — 566-5673

BROOKLYN — BLOCK 1 TO 1400 — 566-1706
566-1707
566-1708

BLOCK 1401 TO 1900
566-1712
566-1713
566-1777

BLOCK 1901 TO 3350
566-1709
566-1710
566-1711

BLOCK 3351 AND ABOVE
566-7371
566-7372
566-7373

BRONX — BLOCK 2260 TO 2599 — 566-8985

BLOCK 2600 AND ABOVE — 566-7516

QUEENS & STATEN ISLAND
(All properties) — 566-6233

NOTE: Your attention is directed to Section 1106 of the New York City Charter prohibiting any official or employee of the City of New York from purchasing City-owned property.
<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>DESCRIPTION</th>
<th>SIZE</th>
<th>RENTAL REQUIREMENT</th>
<th>PURCHASE PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>376</td>
<td>58</td>
<td>North Side of East 4th Street, 152 feet East of Avenue C (Also known as 106-11 East 6th Street)</td>
<td>44 x 90</td>
<td>$200.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>2</td>
<td>416</td>
<td>13</td>
<td>East Side of Eldridge Street, 25 feet South of Stanton Street (Also known as 220 Eldridge Street)</td>
<td>24 x 60</td>
<td>$200.00</td>
<td>$400.00</td>
</tr>
</tbody>
</table>

Sale of these properties shall be further subject to the following conditions:

The development of and use of the subject property is restricted and limited to non-profit community use for playground, park space and/or garden space. This covenant shall run with the land.

WITHDRAWN
BOROUGH OF MANHATTAN

FOR BID PURCHASE, THE SUCCESSFUL BIDDER MUST HAVE THE CASH REQUIREMENT INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK  CERTIFICATE OF DEPOSIT. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL DEPOSIT REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION DESCRIPTION</th>
<th>CASH REQUIREMENT</th>
<th>PURCHASE PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>1763</td>
<td>59</td>
<td>South Side of East 29th Street, 60 East West of Madison Avenue (Also known as 20-28 East 159th Street)</td>
<td>$300.00</td>
<td>$1,000.00</td>
</tr>
</tbody>
</table>

Parcels 13 20-28 East 159th Street
BOROUGH OF MANHATTAN

FOR EACH PARCEL, THE SUCCESSFUL BIDDER MUST MAKE THE ENCLOSED PURCHASE MONEY DEPOSIT IN THE FORM OF CASH, CERTIFIED OR BANK TELEGRAPH CHECK OR POSTAL MONEY ORDERS. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL BIDDER REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BLOCK</th>
<th>LOT</th>
<th>DESCRIPTION</th>
<th>SIZE</th>
<th>DEPOSIT</th>
<th>S/N</th>
<th>PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>1822</td>
<td>50</td>
<td>South Side of West 113th Street, 120 feet East of 7th Avenue (Also Known as 149 West 113th Street) 2 Story Brick Building</td>
<td>20 x 100</td>
<td>$100</td>
<td>S-200</td>
<td>$200</td>
</tr>
<tr>
<td>PARCEL</td>
<td>BLOCK</td>
<td>LIB</td>
<td>LOCATION</td>
<td>SIZE</td>
<td>RECONSIDER</td>
<td>LIST PRICE</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-------</td>
<td>-----</td>
<td>----------</td>
<td>------</td>
<td>------------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>1827</td>
<td>67</td>
<td>South Side of West 112th Street 150 feet East of 8th Avenue (Also known as 250 West 112th Street) &amp; 2 Story Brick Building</td>
<td>10 x 100</td>
<td>500.00</td>
<td>500.00</td>
<td></td>
</tr>
</tbody>
</table>

For each purpose, the successful bidder must have the legal instrument indicated below in the form of cash, certified or bank tellers check or postal money order. Please see the terms and conditions of sale at the back of this brochure for additional report requirements.
BOROUGH OF MANHATTAN

FOR EACH PURCHASE, THE SUCCESSFUL BIDDER MUST MAKE THE BIDDE'S REQUIREMENT INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK TELEPHONED CHECK OR POSTAL MONEY ORDER. PRIOR TO THE TIME AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL REQUIREMENTS.

<table>
<thead>
<tr>
<th>Parcel</th>
<th>Block</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Bidder's Requirement</th>
<th>Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>1029</td>
<td>27</td>
<td>South side of West 33rd Street, 100 feet West of Centre Park West (also known as 4 West 35th Street)</td>
<td>25 x 100</td>
<td>$100.00</td>
<td>$400.00</td>
</tr>
<tr>
<td>17</td>
<td>1040</td>
<td>62</td>
<td>South side of West 105th Street, 65 feet East of Central Avenue</td>
<td>11 x 100</td>
<td>$100.00</td>
<td>$200.00</td>
</tr>
<tr>
<td>18</td>
<td>1048</td>
<td>7</td>
<td>North side of West 148th Street, 142 feet East of Manhattan Avenue (also known as 311 West 148th Street)</td>
<td>27 x 100</td>
<td>$100.00</td>
<td>$200.00</td>
</tr>
</tbody>
</table>

Parcel 19: 311 West 148th Street
**BOROUGH OF MANHATTAN**

For each purpose, the successful bidder must make the cash requirement indicated below in the form of cash, certified or bank tellers check or postal money order. Please see the terms and conditions of sale at the back of this brochure for additional deposit requirements.

<table>
<thead>
<tr>
<th>PARCEL NO</th>
<th>BLOCK</th>
<th>LOT</th>
<th>DESCRIPTION</th>
<th>LENGTH X WIDTH</th>
<th>REQUIREMENT</th>
<th>DEPOSIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>1944</td>
<td>37</td>
<td>South Side of West 118th Street, 100 feet west of 8th Avenue (Also known as 310 West 118th Street)</td>
<td>25 x 100</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>25</td>
<td>1944</td>
<td>38</td>
<td>South Side of West 118th Street, 125 feet west of 8th Avenue (Also known as 304 West 118th Street)</td>
<td>25 x 100</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>26</td>
<td>1945</td>
<td>53</td>
<td>West Side of Manhattan Avenue, 25 feet south of West 119th Street (Also known as 445 Manhattan Avenue)</td>
<td>25 x 100</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>27</td>
<td>1945</td>
<td>54</td>
<td>Southeast corner of West 119th Street and Manhattan Avenue (Also known as 447 Manhattan Avenue)</td>
<td>25 x 100</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>28</td>
<td>1945</td>
<td>55</td>
<td>South Side of West 119th Street, 100 feet west of Manhattan Avenue (Also known as 314 West 119th Street)</td>
<td>25 x 100</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>29</td>
<td>1947</td>
<td>21, 22</td>
<td>North Side of West 120th Street, 70 feet east of Manhattan Avenue</td>
<td>20 x 100</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>30</td>
<td>1953</td>
<td>54</td>
<td>South Side of West 127th Street, 104 feet west of St. Nicholas Avenue (Also known as 362 West 127th Street)</td>
<td>25 x 99</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

Parcel 30 362 West 127th Street

25-364 O - 78 x 35
<table>
<thead>
<tr>
<th>PARCEL</th>
<th>1954</th>
<th>20</th>
<th>SOUTH SIDE OF ST. NICHOLAS AVENUE, 75 FEET SOUTH OF WEST 127TH STREET (ALSO KNOWN AS 346 ST. NICHOLAS AVENUE)</th>
<th>3 STORY BRICK BUILDING</th>
<th>25 x 90</th>
<th>$750</th>
<th>$750</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>1954</td>
<td>42</td>
<td>EAST SIDE OF ST. NICHOLAS AVENUE, 72 FEET SOUTH OF WEST 128TH STREET (ALSO KNOWN AS 350 ST. NICHOLAS AVENUE)</td>
<td>3 STORY BRICK BUILDING</td>
<td>25 x 90</td>
<td>$1000</td>
<td>$1000</td>
</tr>
<tr>
<td>22</td>
<td>1958</td>
<td>81</td>
<td>EAST SIDE OF ST. NICHOLAS AVENUE, 239 FEET NORTH OF WEST 130TH STREET (ALSO KNOWN AS 418 ST. NICHOLAS AVENUE)</td>
<td>3 STORY BRICK BUILDING</td>
<td>25 x 90</td>
<td>$250</td>
<td>$250</td>
</tr>
<tr>
<td>23</td>
<td>1959</td>
<td>48</td>
<td>SOUTH SIDE OF WEST 135TH STREET, 100 FEET WEST OF 8TH AVENUE (ALSO KNOWN AS 314 WEST 135TH STREET)</td>
<td>3 STORY BRICK BUILDING</td>
<td>25 x 90</td>
<td>$1000</td>
<td>$1000</td>
</tr>
<tr>
<td>24</td>
<td>1959</td>
<td>49</td>
<td>SOUTH SIDE OF WEST 135TH STREET, 126 FEET WEST OF 8TH AVENUE (ALSO KNOWN AS 308 WEST 135TH STREET)</td>
<td>3 STORY BRICK BUILDING</td>
<td>25 x 90</td>
<td>$1000</td>
<td>$1000</td>
</tr>
<tr>
<td>25</td>
<td>1959</td>
<td>50</td>
<td>SOUTH SIDE OF WEST 135TH STREET, 150 FEET WEST OF 8TH AVENUE (ALSO KNOWN AS 310 WEST 135TH STREET)</td>
<td>3 STORY BRICK BUILDING</td>
<td>25 x 90</td>
<td>$1000</td>
<td>$1000</td>
</tr>
<tr>
<td>26</td>
<td>1959</td>
<td>52</td>
<td>SOUTH SIDE OF WEST 135TH STREET, 200 FEET WEST OF 8TH AVENUE (ALSO KNOWN AS 314 WEST 135TH STREET)</td>
<td>3 STORY BRICK BUILDING</td>
<td>25 x 90</td>
<td>$1000</td>
<td>$1000</td>
</tr>
</tbody>
</table>

**Parcel 37 314 West 135th Street**
<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>DESCRIPTION</th>
<th>SIZE (FT²)</th>
<th>CASHER REQUIREMENT</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>1966</td>
<td>01</td>
<td>South Side of West 216th Street, 201 Feet West of 148th Avenue (aka Beacon at 216 West 148th Street)</td>
<td>10 x 109 - 9</td>
<td>$100 - $100</td>
<td>$200</td>
</tr>
<tr>
<td>39</td>
<td>1966</td>
<td>02</td>
<td>South Side of West 216th Street, 235 Feet West of 148th Avenue (aka Beacon at 215 West 148th Street)</td>
<td>10 x 134 - 9</td>
<td>$100 - $100</td>
<td>$200</td>
</tr>
<tr>
<td>40</td>
<td>1966</td>
<td>01</td>
<td>South Side of West 125th Street, 252 Feet West of 92nd Avenue (aka Corner of 125 West 125th Street)</td>
<td>10 x 100 - 9</td>
<td>$100 - $100</td>
<td>$200</td>
</tr>
<tr>
<td>41</td>
<td>2006</td>
<td>34</td>
<td>West Side of Lenox Avenue, 30 Feet South of West 118th Street (aka Corner on 118 Lenox Avenue)</td>
<td>10 x 75 - 9</td>
<td>$100 - $100</td>
<td>$200</td>
</tr>
</tbody>
</table>

Parcel 41: 547 Lenox Avenue
BOROUGH OF MANHATTAN

FOR SALE PURSUANT TO THE SUCCESSFUL BIDDER WILL HAVE THE EASEMENT INDICATED BELOW IN THE FORM OF
EASEMENT ON SOUTH YELLOWS (See the Prospect Point Office). PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT
THE BACK OF THIS DOCUMENT FOR ADDITIONAL REQUIREMENTS.

<table>
<thead>
<tr>
<th>Parcel</th>
<th>ACOG</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>2024</td>
<td>87</td>
<td>South Side of West 141st Street, 105 feet East of 8th Avenue (Also known as 586 West 141st Street)</td>
<td>20 x 98 x 4 = 9,792</td>
<td>8,300</td>
</tr>
</tbody>
</table>

1 Story Brick Building
BOROUGH OF MANHATTAN

FOR EACH PURCHASE, THE SUCCESSFUL BIDDERS MUST MAKE THE CASH REQUIREMENT INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK CHECK OR POSTAL MONEY ORDER. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL DEPOSIT REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASH REQUIREMENT</th>
<th>MORTGAGE VALUE</th>
<th>ESPIS FEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>2032</td>
<td>58</td>
<td>South Side of West 148th Street, 139 feet East of 8th Avenue (Also known as 242 West 148th Street)</td>
<td>39 x 99</td>
<td>$ 100.</td>
<td>$ 500.</td>
<td></td>
</tr>
</tbody>
</table>

Parcel 43 242 West 148th Street

| 64         | 2043  | 11  | Northwest Corner of 8th Avenue and West 141st Street (Also known as 2643 8th Avenue) | 24 x 100 | $ 300. | $ 1,500. | |

Parcel 64 2643 8th Avenue
### PARCEL 45 - 514-16 West 146th Street

**South Side of West 146th Street, 130 feet West of Amsterdam Avenue (Also known as 514-16 West 146th Street)**

- **Lot:** 30
- **Size:** 40 x 99
- **Cash Requirement:** $100
- **Deposits:** $50

**Note:** Cashiers' checks and money orders are accepted. Deposit may be credited towards purchase price. See terms and conditions of sale at the back of this document for additional deposit requirements.

### PARCEL 46 - 519-33 West 146th Street

**West Side of Amsterdam Avenue, 74 feet South of West 146th Street (Also known as 170 Amsterdam Avenue)**

- **Lot:** 33
- **Size:** 25 x 120
- **Cash Requirement:** $100
- **Deposits:** $50

**Note:** Cashiers' checks and money orders are accepted. Deposit may be credited towards purchase price. See terms and conditions of sale at the back of this document for additional deposit requirements.
## BOROUGH OF STATEN ISLAND

For each purchase, the successful bidder must make the cash deposit indicated below in the form of cash, certified or bank teller check or postal money orders. Please see the terms and conditions of each of the back of this brochure for additional deposit requirements.

<table>
<thead>
<tr>
<th>Parcels No.</th>
<th>Block</th>
<th>Lot</th>
<th>Locations</th>
<th>Size (ft x ft)</th>
<th>Cash Deposit $</th>
<th>Minimum Cash Price $</th>
</tr>
</thead>
<tbody>
<tr>
<td>47</td>
<td>43</td>
<td>61</td>
<td>North Side of Winter Avenue, 321 feet East of Jersey Street</td>
<td>25 x 100</td>
<td>$50.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>48</td>
<td>40</td>
<td>35</td>
<td>West Side of Jersey Street, 125 feet South of Carlyle Street</td>
<td>27 x 120</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>49</td>
<td>52</td>
<td>74-73</td>
<td>East Side of York Avenue, 100 feet South of Richmond Terrace</td>
<td>40 x 60</td>
<td>$75.00</td>
<td>$75.00</td>
</tr>
<tr>
<td>50</td>
<td>52</td>
<td>194</td>
<td>West Side of Jersey Street, 318 feet North of Carlyle Street</td>
<td>37 x 121</td>
<td>$250.00</td>
<td>$250.00</td>
</tr>
<tr>
<td>51</td>
<td>53</td>
<td>19</td>
<td>East Side of Harvard Avenue, 179 feet South of Park Place</td>
<td>47 x 160</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>52</td>
<td>69</td>
<td>49</td>
<td>East Side of Highview Avenue, 31 feet North of Buchanan Street</td>
<td>30 x 90</td>
<td>$50.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>53</td>
<td>61</td>
<td>37</td>
<td>North Side of Fillmore Street, 250 feet East of Moreau Place</td>
<td>26 x 111</td>
<td>$140.00</td>
<td>$140.00</td>
</tr>
<tr>
<td>54</td>
<td>104</td>
<td>40</td>
<td>North Side of Canoe Avenue, 65 feet East of Green Street</td>
<td>36 x 24</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>55</td>
<td>119</td>
<td>38</td>
<td>South Side of Stanley Avenue, 241 feet East of Glen Avenue</td>
<td>207 x 60</td>
<td>$60.00</td>
<td>$60.00</td>
</tr>
<tr>
<td>56</td>
<td>150</td>
<td>370</td>
<td>North Side of Belmont Court, 367 feet East of Belmont Avenue</td>
<td>59 x 78</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>57</td>
<td>151</td>
<td>11</td>
<td>West Side of Davis Avenue, 24 feet South of Henderson Avenue</td>
<td>89 x 125</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>58</td>
<td>151</td>
<td>26-29, 160</td>
<td>West Side of Davis Avenue, 356 feet South of Henderson Avenue</td>
<td>110 x 216</td>
<td>$750.00</td>
<td>$750.00</td>
</tr>
<tr>
<td>59</td>
<td>161</td>
<td>14</td>
<td>Southeast Corner of Henderson Avenue and Elm Street (Also known as 420 Henderson Avenue) 2 Story Frame Building</td>
<td>40 x 100</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>60</td>
<td>173</td>
<td>12, 14, 17</td>
<td>South Side of Wayne Street, 100 feet West of North Burgher Avenue</td>
<td>225 x 163</td>
<td>$400.00</td>
<td>$400.00</td>
</tr>
<tr>
<td>61</td>
<td>179</td>
<td>10</td>
<td>Southeast Corner of South Street and Broadway</td>
<td>50 x 102</td>
<td>$250.00</td>
<td>$250.00</td>
</tr>
<tr>
<td>62</td>
<td>188</td>
<td>139</td>
<td>North Side of Castleton Avenue, 210 feet West of Barker Street (Also known as 1195 Castleton Avenue) 2 Story Brick Building</td>
<td>25 x 100</td>
<td>$300.00</td>
<td>$300.00</td>
</tr>
<tr>
<td>63</td>
<td>336</td>
<td>35</td>
<td>East Side of Smith Avenue, 54 feet South of Drake Avenue (Also known as 1 Smith Avenue) 2 Story Frame Building</td>
<td>45 x 60</td>
<td>$180.00</td>
<td>$180.00</td>
</tr>
<tr>
<td>PARCEL</td>
<td>BLOCK</td>
<td>LOT</td>
<td>LOCATION</td>
<td>SIZE</td>
<td>REAR REQUIREMENT</td>
<td>MARKET VALUE</td>
</tr>
<tr>
<td>-------</td>
<td>-------</td>
<td>-----</td>
<td>----------</td>
<td>------</td>
<td>-----------------</td>
<td>-------------</td>
</tr>
<tr>
<td>64</td>
<td>399</td>
<td>16</td>
<td>West Side of Clinton B, Fisk Avenue, 27 feet South of College Avenue</td>
<td>40 x 75</td>
<td>$120.</td>
<td>$600.</td>
</tr>
<tr>
<td>65</td>
<td>470</td>
<td>56</td>
<td>Northwest Corner of Cassell Avenue and Livermore Avenue</td>
<td>28 x 100</td>
<td>$110.</td>
<td>$550.</td>
</tr>
<tr>
<td>66</td>
<td>514</td>
<td>34</td>
<td>East Side of Brewster Street, 100 feet North of William Street</td>
<td>15 x 100</td>
<td>$100.</td>
<td>$400.</td>
</tr>
<tr>
<td>67</td>
<td>544</td>
<td>21</td>
<td>East Side of Van Duzer Street, 112 feet North of Brand Street</td>
<td>10 x 75</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>68</td>
<td>556</td>
<td>310</td>
<td>East Side of Warren Street, 135 feet North of Osgood Avenue</td>
<td>14 x 10 Triangular</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>69</td>
<td>560</td>
<td>23</td>
<td>West Side of Warren Street, 85 feet North of Osgood Avenue</td>
<td>12 x 39 Triangular</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>70</td>
<td>568</td>
<td>34</td>
<td>Northwest Corner of Laurel Avenue and Tangle Street</td>
<td>8 x 94 Triangular</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>71</td>
<td>571</td>
<td>12</td>
<td>West Side of St. Paul's Avenue, 70 feet North of Calver Street</td>
<td>38 x 101 Irreg.</td>
<td>$120.</td>
<td>$600.</td>
</tr>
<tr>
<td>72</td>
<td>571</td>
<td>20</td>
<td>West Side of St. Paul's Avenue, 335 feet North of Calver Street</td>
<td>74 x 85</td>
<td>$100.</td>
<td>$300.</td>
</tr>
<tr>
<td>73</td>
<td>644</td>
<td>31</td>
<td>West Side of Vanderbilt Avenue, 84 feet South of Ruff Street</td>
<td>25 x 102 Irreg.</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>74</td>
<td>700</td>
<td>73</td>
<td>Northwest Corner of Lincoln Street and Area Place</td>
<td>20 x 100</td>
<td>$100.</td>
<td>$400.</td>
</tr>
<tr>
<td>75</td>
<td>721</td>
<td>173</td>
<td>Interior Lot, 330 feet North of North Gannon Avenue and 66 feet West of Clement Place, Abutting Lots 8, 10, 69, 73</td>
<td>7 x 20</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>76</td>
<td>751</td>
<td>350</td>
<td>North Side of North Gannon Avenue, 170 feet West of Coalfield Avenue</td>
<td>40 x 139</td>
<td>$600.</td>
<td>$3,000.</td>
</tr>
<tr>
<td>77</td>
<td>785</td>
<td>32</td>
<td>East Side of Wheeler Avenue, 85 feet South of South Gannon Avenue</td>
<td>25 x 125</td>
<td>$100.</td>
<td>$300.</td>
</tr>
<tr>
<td>78</td>
<td>814</td>
<td>27</td>
<td>West Side of Willbrook Avenue, 120 feet South of Queen Street</td>
<td>40 x 100</td>
<td>$400.</td>
<td>$2,000.</td>
</tr>
<tr>
<td>79</td>
<td>871</td>
<td>351</td>
<td>Interior Lot, 128 feet West of Forest Road and 270 feet East of St. James Avenue, Abutting Lots 340, 380, 355, 375, 310</td>
<td>40 x 66 Irreg.</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>80</td>
<td>1012</td>
<td>16</td>
<td>East Side of Cottage Place, 281 feet North of New Street</td>
<td>50 x 71</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>81</td>
<td>1087</td>
<td>7</td>
<td>North Side of Harrison Avenue, 190 feet West of Tradewell Avenue (Also known as 131 Harrison Avenue) 2 Story Frame Building</td>
<td>25 x 99</td>
<td>$100.</td>
<td>$300.</td>
</tr>
<tr>
<td>PARCEL</td>
<td>BLOCK</td>
<td>LOT</td>
<td>LOCATION</td>
<td>SIZE</td>
<td>CASH</td>
<td>MINIMUM</td>
</tr>
<tr>
<td>--------</td>
<td>-------</td>
<td>-----</td>
<td>----------</td>
<td>------</td>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td>82</td>
<td>1200</td>
<td>75</td>
<td>Southwest Corner of Netherland Avenue and Van Name Avenue</td>
<td>40 x 114</td>
<td>$200</td>
<td>$1,000</td>
</tr>
<tr>
<td>83</td>
<td>1256</td>
<td>33</td>
<td>South Side of Christopher Street, 117 feet West of Monroe Avenue</td>
<td>29 x 12</td>
<td>$25</td>
<td>$25</td>
</tr>
<tr>
<td>84</td>
<td>1254</td>
<td>55</td>
<td>Southeast Corner of Bronson Street and South Avenue</td>
<td>48 x 137</td>
<td>$200</td>
<td>$1,000</td>
</tr>
<tr>
<td>85</td>
<td>1466</td>
<td>1</td>
<td>North Side of Leonard Avenue between Miller Avenue and Glacian Avenue, Running through to Lathrop Avenue</td>
<td>200 x 70</td>
<td>$4,800</td>
<td>$200,000</td>
</tr>
<tr>
<td>86</td>
<td>1491</td>
<td>80</td>
<td>North Side of Bedens Street, 125 feet North of Fulton Street</td>
<td>41 x 100</td>
<td>$100</td>
<td>$200</td>
</tr>
<tr>
<td>87</td>
<td>1700</td>
<td>8</td>
<td>Northeast Corner of Wilson Street and Van Name Avenue</td>
<td>24 x 100</td>
<td>$250</td>
<td>$200</td>
</tr>
<tr>
<td>88</td>
<td>1700</td>
<td>12</td>
<td>East Side of Van Name Avenue, 24 feet North of Wilson Street</td>
<td>25 x 100</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>89</td>
<td>1700</td>
<td>12</td>
<td>East Side of Van Name Avenue, 49 feet North of Wilson Street</td>
<td>25 x 100</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>90</td>
<td>1700</td>
<td>14</td>
<td>East Side of Van Name Avenue, 74 feet North of Wilson Street</td>
<td>75 x 100</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td>91</td>
<td>1700</td>
<td>18</td>
<td>East Side of Van Name Avenue, 149 feet North of Wilson Street</td>
<td>25 x 100</td>
<td>$60</td>
<td>$60</td>
</tr>
<tr>
<td>92</td>
<td>1700</td>
<td>19</td>
<td>East Side of Van Name Avenue, 176 feet North of Wilson Street</td>
<td>25 x 100</td>
<td>$60</td>
<td>$60</td>
</tr>
<tr>
<td>93</td>
<td>1700</td>
<td>19</td>
<td>East Side of Van Name Avenue, 66 feet South of Forest Avenue</td>
<td>25 x 100</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>94</td>
<td>1700</td>
<td>34</td>
<td>South Side of Farm Avenue, 50 feet East of Van Name Avenue</td>
<td>75 x 66</td>
<td>$75</td>
<td>$75</td>
</tr>
<tr>
<td>95</td>
<td>1700</td>
<td>35, 38, 41, 42, 43, 44</td>
<td>South Side of Forest Avenue, 75 feet East of Van Name Avenue</td>
<td>275 x 97</td>
<td>$280</td>
<td>$1,000</td>
</tr>
<tr>
<td>96</td>
<td>1700</td>
<td>49</td>
<td>South Side of Forest Avenue, 250 feet West of Evans Place through to Wilson Street</td>
<td>86 x 97</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td>97</td>
<td>2272</td>
<td>36</td>
<td>North of Neagles Street, 720 feet West of Avenue</td>
<td>60 x 42</td>
<td>$50</td>
<td>$50</td>
</tr>
</tbody>
</table>

Borough of Staten Island

For each purchase, the successful bidder must have the cash requirements indicated below in the form of cash, certified or bank tellers check or postal money order. Please see the terms and conditions of sale at the back of this brochure for additional deposit requirements.

501
## Borough of Staten Island

For each purchase, the successful bidder must have the cash requirement indicated below in the form of cash, certified or bank money order or postal money order. Please see the terms and conditions of sale at the back of this schedule for additional details regarding payment.

<table>
<thead>
<tr>
<th>Parcel</th>
<th>Block</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Cash</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>98</td>
<td>3122</td>
<td>104</td>
<td>West Side of Dolly Avenue, 215 feet North of Father Capodanno Boulevard</td>
<td>60 x 96</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>99</td>
<td>3122</td>
<td>186</td>
<td>Interior Lot, 291 feet West of Dolly Avenue, 75 feet North of Father Capodanno Boulevard, Abutting Lots 126, 129, 130, 155, 187</td>
<td>26 x 82</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>100</td>
<td>3176</td>
<td>1</td>
<td>Northeast Corner of West Fingerboard Road and Garretson Lane</td>
<td>94 x 117</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>101</td>
<td>3118</td>
<td>116</td>
<td>Interior Lot, 251 feet East of Jefferson Street and 100 feet North of Cromwell Street, Abutting Lots 11, 79, 92, 114</td>
<td>50 x 90</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>102</td>
<td>3342</td>
<td>59</td>
<td>Northeast Corner of Suerter Avenue and Magnolia Avenue</td>
<td>26 x 99</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>103</td>
<td>3556</td>
<td>41</td>
<td>West Side of Slope Avenue, 89 feet South of South Rainford Avenue</td>
<td>13 x 24</td>
<td>$75.</td>
<td>$75.</td>
</tr>
<tr>
<td>104</td>
<td>3588</td>
<td>55</td>
<td>Northeast Corner of Clare Street and Cargo Avenue</td>
<td>13 x 100</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>105</td>
<td>3679</td>
<td>23</td>
<td>Southeast Corner of Adams Avenue and Haven Avenue</td>
<td>40 x 75</td>
<td>$125.</td>
<td>$125.</td>
</tr>
<tr>
<td>106</td>
<td>3679</td>
<td>96</td>
<td>East Side of Adams Avenue, 127 feet South of Laccata Avenue</td>
<td>47 x 213</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>107</td>
<td>3679</td>
<td>102</td>
<td>Interior Lot, 42 feet North of Adams Avenue and 120 feet West of Laccata Avenue, Abutting Lots 52, 55, 57, 66 and 77</td>
<td>32 x 10</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>108</td>
<td>3722</td>
<td>1</td>
<td>Northeast Corner of Hunter Avenue and Nugent Avenue</td>
<td>60 x 82</td>
<td>$200.</td>
<td>$200.</td>
</tr>
<tr>
<td>109</td>
<td>3722</td>
<td>4</td>
<td>North Side of Hunter Avenue, 60 feet West of Nugent Avenue</td>
<td>120 x 40</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>110</td>
<td>3723</td>
<td>3</td>
<td>North Side of Hunter Avenue, 65 feet West of Garver Street</td>
<td>20 x 102</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>111</td>
<td>3763</td>
<td>39, 37</td>
<td>Northeast Corner of Graham Boulevard and Bacon Place</td>
<td>50 x 100</td>
<td>$100.</td>
<td>$175.</td>
</tr>
<tr>
<td>112</td>
<td>3763</td>
<td>42</td>
<td>East Side of Bacon Place, 100 feet North of Graham Boulevard and runs through to 96 feet South of Sewer Avenue</td>
<td>40 x 95</td>
<td>$100.</td>
<td>$800.</td>
</tr>
<tr>
<td>113</td>
<td>3793</td>
<td>28</td>
<td>East Side of Colony Avenue, 113 feet South of Jefferson Avenue</td>
<td>20 x 95</td>
<td>$50.</td>
<td>$50.</td>
</tr>
</tbody>
</table>
BOROUGH OF STATEN ISLAND

FOR EACH PURCHASE, THE SUCCESSFUL BUYERS MUST MAKE THE CASH REQUIREMENT INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK CHECK ON POSTAL MONEY ORDER PLEAS SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL DEPOSIT REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASH REQUIREMENT</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>114</td>
<td>3812</td>
<td>12</td>
<td>South Side of Celery Avenue, 37 feet West of Merrymead Avenue</td>
<td>57 x 60</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>115</td>
<td>3826</td>
<td>4</td>
<td>Southeast Corner of Steiner Avenue and Con incorporation Place</td>
<td>51 x 60</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>116</td>
<td>3871</td>
<td>26</td>
<td>West Side of Hudson Lane, 109 feet North of Fetter Copeland Cove Boulevard</td>
<td>47 x 50</td>
<td>$75.</td>
<td>$75.</td>
</tr>
<tr>
<td>117</td>
<td>4728</td>
<td>19</td>
<td>East Side of Grayson Street, 316 feet North of Enrota Avenue</td>
<td>16 x 103</td>
<td>$25.</td>
<td>$25.</td>
</tr>
<tr>
<td>118</td>
<td>6793</td>
<td>35</td>
<td>South Side of Kinnicknole Place, 37 feet South of Gulf Avenue</td>
<td>40 x 170</td>
<td>$100.</td>
<td>$100.</td>
</tr>
<tr>
<td>119</td>
<td>6815</td>
<td>30</td>
<td>Southeast Corner of Huguenot Avenue and Hawthorn Avenue</td>
<td>42 x 64</td>
<td>$50.</td>
<td>$50.</td>
</tr>
<tr>
<td>120</td>
<td>6815</td>
<td>198</td>
<td>East Side of Hawthorne Avenue, 497 feet North of Woodfield Avenue</td>
<td>40 x 140</td>
<td>$125.</td>
<td>$125.</td>
</tr>
<tr>
<td>121</td>
<td>7498</td>
<td>32</td>
<td>East Side of Gayton Street, 377 feet North of Pleasant Plains Avenue</td>
<td>87 x 158</td>
<td>$280.</td>
<td>$280.</td>
</tr>
<tr>
<td>122</td>
<td>7498</td>
<td>38</td>
<td>East Side of Gayton Street, 415 feet North of Pleasant Plains Avenue</td>
<td>87 x 157</td>
<td>$280.</td>
<td>$280.</td>
</tr>
</tbody>
</table>

WITHDRAWN

AFTERNOON SESSION WILL COMMENCE WITH PARCEL 124 AT 1:15 P.M.
Commencing at 1:15 P.M.

Parcel 124 1829 Washington Avenue

East Side of Washington Avenue, 127 feet North of East 175th Street (Also known as 1824 Washington Avenue)

4 Story Brick Building

For each purchase, the successful bidder must have the cash requirement indicated below on the form of cash, certified or bank tellers checks or postal money orders. Please see the terms and conditions of sale at the back of this brochure for additional deposit requirements.
BOROUGH OF THE BRONX

FOR EACH PURCHASE, THE SUCCESSFUL BIDDER MUST PAY THE CASH REQUIREDLY INDICATED ON THE FORM OF
CASH, CERTIFIED OR BANK CHECK OR POSTAL MONEY ORDER. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT
THE BACK OF THIS BROCHURE FOR ADDITIONAL SALES REQUIREMENTS.

<table>
<thead>
<tr>
<th>Parcel</th>
<th>Block</th>
<th>Lot</th>
<th>Description</th>
<th>Size</th>
<th>Sale Price</th>
<th>Min. Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>126</td>
<td>3099</td>
<td>54</td>
<td>North Side of East 189th Street, 265 feet East of Woodlawn Avenue (1366 West of 861 East 186th Street)</td>
<td>25 x 100</td>
<td>$100.00</td>
<td>$20.00</td>
</tr>
<tr>
<td>126</td>
<td>3090</td>
<td>57</td>
<td>North Side of East 237th Street, 96 feet East of Van Cortland Park East (East of 231 East 237th Street)</td>
<td>52 x 194</td>
<td>$3,500.00</td>
<td>$11,500.00</td>
</tr>
</tbody>
</table>

S 5 STORE BLDG
BOROUGH OF THE BRONX

For each purchase, the successful bidder must have the cash requirement indicated below in the form of cash, certified or bank teller's check or postal money order. Please see the terms and conditions of sale at the back of this brochure for additional requirements.

<table>
<thead>
<tr>
<th>Parcel</th>
<th>Block</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Adjustment</th>
<th>Upper Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>127</td>
<td>3744</td>
<td>.49</td>
<td>East Side of Stetford Avenue, 100 feet North of Westmon Avenue (Also known as 1114 Stetford Avenue) 4 Story Brick Building</td>
<td>100 x 120</td>
<td>$3,005</td>
<td>$20,000</td>
</tr>
</tbody>
</table>
For each purchase, the successful bidder must have the cash requirement indicated below in the form of cash, certified or bank checks. Open any personal checks. Please use the address of the parcel to the right of this notice for additional deposit requirements.

<table>
<thead>
<tr>
<th>Parcel</th>
<th>Block</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Cash Requirement</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>108</td>
<td>402</td>
<td>17</td>
<td>South Side of Mottola Street, 240 feet East of Vann Avenue (also known as 1675 Mottola Street)</td>
<td>25 x 100</td>
<td>$1,000</td>
<td>5-1-1973</td>
</tr>
</tbody>
</table>

Parcel 108 - 1675 Mottola Street
<table>
<thead>
<tr>
<th>PARK NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>AREA</th>
<th>CHG REQU.</th>
<th>MOPED</th>
</tr>
</thead>
<tbody>
<tr>
<td>129</td>
<td>4047</td>
<td>17</td>
<td>East Side of Un-ionport Road, 50 feet South of Rhoads Road - Avenue through to Amherst Street</td>
<td>25 x 69</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>130</td>
<td>4059</td>
<td>131</td>
<td>East Side of Radcliff Avenue, 90 feet North of Sevier Avenue through to Rogers Avenue</td>
<td>50 x 160</td>
<td>$1,000.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>131</td>
<td>4060</td>
<td>131</td>
<td>East Side of Radcliff Avenue, 90 feet North of Sevier Avenue</td>
<td>50 x 160</td>
<td>$1,000.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>132</td>
<td>4072</td>
<td>107</td>
<td>East Side of Holley Avenue, 175 feet North of East Cahn Avenue</td>
<td>61 x 100</td>
<td>$1,200.00</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>133</td>
<td>4320</td>
<td>41</td>
<td>West Side of Wallace Avenue, 216 feet South of Parkway South</td>
<td>12 x 100</td>
<td>$200.00</td>
<td>$200.00</td>
</tr>
<tr>
<td>134</td>
<td>4632</td>
<td>22</td>
<td>Southwest Corner of Magenta Street and Borne Avenue</td>
<td>25 x 95</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

Parcel 134 - Southwest Corner of Magneta Street and Borne Avenue.
The text in the image is not fully legible, but it appears to be a real estate listing or a similar document. Here is a possible transcription:

**Bottom of the Bronx**

For each purchase, the successful bidder must make the cash requirement indicated below in the form of cash, certified or bank tellers check or postal money orders. Please see the terms and conditions of sale at the back of this brochure for additional deposit requirements.

| Mgr. | Block | Lot | Location | Cash Requirement | 2% ACME
|------|-------|-----|----------|------------------|---------|
| 105  | 4664  | 36  | East side of St. Vincent Avenue, 10 feet South of East 214th Street (next to 3873 Boro (wood frame)) | 54,740.00 | 34,760.00

Panel 131  3873 Boro

Brondwood Avenue
<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASE REQUIREMENT</th>
<th>MINIMUM LIST PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>136</td>
<td>4709</td>
<td>54</td>
<td>Interior Lot, South Side of East 215th Street, 55 feet North of East 24th Street, Abutting Lots 720 and 721</td>
<td>20 x 76</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>137</td>
<td>4728</td>
<td>107</td>
<td>Interior Lot 113 feet South of Boston Road, 45 feet East of Kingland Avenue, Abutting Lots 70, 8, 67, 106</td>
<td>25 x 50</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>138</td>
<td>4788</td>
<td>46</td>
<td>East Side of Tienamen Avenue, 150 feet South of Adams Avenue (Also known as 2932 Tienamen Avenue)</td>
<td>25 x 95</td>
<td>$160.00</td>
<td>$800.00</td>
</tr>
<tr>
<td>139</td>
<td>4791</td>
<td>116</td>
<td>Interior Lot, 109 feet South of Adams Avenue, 78 feet East of Broner Avenue, Abutting Lots 3, 4, 45, 47, 49, 50</td>
<td>26 x 25</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>140</td>
<td>4799</td>
<td>34</td>
<td>North Side of Berlow Avenue, 91 feet East of By Avenue</td>
<td>1 x 9</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>141</td>
<td>4866</td>
<td>14</td>
<td>North Side of East 230th Street, 250 feet East of Brownwood Avenue (Also known as 925 East 230th Street)</td>
<td>50 x 110</td>
<td>$7,000.00</td>
<td>$36,000.00</td>
</tr>
<tr>
<td>142</td>
<td>4874</td>
<td>46</td>
<td>South Side of East 218th Street, 85 feet East of Peading Avenue</td>
<td>25 x 109</td>
<td>$140.00</td>
<td>$700.00</td>
</tr>
<tr>
<td>143</td>
<td>4916</td>
<td>60</td>
<td>East Side of Baychester Avenue, 397 feet South of Crawford Avenue</td>
<td>67 x 129</td>
<td>$280.00</td>
<td>$1,300.00</td>
</tr>
<tr>
<td>144</td>
<td>4921</td>
<td>20</td>
<td>South Side of Crawford Avenue from the West Side of Baker Avenue through to Palmer Avenue</td>
<td>10 x 200</td>
<td>$50.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>145</td>
<td>4934</td>
<td>58</td>
<td>North Side of Granada Place, 61 feet West of Edson Avenue (Also known as 1179 Granada Place)</td>
<td>10 x 89</td>
<td>$2,200.00</td>
<td>$11,000.00</td>
</tr>
<tr>
<td>146</td>
<td>4955</td>
<td>40</td>
<td>West Side of DeBeaver Avenue, 156 feet South of Straus Avenue</td>
<td>25 x 95</td>
<td>$120.00</td>
<td>$600.00</td>
</tr>
<tr>
<td>147</td>
<td>4959</td>
<td>63</td>
<td>West Side of Monticello Avenue, 273 feet North of East 233rd Street</td>
<td>25 x 95</td>
<td>$120.00</td>
<td>$600.00</td>
</tr>
<tr>
<td>148</td>
<td>4963</td>
<td>82</td>
<td>East Side of Bell Avenue, 225 feet South of Straus Avenue through to Pratt Avenue</td>
<td>25 x 82</td>
<td>$100.00</td>
<td>$500.00</td>
</tr>
<tr>
<td>149</td>
<td>4965</td>
<td>29</td>
<td>Southeast Corner of Lustra Street and Harpar Avenue</td>
<td>3 x 190</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>150</td>
<td>4975</td>
<td>4</td>
<td>East Side of Gunther Avenue, 117 feet North of East 233rd Street (Also known as 4008 Gun- Har Avenue)</td>
<td>25 x 100</td>
<td>$240.00</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>151</td>
<td>4977</td>
<td>115</td>
<td>East Side of Byrom Avenue, 109 feet South of East 234th Street</td>
<td>19 x 20</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>152</td>
<td>5002</td>
<td>11</td>
<td>Southwest Corner of Busling Avenue and Digney Avenue</td>
<td>10 x 93</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>Parcel No.</td>
<td>Block</td>
<td>Lot</td>
<td>Description</td>
<td>Net</td>
<td>Cash Requirement</td>
<td>Approach</td>
</tr>
<tr>
<td>-----------</td>
<td>-------</td>
<td>-----</td>
<td>------------------------------------------------------------------------------</td>
<td>-----</td>
<td>-----------------</td>
<td>----------</td>
</tr>
<tr>
<td>152</td>
<td>5072</td>
<td>15</td>
<td>Northeast Corner of Moline Avenue and Byron Avenue</td>
<td>16 x 96</td>
<td>$25.00</td>
<td>$35.00</td>
</tr>
<tr>
<td>153</td>
<td>5104</td>
<td>7</td>
<td>Northeast Corner of East 242nd Street and Carpenter Avenue</td>
<td>15 x 98</td>
<td>$25.00</td>
<td>$35.00</td>
</tr>
<tr>
<td>154</td>
<td>5263</td>
<td>130</td>
<td>Interior Lot, Surrounded by lots 120 which is located at Northwest Corner of Sheaff Avenue and New England Thruway</td>
<td>50 x 100</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>155</td>
<td>5263</td>
<td>155</td>
<td>Northeast Corner of New England Thruway and West 109th Street</td>
<td>2 x 20</td>
<td>$25.00</td>
<td>$35.00</td>
</tr>
<tr>
<td>156</td>
<td>5814</td>
<td>124</td>
<td>Interior Lot, 81 feet West of Broadway and 1061 feet South of West 25th Street, bounded by lots 1001, 1106, 1223 and 1224</td>
<td>50 x 23</td>
<td>$35.00</td>
<td>$35.00</td>
</tr>
<tr>
<td>157</td>
<td>5853</td>
<td>2191, 2192</td>
<td>East Side of Yaka Avenue, 83 feet North of West 25th Street</td>
<td>50 x 100</td>
<td>$100.00</td>
<td>$200.00</td>
</tr>
<tr>
<td>158</td>
<td>5872</td>
<td>1005</td>
<td>South Side of Whalen Street, 100 feet West of Broadway</td>
<td>29 x 100</td>
<td>$50.00</td>
<td>$80.00</td>
</tr>
</tbody>
</table>
BOROUGH OF QUEENS
FOR CASH PURCHASE, THE SUCCESSFUL BIDDER MUST PAY THE CASH REQUIREMENTS INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK CHECKS OR POSTAL MONEY ORDERS. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL DEPOSIT REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>RT</th>
<th>REQ</th>
<th>SELLER</th>
</tr>
</thead>
<tbody>
<tr>
<td>160</td>
<td>834</td>
<td>17</td>
<td>Interior Lot, 100 feet South of 33rd Avenue and 97 feet West of 35th Street. Abutting Lots 24, 25, 27, 31, 33, 34, 41.</td>
<td>14 x 100</td>
<td>$75</td>
<td>$25</td>
</tr>
<tr>
<td>161</td>
<td>1586</td>
<td>41</td>
<td>North Side of 32nd Avenue, 45 feet East of 106th Street.</td>
<td>45 x 100</td>
<td>$100</td>
<td>$400</td>
</tr>
<tr>
<td>162</td>
<td>1717</td>
<td>39</td>
<td>North Side of 34th Avenue, 80 feet East of 107th Street.</td>
<td>6 x 100</td>
<td>$25</td>
<td>$50</td>
</tr>
</tbody>
</table>

The development of and use of the subject property is restricted and limited to non-profit educational, recreational and communal purposes, and ancillary programs, and any successor in interest shall not use the premises for any other purpose. This covenant shall run with the land.

No Brokerage Commission shall be payable on this sale.

<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>RT</th>
<th>REQ</th>
<th>SELLER</th>
</tr>
</thead>
<tbody>
<tr>
<td>163</td>
<td>7440</td>
<td>323</td>
<td>West Side of Bell Boulevard, 185 feet North of Park Avenue</td>
<td>18 x 20</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>164</td>
<td>9137</td>
<td>232</td>
<td>West Side of 79th Street, 149 feet South of 59th Avenue (Also known as 107-18 79th Street) 2 Story Brick Building</td>
<td>20 x 100</td>
<td>$3,000</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

Parcel 164 107-18 79th Street
<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BOOK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASH REQUIREMENTS</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>165</td>
<td>10044</td>
<td>17</td>
<td>South Side of Lemon Street, 125 feet East of 185th Avenue (Also Known as 1205-14 Inwood Street)</td>
<td>25x125</td>
<td>$100.00</td>
<td>2 Story Frame Building</td>
</tr>
<tr>
<td>166</td>
<td>10194</td>
<td>10</td>
<td>South Side of 119th Avenue, 26 foot West of 127th Street (Also Known as 116.01 N. Old Country Road)</td>
<td>20x125</td>
<td>$1,000.00</td>
<td>2 Story Frame Building</td>
</tr>
<tr>
<td>167</td>
<td>10222</td>
<td>10</td>
<td>South Side of Liberty Avenue, 20 foot East of 120th Place (Also Known as 119-97 Liberty Avenue)</td>
<td>20x100</td>
<td>$100.00</td>
<td>2 Story Frame Building</td>
</tr>
<tr>
<td>168</td>
<td>10470</td>
<td>66</td>
<td>Northeast Corner of 123rd Avenue and 215th Street</td>
<td>60x113</td>
<td>$1,000.00</td>
<td></td>
</tr>
<tr>
<td>169</td>
<td>10854</td>
<td>45</td>
<td>Northeast Corner of Francis Lewis Boulevard and 120th Avenue</td>
<td>25x101</td>
<td>$100.00</td>
<td></td>
</tr>
<tr>
<td>170</td>
<td>11120</td>
<td>15</td>
<td>East Side of 217th Street, 272 feet North of 110th Avenue (Also Known as 109-33 217th Street)</td>
<td>30x100</td>
<td>$500.00</td>
<td>2 Story Frame Building</td>
</tr>
</tbody>
</table>
**BOROUGH OF QUEENS**

For each purchase, the successful bidder must have the cash requirement indicated below in the form of cash, certified or bank teller checks or postal money orders payable for the terms and conditions of sale at the back of this brochure for additional deposit requirements.

<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>ASKING</th>
<th>QUANTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>171</td>
<td>11146</td>
<td>24</td>
<td>North Side of 110th Rd between East Side of 117th St and West Side of Montauk St.</td>
<td>50 x 49</td>
<td>$50</td>
<td>25</td>
</tr>
<tr>
<td>172</td>
<td>11239</td>
<td>26</td>
<td>North Side of 114th Ave, 30 feet West of 223rd St. (Also known as 221-43 (114th Ave.)) 1 Story Brick Building</td>
<td>34 x 100</td>
<td>$500</td>
<td>2,000</td>
</tr>
<tr>
<td>PARCEL NO.</td>
<td>BLOCK</td>
<td>LOT</td>
<td>LOCATION</td>
<td>SIZE</td>
<td>DEEP REQUIREMENTS</td>
<td>SELLER'S NET</td>
</tr>
<tr>
<td>------------</td>
<td>-------</td>
<td>-----</td>
<td>----------</td>
<td>------</td>
<td>-------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>173</td>
<td>1421</td>
<td>108</td>
<td>South Side of 1531st Avenue, 161 feet West of South Conduit Avenue</td>
<td>7 x 6</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>*174</td>
<td>12537</td>
<td>47</td>
<td>North Side of 133rd Road, 260 feet East of 218th Street through to 133rd Avenue</td>
<td>13 x 280</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>175</td>
<td>12308</td>
<td>122</td>
<td>Northwest Corner of 132nd Road and Hook Creek Boulevard</td>
<td>9 x 50 Ireg.</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>176</td>
<td>13013</td>
<td>91</td>
<td>Southeast Corner of 134th Road and 219th Street</td>
<td>18 x 82 Ireg.</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>177</td>
<td>13017</td>
<td>23</td>
<td>North Side of 136th Road, 111 feet East of Springfield Boulevard</td>
<td>25 x 100</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>178</td>
<td>13004</td>
<td>6</td>
<td>North Side of 138th Road, 280 feet East of Springfield Boulevard</td>
<td>71 x 85 Ireg.</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>179</td>
<td>13481</td>
<td>35</td>
<td>Southwest Corner of 145th Avenue and 225th Street</td>
<td>25 x 95</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>180</td>
<td>13482</td>
<td>36</td>
<td>West Side of 235th Street, 115 feet South of 145th Avenue</td>
<td>35 x 100</td>
<td>$140.00</td>
<td>$140.00</td>
</tr>
<tr>
<td>181</td>
<td>13592</td>
<td>11</td>
<td>South Side of 148th Road, 85 feet East of Honey Street</td>
<td>22 x 25</td>
<td>$25.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>*182</td>
<td>15519</td>
<td>51</td>
<td>West Side of Rockaway Beach Boulevard, 55 feet North of Rockaway Beach Boulevard (\leq) on Bais of Street</td>
<td>110 x 95</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

*Indicates a parcel that has a portion in Bais of Street.
BOURGH OF BROOKLYN

For each purchase, the successful bidder must have the cash requirement indicated below in the form of cash, certified or bank teller’s check or postal money order. Please see the terms and conditions of sale at the back of this brochure for additional deposit requirements.

<table>
<thead>
<tr>
<th>Parcel No.</th>
<th>Block</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Cash Requirement</th>
<th>Minimum Bid</th>
</tr>
</thead>
<tbody>
<tr>
<td>103</td>
<td>357</td>
<td>8</td>
<td>North Side of Woodvill Street, 29 feet East of Hamilton Avenue</td>
<td>17 X 101</td>
<td>$125.00</td>
<td>$400.00</td>
</tr>
<tr>
<td>104</td>
<td>437</td>
<td>36</td>
<td>Southwest Corner of Union Street and Bond Street (Also known as 316 Bond Street)</td>
<td>22 X 57</td>
<td>$100.00</td>
<td>$250.00</td>
</tr>
<tr>
<td>105</td>
<td>885</td>
<td>22</td>
<td>South Side of 19th Street, 284 feet East of 5th Avenue (Also known as 264 19th Street)</td>
<td>12 X 100+</td>
<td>$200.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>106</td>
<td>955</td>
<td>73</td>
<td>North Side of President Street, 204 feet East of 4th Avenue (Also known as 603 President Street)</td>
<td>16 X 95</td>
<td>$100.00</td>
<td>$150.00</td>
</tr>
<tr>
<td>107</td>
<td>120</td>
<td>28</td>
<td>South Side of Atlantic Avenue, 275 feet West of Carlton Avenue (Also known as 718 Atlantic Avenue)</td>
<td>127 X 101</td>
<td>$400.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>108</td>
<td>124</td>
<td>12</td>
<td>South Side of Atlantic Avenue, 121 feet East of Washington Avenue (Also known as 926 Atlantic Avenue)</td>
<td>25 X 100</td>
<td>$100.00</td>
<td>$200.00</td>
</tr>
<tr>
<td>109</td>
<td>125</td>
<td>82</td>
<td>North Side of Pacific Street, 65 feet East of Grand Avenue</td>
<td>35 X 100</td>
<td>$100.00</td>
<td>$450.00</td>
</tr>
<tr>
<td>110</td>
<td>125</td>
<td>85</td>
<td>North Side of Pacific Street, 26 feet East of Grand Avenue (Also known as 979 Pacific Street)</td>
<td>20 X 80</td>
<td>$100.00</td>
<td>$250.00</td>
</tr>
<tr>
<td>111</td>
<td>133</td>
<td>7</td>
<td>East Side of Grand Avenue, 65 feet South of Pacific Street (Also known as 527 Grand Avenue)</td>
<td>55 X 100</td>
<td>$100.00</td>
<td>$300.00</td>
</tr>
<tr>
<td>LOT</td>
<td>DESCRIPTION</td>
<td>SIZE</td>
<td>REQUISITE</td>
<td>EXCTION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>-------------</td>
<td>------</td>
<td>-----------</td>
<td>---------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1428</td>
<td>Northeast Corner of East New York Avenue and Albany Avenue (Also known as 509-19 Albany Avenue)</td>
<td>20 x 94</td>
<td>$390</td>
<td>$1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1519</td>
<td>South Side of Marion Street, 215 feet East of Howard Avenue (Also known as 280 Marion Street)</td>
<td>20 x 100</td>
<td>$50</td>
<td>$50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Parcel 1428: 129-19 Albany Avenue
Parcel 1519: 280 Marion Street
<table>
<thead>
<tr>
<th>Parcel</th>
<th>Block</th>
<th>Lot</th>
<th>Location</th>
<th>Size</th>
<th>Cash Requirement</th>
<th>Open Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>194</td>
<td>1768</td>
<td>9</td>
<td>South Side of Willoughby Avenue, 50 feet East of Saigo Avenue (Also known as 660 Willoughby by Avenue)</td>
<td>60' x 100'</td>
<td>$3,200.00</td>
<td>$16,200.00</td>
</tr>
</tbody>
</table>
BOROUGH OF BROOKLYN

FOR EACH PURCHASE THE SUCCESSFUL BIDDER WILL MAKE THE CASH REQUIREMENT INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK TELLER CHECK OR POSTAL MONEY ORDER. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL INFORMATIONS.

<table>
<thead>
<tr>
<th>NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASH REQUIREMENTS</th>
<th>MARKET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>195</td>
<td>1169</td>
<td>11, 72</td>
<td>South Side of Willowby Avenue, 100 feet east of Willowby Avenue, through to Fort Street. Also known as 666 Willowby Avenue and 217-21 Fort Street.</td>
<td>96 x 200</td>
<td>$9,600.</td>
<td>$48,000.</td>
</tr>
</tbody>
</table>

1 - 6 Story Brick Building
1 - 6 Story Brick Building
Both buildings are heated by electricity with single meter electric meter for the 2 buildings.

Parcel 195 - 666 Willowby Avenue and 217-21 Fort Street.
BOROUGH OF BROOKLYN

FOR EACH PURCHASE, THE SUCCESSFUL BIDDER MUST MAKE THE CASH REQUIREMENT INDICATED BELOW IN THE FORM OF CASH, CERTIFIED OR BANK CHECK OR POSTAL MONEY ORDER. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT THE BACK OF THIS BROCHURE FOR ADDITIONAL REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>SITE</th>
<th>LOCATION</th>
<th>SIZE (FT)</th>
<th>CASH REQUIREMENT</th>
<th>ASSESSMENT</th>
<th>LIST PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>196 - 1963</td>
<td>64</td>
<td>64</td>
<td>West Side of St. James Place, 242 feet North of Gates Avenue (Also known as 148 St. James Place)</td>
<td>50 x 100</td>
<td>$700.00</td>
<td>$3,500.00</td>
<td></td>
</tr>
<tr>
<td>Parcel</td>
<td>Block</td>
<td>Lot</td>
<td>Location</td>
<td>Size</td>
<td>Cash Requirement</td>
<td>Minimum Land Price</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>--------</td>
<td>-----</td>
<td>--------------------------------------------------------------------------</td>
<td>-------</td>
<td>------------------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>197</td>
<td>1549</td>
<td>79</td>
<td>West Side of Downing Street, 166 feet North of Gates Avenue (Also Known as 4 Downing Street) 4 Story Brick Building</td>
<td>40 x 100</td>
<td>$100.00</td>
<td>$200.00</td>
<td></td>
</tr>
<tr>
<td>198</td>
<td>2412</td>
<td>35</td>
<td>Southeast Corner of Fulton Street and Clinton Avenue (Also known as 496 Clinton Avenue) 3 Story Masonry Building</td>
<td>10 x 74</td>
<td>$456.00</td>
<td>$912.00</td>
<td></td>
</tr>
<tr>
<td>199</td>
<td>2403</td>
<td>58</td>
<td>Northwest Corner of Lafayette Avenue and Adelphi Street (Also known as 167 Lafayette Avenue) 3 Story Brick Building</td>
<td>25 x 100</td>
<td>$30.00</td>
<td>$60.00</td>
<td></td>
</tr>
</tbody>
</table>

For each purchase, the successful bidders must have the cash requirement indicated below. In the event of dishonor, certified or bank tellers checks or postal money orders, please see the terms and conditions of sale at the back of this document for additional deposit requirements.
BOROUGH OF BROOKLYN

FOR EACH PURCHASE, THE SUCCESSFUL BIDDER MUST HAVE THE PAYMENT RECEIVED AS INDICATED BELOW IN THE FORM OF
cash, certified or bank tellers check or postal money orders. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT
THE BACK OF THIS BROKER FOR ADDITIONAL IMPORTANT PROVISIONS.

<table>
<thead>
<tr>
<th>PARCELS</th>
<th>BOOK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASH</th>
<th>ASSESSED</th>
</tr>
</thead>
</table>
| 200     | 2120 | 17  | Southeast corner of Lafayette Avenue and Carl-
|         |      |     | ton Avenue (Also known as 140 Lafayette Ave-
|         |      |     | nue). 4 Story Brick Building. | 45 x 100 | $ 600 | $ 3,000 |
| 201     | 3141 | 16  | West Side of Stannus Street, 26 feet South of
|         |      |     | Matrosse Street (Also known as 15 Stannus Street). 2 Story Frame Building. | 30 x 55 | $ 100 | $ 200 |

Parcel 201 - 15 Stannus Street
### Borough of Brooklyn

For each foreclosure, the successful bidder must make the cash requirement indicated below in the form of 
cash, certified or bank teller's check or postal money order. Please see the terms and conditions of sale at 
the back of this brochure for additional payment requirements.

<table>
<thead>
<tr>
<th>PARCEL NO.</th>
<th>BLOCK</th>
<th>LOT</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>CASH REQUIREMENT</th>
<th>UPSET PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>202</td>
<td>3215</td>
<td>24</td>
<td>South Side of Sunday Street, 633 foot East of</td>
<td>25 x 95</td>
<td>$400.00</td>
<td>$2,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bedford Avenue, Corner of Myrtle Avenue (also</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>known as 3613 Sunset Street) 2 Story Brick Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>203</td>
<td>3217</td>
<td>57</td>
<td>North Side of Maple Avenue, 317 foot West of</td>
<td>29 x 74</td>
<td>$50.00</td>
<td>$50.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Front Street</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>204</td>
<td>3493</td>
<td>20</td>
<td>North Side of Rinaldi Avenue, 21 foot West of</td>
<td>20 x 100</td>
<td>$1,000.00</td>
<td>$5,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Stuyvesant Street (also known as 3493 Rinaldi Avenue)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3 Story Brick Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>205</td>
<td>3541</td>
<td>33</td>
<td>West Side of Bstral Street, 226 foot North of</td>
<td>25 x 150</td>
<td>$420.00</td>
<td>$3,700.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Blake Avenue (old &amp; new) to 318 Bstral Street</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2 Story Brick Building - Former Firehouse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PARCEL NO.</td>
<td>BLOCK</td>
<td>LOT</td>
<td>LOCATION</td>
<td>SIZE</td>
<td>CASH REQUISITION</td>
<td>APPRAISAL</td>
</tr>
<tr>
<td>------------</td>
<td>-------</td>
<td>-----</td>
<td>----------</td>
<td>------</td>
<td>-----------------</td>
<td>-----------</td>
</tr>
<tr>
<td>204</td>
<td>4059</td>
<td>1</td>
<td>South Side of New Lots Avenue, 84 feet West of Miele Avenue (Also known as 506 New Lots Avenue)</td>
<td>28 x 72</td>
<td>$20</td>
<td>$80.00</td>
</tr>
<tr>
<td>207</td>
<td>4059</td>
<td>2</td>
<td>South Side of Winthrop Street, 75 feet West of East 51st Street (Also known as 870 Winthrop Street)</td>
<td>28 x 42</td>
<td>$100</td>
<td>$100.00</td>
</tr>
<tr>
<td>207</td>
<td>4059</td>
<td>6</td>
<td>South Side of Winthrop Street, 75 feet West of East 51st Street (Also known as 870 Winthrop Street)</td>
<td>28 x 42</td>
<td>$100</td>
<td>$100.00</td>
</tr>
<tr>
<td>207</td>
<td>4059</td>
<td>8</td>
<td>South Side of Winthrop Street, 75 feet West of East 51st Street (Also known as 870 Winthrop Street)</td>
<td>28 x 42</td>
<td>$100</td>
<td>$100.00</td>
</tr>
<tr>
<td>208</td>
<td>4060</td>
<td>6</td>
<td>South Side of Parkside Avenue, 131 feet West of Rogers Avenue (Also known as 506 Parkside Avenue)</td>
<td>100 x 110</td>
<td>$5,000</td>
<td>$33,000.00</td>
</tr>
<tr>
<td>209</td>
<td>4060</td>
<td>40</td>
<td>South Side of Parkside Avenue, 131 feet West of Rogers Avenue (Also known as 506 Parkside Avenue)</td>
<td>100 x 110</td>
<td>$5,000</td>
<td>$33,000.00</td>
</tr>
</tbody>
</table>

Parcel 207 - 406 Parkside Avenue

| 210 | 4067 | 1/4 | East Side of Johnson Place, 43 feet North of Snyder Avenue (Also known as 56 Lott Street) | 26 x 75 | $50 | $60.00 |  |

1 Story Frame Garage
BOROUGH OF BROOKLYN

FOR EACH PURCHASE, THE SUCCESSFUL BIDDER MUST MAKE THE CASH REQUIREMENT INDICATED BELOW IN THE FORM OF
CASH, CHECKED OR BANK TELLS, CHECK OR POSTAL MONEY ORDER. PLEASE SEE THE TERMS AND CONDITIONS OF SALE AT
THE BACK OF THIS BROCHURE FOR ADDITIONAL DEPOSIT REQUIREMENTS.

<table>
<thead>
<tr>
<th>PARCEL</th>
<th>BLOCK</th>
<th>LOT</th>
<th>DESCRIPTION</th>
<th>SIZE</th>
<th>CASH</th>
<th>DEPOSIT</th>
<th>MONEY PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>211</td>
<td>5710</td>
<td>9</td>
<td>Northeast corner of Bedford Avenue and Bedford Avenue 2605 Bedford Ave</td>
<td>34 x 96</td>
<td>$1,100</td>
<td>$500</td>
<td></td>
</tr>
</tbody>
</table>

Panel 211  2604 Bedford Avenue

| 212    | 5718  | 70  | South Side of 604 Street 240 feet, West of 13th Avenue | 80 x 136 | $1,300 | $500 |
| 213    | 5719  | 171 | North Side of 99th Street, 151 feet West of 3rd Avenue | 38 x 60 | $120 | $50 |
| 214    | 5710  | 173 | Intersect, 245 feet South of Avenue W, 111 feet West of McDonald Avenue, Albury Latch 24, 26, 151, 51, 55, 57 | 3 x 136 | $5 | $5 |

CONCLUSION OF SALE

WE THANK YOU FOR ATTENDING

The information contained in this booklet is not guaranteed and is provided for the convenience of prospective purchasers and is as accurate as can reasonably be ascertained.

The properties in this auction are offered at the minimum upset prices specified subject to the terms and conditions of sale set forth on the last pages of this booklet.
STANDARD TERMS AND CONDITIONS OF SALE

1. The purchase price on Sales of $100.00 or less shall be paid in full at the time and place of sale. On all other sales the deposit shall be 20%, of the sale price, with a minimum $50.00 and the balance of the purchase price shall be payable within 30 days from the date of sale. The balance of the purchase price shall be payable as follows:

   (a) If the purchase price is less than $5,000.00, the entire balance is due and payable within 30 days from the date of sale. If the purchase price is $5,000.00 or more, but less than $15,000.00, the final balloon payment is due and payable within 30 days from the date of sale. If the purchase price is $15,000.00 or more, and the successful bidder requests a mortgage as provided for in paragraph 2 hereof, the minimum cash requirement due and payable within 30 days from the date of sale will be the difference between the down payment on date of purchase and 50% of the purchase price.

   (b) If the purchase price is $15,000.00 or more and the successful bidder requests a mortgage as hereinafter provided, the minimum cash requirement due and payable within 30 days from the date of sale will be the difference between the down payment on date of purchase and 30% of the purchase price.

   (c) If no mortgage be requested by the successful bidder, the entire balance of the purchase price must be paid within 30 days from the date of sale. All balance payments shall be made by cash or certified check, money order or bank money order in the amount of the minimum purchase price up to a maximum of $100.00.

   (d) If no mortgage be requested by the successful bidder, the entire balance of the purchase price must be paid within 30 days from the date of sale. All balance payments shall be made by cash or certified check, money order or bank money order in the amount of the minimum purchase price up to a maximum of $100.00.

2. The balance of the purchase price in excess of the cash payment as hereinbefore provided shall be represented by a purchase money bond or note, and mortgage. The purchase money mortgage shall be payable in constant quarterly installments aggregating twelve percent (12%) per annum of the original amount of such mortgage until the full sum secured thereby is paid. Out of each such installment there shall be first deducted interest on the unpaid principal balance at the rate of seven percent (7%) per annum and the remainder will be applied in reduction of the principal. The said note and/or bond, and mortgage shall contain a provision permitting prepayment of additional sums in multiples of $100.00 on due dates of each of the installments and to prepay the entire outstanding principal amount of indebtedness with interest up to and including the date of payment.

3. The mortgagee shall pay a late charge of one percent (1%) in addition to interest for each month or fraction thereof on any delinquent mortgage installment payment, retroactive to the due date of such installment.

4. The purchase money bond or note, and mortgage shall be prepared by the Corporation Counsel of the City of New York at the expense of the purchaser. The following schedule of fees for drawing purchase money bonds or notes, and mortgages shall apply:

   Where the sum secured is up to $10,000.00 .................................................. $100.00
   Where the sum secured is from $10,000.00 to $25,000.00 .................................. $250.00
   Where the sum secured is from $25,000.00 to $50,000.00 ................................. $500.00
   Where the sum secured is from $50,000.00 to $100,000.00 ................................. $750.00
   Where the sum secured is over $100,000 .................................................. $1,000.00

5. A fee of $50.00 shall be charged for the drawing of a Satisfaction of Mortgage.

6. A charge of $100.00 shall be made for attendance by the Corporation Counsel at any transactions outside his principal office relating to the satisfaction of a mortgage or the release of part of the mortgaged premises.

7. A fee of $75.00 shall be charged for the preparation and drawing of an assignment of mortgage by the Corporation Counsel.

8. The deed to be delivered shall be in the form of a bargain and sale deed without covenants and shall be delivered within 30 days from the date of sale.

9. In the event that a purchaser, and/or assignee, fails to make the deposit due at the time of sale, and/or fails to make the balance payment, and/or, fails to appear at the closing, or appears and refuses to close at the time and place fixed therefor by the Commissioner of the Division of Real Property, the Commissioner may declare the purchase and/or assignee in default and the City of New York shall retain any deposit paid on account of the purchase as partial liquidated damages, and the City of New York may sell the property as hereinbefore provided in paragraph 10.

10. The City of New York, at its option, may retain the property if the successful bidder, or his principals or assignees, if any, shall fail to comply with the terms of sale, and such bidder and/or principal and/or assignee, in addition to forfeiting any deposits made on account thereof, be held liable for any deficiency which may result from such default.

11. (a) Any objections to title including survey objections, must be submitted to the Commissioner of the Division of Real Property in writing no later than thirty (30) days after the date of the sale. The failure to submit such notice of objections shall be deemed a waiver of any and all title objections.

   (b) In the event any of the objections involves Federal tax liens, the sale will be cancelled and the provisions of paragraph 20 shall apply, unless the purchaser desires to take title subject to such Federal tax liens.

12. Upon the closing or in the event a closing is postponed at the request of the purchaser, for reasons other than valid objections to title as determined by the Corporation Counsel, all expenses, including but not limited to taxes, sewer rents, maintenance and repair expenditures of the water, sewerage management fees, fuel, water rates, rents and other applicable costs, will be apportioned from the date of closing originally fixed, including interest and mortgage amortization payment or payments.

13. The risk of loss or damage by fire between the date of sale and the date of delivery of the real estate shall be assumed by the purchaser.
"TERMS": CONTINUED

14. An insurance policy providing fire and extended coverage insurance to cover the current insurable value of the property is to be delivered by the purchaser at the closing on improved properties or on which the City has taken back a mortgage to secure a portion of the purchase price.

15. The successful bidder will be required to accept the parcel and/for any improvements thereon, as is "as is" condition as of the date of closing date.

16. The successful bidder, as part of the consideration, shall pay for and furnish at the closing any revenue charges required under the City's deed, purchase money bond, and mortgage, and shall also pay the mortgage tax and the fees for recording the mortgage deed, and as well as any other conveyance taxes, fees or revenue charges which may be in force at the time of the delivery of the deed.

17. All titles will be closed at the offices of the Division of Real Property, 2 Lafayette Street, Borough of Manhattan, City of New York, or such other place as the Commissioner of the Division of Real Property may select in writing.

18. The property shall be sold subject to the following conditions, all of which shall be incorporated in the deed, to wit:
   (a) Subject to building restrictions, and the zoning regulations in force at the time of the delivery of the deed.
   (b) Subject to covenants, restrictions and easements of record, if any, affecting the premises, provided that they do not prohibit the maintenance or present use of the existing structure.
   (c) Subject to the possession of all taxes, assessors, statistics, ordinances, act, rules, regulations, etc., of any local, state or federal government, or any agency or subdivision thereof, having jurisdiction, or any violation of same, existing at the time of sale and/or at the time of the closing.
   (d) Subject to any state of facts—should a survey show provided same does not render title unmarketable.
   (e) Subject to the rights, if any, of tenants and tenants in possession, if any.
   (f) Subject to all pending assessments, if any, which the purchaser will become liable.
   (g) Subject to any state of facts, if any, that a thorough inspection of the premises would reveal.
   (h) Subject to the condition that title to the property is to be vested to the City of New York if within 2(2) years from the date of closing of title, all Class B and C housing code violations of record as of such closing date, shall not be cleared, satisfied and removed.

19. The right is reserved to the Commissioner of the Division of Real Property to withdraw any parcel from the sale, and reject any and all bids.

20. The City, at its option, may cancel the sale at any time before the actual delivery of the deed, in which event, the City is unable to convey a marketable title, subject to the provisions of paragraph "20." above, the City's sale liability in such event shall be limited to the return to the successful bidder of all payments made to the City on account of the purchase and the cost of title examination. No liability or duties shall be incurred to any other bidder or purchaser at the closing.

21. Subject matter in any sales catalog or sale brochure, published or distributed in connection with any sale, pertaining to street location and size of property offered for sale, are for information only and should be verified by the purchaser before the sale. However, it is understood and agreed that the purchaser is bound by any state of facts disclosed in the tax maps, zoning maps and resolutions, building restrictions, and other data pertaining to the subject premises.

22. No individual or corporation or any stockholder, director, officer or any officer of any corporation who or which is in default in or with respect to any obligation or agreement of any kind or nature whereunder entered into with the City of New York or any of its agencies, will be accepted as a bidder or purchaser for any property by the Commissioner of Real Property. The Commissioner of Real Property reserves the right to reject any bid and/or cancel any sale at any time prior to the actual closing if an investigation establishes such a default, and in such event the City may retain all money paid on account of the purchase or on partial liquidated damages.

23. The purchaser or assignee of the successful bidder shall be required to submit an affidavit in a form prescribed by the Commissioner, at the time of sale, wherein it is provided, among other things:
   (a) That the purchaser or assignee has not been a former owner of such property, directly or indirectly, for a period of five years prior to the date hereof and that he will not permit a tenant of title to such property for a period of three (3) years prior to the transfer of title, and
   (b) That the purchaser or assignee has no interest, directly or indirectly, in any property, in default of real estate taxes for a period exceeding one (1) year, purchased at a prior Division of Real Property auction sale.

24. If there is no inconsistency between the standard terms and conditions of sale and the special conditions of sale of any particular parcel sold, the special conditions of sale shall prevail.

25. In the event of the acquisition by the City of New York by condemnation or otherwise of any part or portion of the premises, lying within the lines of any street, avenue, parkway, expressway, park, public park or other city park, the City, in its discretion, may elect to acquire the same for public use or any part thereof as it may determine to be in the public interest. The City may acquire any such property by purchase or condemnation or otherwise and the amount paid for such acquisition shall be determined by the City in its discretion and shall not be used to defray expenses of any kind or nature therefor, but shall be used for the purpose of acquiring such property. The City may acquire any such property by purchase or condemnation or otherwise and the amount paid for such acquisition shall be determined by the City in its discretion and shall not be used to defray expenses of any kind or nature therefor.
"TERMS": CONTINUED

24. If all or part of the premises are included with the area of an unoccupied street, or if the premises do not front on or give access to a street shown on the City Map, shall not be deemed to render the title unmarketable nor be deemed an objection to title.

27. No brokerage commission shall be payable where the purchase price is less than $5,000.00.
   (a) Where the purchase price is $10,000.00 or over, commission rates specified by the Board of Estimate will be paid only if, at and when the deed is due, and to authorized brokers, if a proper letter of authorization signed by the successful purchaser is filed in the office of the Division of Real Property, 2 Lafayette Street, Manhattan, before the close of business on the last business day prior to the date of sale or unless otherwise stated in any special terms pertaining to a particular parcel.
   (b) In every sale on which a broker seeks commission, in addition to complying with the provisions stated in paragraph (a) above, each broker will be required to furnish together with his 4% commission as the 4% commission as the form prescribed by the Commissioner of the Division of Real Property, stating that he is the person who actually brought about the sale.
   (c) To brokers who qualify with the aforementioned condition, the following schedule of commission rates will apply:
   - On the selling price from $0.00 up to and including $5,000.00: 4% of the selling price
   - On the excess above $10,000.00, up to and including $100,000.00: 2% of the selling price
   - On the excess above $100,000.00: 1% of the selling price

29. A requisition for release of part of the mortgaged premises from the lien of any existing mortgage money mortgage taken back by the City of New York may be considered after an approval by the City of New York of the property that is to remain under the mortgage, and also upon the following terms and conditions:
   (a) The property to be released must be 20,000 square feet or more and contiguous in area at the time of application.
   (b) The principal balance due must be $10,000.00 or more at the time of application.
   (c) All installments of interest and amortization payments due under the terms of the mortgage and all outstanding real estate taxes, sewer rates, water rates, or assessment charges on the entire property must be paid before the time of the delivery of the said release.
   (d) A survey of the entire mortgaged property indicating the area requested to be released together with a metes and bounds description must be furnished to the Division of Real Property in triplicate at the time of the application.
   (e) The mortgagor shall pay an appraisal charge in connection with applications for release of mortgaged properties based on the consideration that the sale for said releases as determined by the Division of Real Property, to wit:
      - $100.00 over $0.00 and up to and including $50,000.00
      - $300.00 up to $50,000.00 end up to and including $100,000.00
      - $400.00 over $100,000.00
   (f) A fee of $100.00 shall be paid by the mortgagor for the preparation of the release by the Corporation Counsel.
   (g) The mortgagor and/or assignee thereof reserves the right to deny any request for a release from the line of the mortgage.

31. The auctioneer’s fees are as follows:
   - $1,000 where the purchase price is $10,000.00 or less
   - $2,000 where the purchase price is from $10,001.00 to $25,000.00 inclusive
   - $3,000 where the purchase price is from $25,001.00 to $75,000.00 inclusive
   - $5,000 where the purchase price is from $75,001.00 to $150,000.00 inclusive
   - $7,000 where the purchase price is from $150,001.00 to $250,000.00 inclusive
   - $10,000 where the purchase price is from $250,001.00 to $500,000.00 inclusive
   - $12,000 where the purchase price is from $500,001.00 to $750,000.00 inclusive
   - $14,000 where the purchase price is from $750,001.00 to $1,000,000.00 inclusive
   - $16,000 where the purchase price is from $1,000,001.00 to $1,500,000.00 inclusive
   - $18,000 where the purchase price is from $1,500,001.00 to $2,000,000.00 inclusive
   - $20,000 where the purchase price is from $2,000,001.00 to $2,500,000.00 inclusive
   - $22,000 where the purchase price is from $2,500,001.00 to $3,000,000.00 inclusive
   - $24,000 where the purchase price is from $3,000,001.00 to $3,500,000.00 inclusive
   - $26,000 where the purchase price is from $3,500,001.00 to $4,000,000.00 inclusive
   - $28,000 where the purchase price is from $4,000,001.00 to $4,500,000.00 inclusive
   - $30,000 where the purchase price is from $4,500,001.00 to $5,000,000.00 inclusive
   - $32,000 where the purchase price is from $5,000,001.00 to $5,500,000.00 inclusive
   - $34,000 where the purchase price is from $5,500,001.00 to $6,000,000.00 inclusive
   - $36,000 where the purchase price is from $6,000,001.00 to $6,500,000.00 inclusive
   - $38,000 where the purchase price is from $6,500,001.00 to $7,000,000.00 inclusive
   - $40,000 where the purchase price is from $7,000,001.00 to $7,500,000.00 inclusive
   - $42,000 where the purchase price is from $7,500,001.00 to $8,000,000.00 inclusive
   - $44,000 where the purchase price is from $8,000,001.00 to $8,500,000.00 inclusive
   - $46,000 where the purchase price is from $8,500,001.00 to $9,000,000.00 inclusive
   - $48,000 where the purchase price is from $9,000,001.00 to $9,500,000.00 inclusive
   - $50,000 where the purchase price is from $9,500,001.00 to $10,000,000.00 inclusive
   - $52,000 where the purchase price is from $10,000,001.00 to $10,500,000.00 inclusive
   - $54,000 where the purchase price is from $10,500,001.00 to $11,000,000.00 inclusive
   - $56,000 where the purchase price is from $11,000,001.00 to $11,500,000.00 inclusive
   - $58,000 where the purchase price is from $11,500,001.00 to $12,000,000.00 inclusive
   - $60,000 where the purchase price is from $12,000,001.00 to $12,500,000.00 inclusive
   - $62,000 where the purchase price is from $12,500,001.00 to $13,000,000.00 inclusive
   - $64,000 where the purchase price is from $13,000,001.00 to $13,500,000.00 inclusive
   - $66,000 where the purchase price is from $13,500,001.00 to $14,000,000.00 inclusive
   - $68,000 where the purchase price is from $14,000,001.00 to $14,500,000.00 inclusive
   - $70,000 where the purchase price is from $14,500,001.00 to $15,000,000.00 inclusive
   - $72,000 where the purchase price is from $15,000,001.00 to $15,500,000.00 inclusive
   - $74,000 where the purchase price is from $15,500,001.00 to $16,000,000.00 inclusive
   - $76,000 where the purchase price is from $16,000,001.00 to $16,500,000.00 inclusive
   - $78,000 where the purchase price is from $16,500,001.00 to $17,000,000.00 inclusive
   - $80,000 where the purchase price is from $17,000,001.00 to $17,500,000.00 inclusive
   - $82,000 where the purchase price is from $17,500,001.00 to $18,000,000.00 inclusive
   - $84,000 where the purchase price is from $18,000,001.00 to $18,500,000.00 inclusive
   - $86,000 where the purchase price is from $18,500,001.00 to $19,000,000.00 inclusive
   - $88,000 where the purchase price is from $19,000,001.00 to $19,500,000.00 inclusive
   - $90,000 where the purchase price is from $19,500,001.00 to $20,000,000.00 inclusive

37. Nothing contained herein shall be deemed to limit the authority of the Commissioners of the Division of Real Property in the conduct of sales to take such steps as may be deemed to be in the best interests of the City of New York in the implementation of the standards and conditions set forth herein.

NEXT AUCTION
TO BE ANNOUNCED
Mr. Kelly. Mr. Moses, one more question: Is it your understanding that the banks and the insurance companies in New York City or the State of New York are at war with some neighborhoods, or is it that their experience in those neighborhoods from an investment and insurance standpoint have indicated that the risks are higher there because of the conduct of the people in those areas?

Mr. Moses. The banks have, behind the scenes, said that the reason that they are not making mortgages in most of the rent-controlled sectors of the city and in areas such as the Bronx is that they have no guarantee they are going to get their money back, and they would rather make an investment in a building where their depositors can be assured there is going to be a payback of the interest and of the mortgage principal, and that they, as bankers, have a commitment to their depositors to make sure that that takes place.

Mr. Kelly. Then it is a question of profit, not of prejudice.

Mr. Moses. That is correct.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Lundine. Thank you. This hearing will be adjourned until the call of the Chair.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]
APPENDIX I

The City of New York

Four-Year Financial Plan

Fiscal Years 1979-1982
January 20, 1978

The Honorable W. Michael Blumenthal
Secretary of the Treasury
Main Treasury Building
Washington, D.C. 20220

Dear Secretary Blumenthal:

In accordance with your request, I am pleased to submit a financial plan for The City of New York. This plan will establish the framework for discussions that will lead to practical solutions to the problems which confront us, solutions that take into consideration the needs of the Federal, State and City governments. The plan is being submitted in advance of impending fiscal deadlines so that we can proceed in an orderly and rational manner to achieve our mutual goal of a financially sound City. We have neither understated nor overstated the seriousness of the City's problems. The solutions and proposals in this plan represent a candid and realistic appraisal of the current situation.

This plan, covering the four-year period 1979-82, describes actions already taken by New York City and sets forth those actions which the City, State and Federal governments can take together to restore the City to fiscal health.

On June 30, 1978, legislation providing seasonal financing will expire. That legislation, which was enacted in the fall of 1975, provided short-term relief and helped to save the City from imminent fiscal disaster. Substantial contributions to this relief effort were also made by City pension funds, municipal employees, the taxpayers, The State of New York, the financial community, and the Municipal Assistance Corporation. They participated in the implementation of a financial recovery plan which required them to make substantial financial sacrifices.
Although the City has accomplished a great deal since 1975, the actions and decisions taken at that time have been insufficient to regain access to the market.

We believe that the proposals embodied in this plan address themselves to solving the problem of market access. They also provide the budgetary relief necessary for the City to have a truly balanced budget by 1982, according to generally accepted accounting principles.

As you will learn from reading this plan, the budget assumptions and the financing mechanisms are interdependent. Although reasonable men may argue the merits of one financing approach over another, there is a general consensus among those closest to the problem that a true solution must involve long-term financing.

It is my feeling and my strong recommendation to you that such a long-term program must have a Federal guarantee, particularly where potential investors are the trustees of employee pension funds. This guarantee would enable the City and the HDC to take financing actions which would reduce the need for seasonal loans from the Federal government on a declining basis. By the end of the plan period, we envision no need for Federal seasonal assistance.

When I campaigned for the office of Mayor, I pledged to do whatever was necessary to restore health and vitality to the City. If further sacrifices are necessary, New Yorkers are prepared to tighten their belts another notch. We are not looking for a "handout". We have repaid our debt to the Federal government in a timely manner with interest. Over the two-and-one-half year period of this seasonal loan program, the Federal government will have earned a profit in excess of $25 million.

We are not looking for a loan or gift to support our financing efforts. We will pay a guarantee fee of one-quarter of one percent of the amount. New York is a good risk and it would be a sound investment for the Federal government to restore financial stability to the largest city in the country.

As a condition of the above guarantee, the City is prepared to accept a control mechanism to replace the Emergency Financial Control Board which is due to expire in December 1978. We recognize the need for an ongoing, independent review of the City's financial affairs to bolster public confidence in the City's fiscal soundness.

*
In conclusion, I would like to say that I have promised to be open and to inform the citizens of this City of the true state of our financial condition. I have done this. I have a further responsibility, however, to find solutions which go beyond mere survival. With assistance from the Federal government, the City of New York can restore itself to vigorous good health and in so doing bring credit to all those who participated in the recovery.

Sincerely,

Edward I. Koch
MAYOR
<table>
<thead>
<tr>
<th>SECTION I</th>
<th>YOUR YEAR FINANCIAL PLAN SUMMARY</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
<td>I-1</td>
</tr>
<tr>
<td>Overview</td>
<td></td>
<td>I-2</td>
</tr>
<tr>
<td>Expense Budget Projections</td>
<td></td>
<td>I-4</td>
</tr>
<tr>
<td>Actions to Close the Budget Gap</td>
<td></td>
<td>I-5</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td>I-8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECTION II</th>
<th>BUDGET PLAN - REVENUES AND EXPENSES</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
<td>II-1</td>
</tr>
<tr>
<td>Summary Tables of Revenues, Expenses and Gap to be Closed</td>
<td></td>
<td>II-2</td>
</tr>
<tr>
<td>Detailed Tables of Revenues</td>
<td></td>
<td>II-4</td>
</tr>
<tr>
<td>Assumptions in Baseline Revenue Projections</td>
<td></td>
<td>II-8</td>
</tr>
<tr>
<td>Detailed Tables of Expenditures</td>
<td></td>
<td>II-11</td>
</tr>
<tr>
<td>Assumptions in Baseline Expenditure Projections</td>
<td></td>
<td>IX-13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECTION III</th>
<th>BUDGET PROPOSALS TO ELIMINATE THE GAP</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
<td>XII-1</td>
</tr>
<tr>
<td>Summary of Actions to Eliminate the Gap</td>
<td></td>
<td>XII-2</td>
</tr>
<tr>
<td>Summary of City Actions</td>
<td></td>
<td>XII-3</td>
</tr>
<tr>
<td>Summary of Federal Actions</td>
<td></td>
<td>XII-4</td>
</tr>
<tr>
<td>Summary of State Actions</td>
<td></td>
<td>XII-6</td>
</tr>
<tr>
<td>Description of City Actions</td>
<td></td>
<td>XII-11</td>
</tr>
<tr>
<td>Description of Federal Actions</td>
<td></td>
<td>XII-15</td>
</tr>
<tr>
<td>Description of State Actions</td>
<td></td>
<td>XII-16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECTION IV</th>
<th>TEN YEAR CAPITAL PLAN</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
<td>IV-1</td>
</tr>
<tr>
<td>Summary</td>
<td></td>
<td>IV-2</td>
</tr>
<tr>
<td>Background: detail of needs</td>
<td></td>
<td>IV-8</td>
</tr>
<tr>
<td>Capitalization of Operating Costs</td>
<td></td>
<td>IV-16</td>
</tr>
<tr>
<td>The Ten Year Plan</td>
<td></td>
<td>IV-17</td>
</tr>
<tr>
<td>SECTION V - LONG TERM FINANCING PLAN</td>
<td>Page No.</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>Introduction</td>
<td>V-1</td>
<td></td>
</tr>
<tr>
<td>The Guarantee Proposal</td>
<td>V-2</td>
<td></td>
</tr>
<tr>
<td>Public Offerings of City Bonds</td>
<td>V-3</td>
<td></td>
</tr>
<tr>
<td>Schedule of Long Term Financing and Sources</td>
<td>V-6</td>
<td></td>
</tr>
<tr>
<td>City and MAC Bond Issues by Period</td>
<td>V-8</td>
<td></td>
</tr>
<tr>
<td>City and MAC Debt Service Costs 1979 to 1985</td>
<td>V-9</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECTION VI - SEASONAL FINANCING PLAN</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>VI-1</td>
</tr>
<tr>
<td>Seasonal Financing Proposal</td>
<td>VI-2</td>
</tr>
<tr>
<td>Short Term Interest</td>
<td>VI-4</td>
</tr>
<tr>
<td>1979 Cash Flow Projections Before Seasonal Financing</td>
<td>VI-4</td>
</tr>
<tr>
<td>1979 Cash Flow Projection After Cash Flow Actions</td>
<td>VI-9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECTION VII - FINANCIAL CONTROLS AND MONITORING</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>VII-1</td>
</tr>
<tr>
<td>Debt Service Fund</td>
<td>VII-2</td>
</tr>
<tr>
<td>Balanced Budget</td>
<td>VII-3</td>
</tr>
<tr>
<td>Budgetary Controls</td>
<td>VII-3</td>
</tr>
<tr>
<td>Limitations on Short Term Debt</td>
<td>VII-4</td>
</tr>
<tr>
<td>General Reserve</td>
<td>VII-4</td>
</tr>
<tr>
<td>Liquidation of State Advance</td>
<td>VII-4</td>
</tr>
<tr>
<td>Reporting</td>
<td>VII-4</td>
</tr>
<tr>
<td>Financial Plan</td>
<td>VII-4</td>
</tr>
<tr>
<td>Independent Audit</td>
<td>VII-5</td>
</tr>
<tr>
<td>Fiscal Monitor</td>
<td>VII-5</td>
</tr>
</tbody>
</table>
SECTION I

FOUR YEAR FINANCIAL PLAN SUMMARY

INTRODUCTION

This section provides a summary of the Four Year Financial Plan. Details of the City's budgetary and financing plans are provided in subsequent sections.
OVERVIEW

The purpose of this Plan is to describe the actions necessary for the City of New York to regain access to the public credit markets. The Plan is a submission of the Mayor working with the City Comptroller, the President of the City Council, and the Municipal Assistance Corporation (MAC).

The Plan addresses the two principal impediments to the City's access to the public credit markets:

- the inability of the City to balance its budget in accordance with generally accepted accounting principles (GAAP)
- the City's large annual financing requirements of $3 billion for both seasonal and long term purposes, an amount which is more than the market can reasonably be expected to absorb

By the end of the four year period, the actions proposed in the Plan will remove these impediments:

- the City will have a truly balanced budget
- the annual financing needs will be cut in half, eliminating the need for Federal seasonal loans

The Plan also addresses the need for the City to revitalize its economic base by eliminating operating expenses from the Capital Budget and committing these funds for the rehabilitation of the City's deteriorating physical plant and by stimulating economic development.

To accomplish these goals, the City will require long term financing of approximately $5 billion during the four year period. Since these requirements exceed MAC's borrowing capacity within its present coverage ratios and bond covenants, and since the City and MAC cannot reasonably expect to have access to the public credit markets for such amounts of long term financing, the Plan proposes Federal guarantees of approximately $2.25 billion for long term bonds. These bonds, to be purchased by City and State pension funds, will provide funds for capital improvement programs. The bonds will be 90% guaranteed by the Federal Government and receive 10% backing by the State. The Plan also proposes the continuation of the seasonal loan program on a declining basis, so
that the seasonal loan is eliminated by the end of the four year period.

Basic to the Plan is the concept that the City, State and Federal governments must continue to be partners in solving New York's budgetary and financial problems. Just as the City must continue to make sacrifices, so must the Federal and State governments provide continuing assistance.

The Plan calls upon all concerned parties to take part in solving the City's problems:

- The City will reduce further its work force and institute tighter management procedures in existing programs.
- The citizens of New York City will continue to encounter reduced services.
- Representatives of the municipal employees will be expected to accommodate their wage demands to the realities of the City's budget.
- The City pension funds will be asked to continue to buy City securities.
- The State pension funds will be expected to participate fully in helping meet the City's short and long term financial needs.
- New York financial institutions will be asked to provide seasonal and long term financing.
- The State and the Federal governments will be expected to recognize their obligations to urban areas, in general, and to health and public assistance, in particular.

In the thirty months since the onset of the financial crisis, the City has taken steps toward recovery:

- The work force has been reduced by 61,000 employees, over 20% of the 1975 level.
- Welfare rolls have been reduced to the lowest levels in eight years.
- Tuition has been imposed at the City University.
- The subway fare has been increased by 40%.
- Fringe benefits of City employees have been reduced by $41 million.
25 fire companies have been closed
77 day care centers have been eliminated
the deficit has been reduced by $1 billion on the basis of generally accepted accounting principles
accounting practices have been reformed and a new financial management and control system has been installed

However, the City's problems, which developed over a long period of time, cannot be solved overnight.

**EXPENSE BUDGET PROJECTIONS**

The City projects that the present level of operations will produce continuing budgetary imbalances because the growth of revenues is not sufficient to overcome the basic $1 billion deficit in the expense budget.

**Financial Plan Baseline Projections**

(($ In Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>13,195</td>
<td>13,408</td>
<td>13,607</td>
<td>14,175</td>
</tr>
<tr>
<td>Expenses</td>
<td>14,217</td>
<td>14,512</td>
<td>14,750</td>
<td>15,129</td>
</tr>
<tr>
<td>GAAP Gap</td>
<td>1,022</td>
<td>1,104</td>
<td>1,063</td>
<td>954</td>
</tr>
<tr>
<td>Accrued Pension Liability</td>
<td>(115)</td>
<td>(100)</td>
<td>(10)</td>
<td>-</td>
</tr>
<tr>
<td>Capitalized Expenses</td>
<td>(450)</td>
<td>(150)</td>
<td>(150)</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted Gap**</td>
<td>$ 457</td>
<td>$ 704</td>
<td>$ 903</td>
<td>$ 954</td>
</tr>
</tbody>
</table>

*The four year Plan does not allow for certain contingent liabilities of the City. Although the potential impact of these actions is not currently predictable, they could affect the Plan if decided adversely. These contingent liabilities are described in the City's most recent Official Statement dated November 28, 1977 and the Certificate as to Litigation dated January 10, 1978.*

**As permitted by MAC and Emergency Financial Legislation.
The lag in revenue growth is a direct result of the forces at work in most of the nation's older cities: a deteriorating economic base, changing population mix and stagnating property values. The principal revenue assumptions in the Plan are:

- Property tax collections are projected to stay at approximately the present level.
- Sales tax collections, personal income tax collections and business tax collections are expected to grow in line with inflation.
- Other taxes are expected to grow at a rate less than inflation.

In spite of the City's attempt to control costs, total expenditures continue to rise. This trend results because certain expenditures are driven by economic forces and governmental mandates outside the City's control. The principal expenditure assumptions in the Plan are:

- Fuel and energy costs increase 10% annually.
- Although Medicaid and public assistance caseloads are assumed constant, costs per case increase.
- Pension costs increase to implement the recommendations of the Mayor's Management Advisory Committee.

For a more detailed explanation of the assumptions in the Plan, see Section II - Budget Plans.

**ACTIONS TO CLOSE THE BUDGET GAP**

As previously mentioned, the current pattern of operations produces a basic budget deficit of $1 billion. To eliminate the deficits over the long run, a combination of City, State and Federal actions have been proposed in the Plan.

Three important points must be considered in reviewing the proposed City actions. First, the City has increased its major taxes over the last three years: the corporate tax rate was increased 50% in fiscal 1975; the financial tax was doubled; the retail sales tax was extended to business services and personal services; the personal income tax was increased 20-25% in certain income brackets; and the real estate tax was increased $1.40 per $100 of assessed value. Additional increases would be counterproductive because they would further undermine the tax base.

Second, in the last three years the City has taken substantial actions listed above to reduce and control expenditures.

Third, expenses that can be reduced by unilateral City actions are less than $1 billion of a total expense budget of $14 billion.
These funds are spent primarily in the agencies involved in essential services — police, fire, sanitation and education. These services are vital not only to the well being of City residents but also to any effort to improve the City's economy. Although further significant cuts in these services may be necessary, the proposed City actions to eliminate the gap have the objective of minimizing the impact on these essential services.

The following actions are planned by the City:

- the City work force will be further reduced by 10% over the four year period — approximately 20,000 positions will be eliminated through attrition of 4% of the work force in 1979, 3% in 1980, 2% in 1981 and 1% in 1982
- agencies will be forced to partially absorb inflation increases during the four year plan period in purchases of materials, supplies, utilities and various other services, reducing real expenditures for these items by 1%
- the City will continue and intensify its successful program to further reduce welfare ineligibility and overpayments
- the City will institute a series of management improvements to reduce costs, streamline the delivery of health care and education and increase the efficiency of various revenue-generation activities

The annual savings expected from these actions are:

<table>
<thead>
<tr>
<th></th>
<th>$ in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>$174</td>
</tr>
<tr>
<td>1980</td>
<td>337</td>
</tr>
<tr>
<td>1981</td>
<td>452</td>
</tr>
<tr>
<td>1982</td>
<td>544</td>
</tr>
</tbody>
</table>

After these City actions are taken, the remaining gaps to be closed are:

<table>
<thead>
<tr>
<th></th>
<th>$ in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>$283</td>
</tr>
<tr>
<td>1980</td>
<td>367</td>
</tr>
<tr>
<td>1981</td>
<td>451</td>
</tr>
<tr>
<td>1982</td>
<td>410</td>
</tr>
</tbody>
</table>

A series of proposals will be made to the State and Federal governments in the areas of welfare, health care, education, criminal justice, housing and revenue sharing. The problems in these areas are not unique to New York City. Rather, they are
common to all major cities and require national action. The Federal and State governments have recognized the implications of neglecting two of the most pervasive national problems, welfare and medical assistance. It is now time to resolve these problems.

The Federal Government will be asked:

- to accelerate welfare reform
- to extend medicare payments for skilled nursing care
- to change its revenue sharing population estimates
- to provide more money for drug law enforcement
- to increase its reimbursement for police protection in public housing
- to convert more City and State aided housing projects to the Federal housing program

The State Government will be asked:

- to immediately increase the State’s share of the Aid to Dependent Children Program and begin planning similar actions in the Medicaid Program
- to change the municipal overburden and revenue sharing formulas
- to increase the subsidy to UNY
- to alter the highway maintenance reimbursement
- to reduce the local share of mental health costs
- to reimburse the City for police protection in public housing

Section III - Budget Proposals to Eliminate the Gap describes these proposals and the estimated benefit of each action. It should be noted that the total of these proposals exceeds the remaining estimated gap. Should the City receive aid above the amount required to close the budget gap, it would be used to further accelerate the phase-out of expense items in the capital budget or for critical economic development purposes.
FINANCING

The financing actions contained in the four year financing plan would:

- permit the City to undertake an essential capital improvement program
- provide budgetary relief
- finance the expense items which remain in the capital budget and which will be phased out on an accelerated basis
- reduce the City's seasonal financing requirements by bonding the $800 million State advance

In addition, City actions coupled with the acceleration of certain payments to the City by the Federal and State governments could reduce the City's annual seasonal financing needs to as low as $400 million by the end of the four year period.

The Plan requires the issuance of approximately $5.1 billion of long term debt over the four year period. Neither the City nor MAC has the capacity to raise such amounts in the public credit markets. The Plan proposes that the Federal government provide a 90% guarantee on $2.25 billion of long term bonds to be purchased by City and State pension funds and that the State provide an additional 10% backing of these bonds. With such financing assured, the Plan contemplates that certain New York City financial institutions would commit to purchase $1 billion of MAC bonds, reducing the amount of financing which must be raised in the public credit markets to less than $2 billion.

However, the participation of the pension funds, financial institutions and public investors in this financing plan is completely dependent upon the Federal guarantee. Only with this Federal presence will potential investors be reasonably assured that the City's 5% billion of long term financing will be raised and, therefore, that the goals of the Financial Plan -- a recurring balanced budget and reduced seasonal financing requirements -- will be achieved.
LONG TERM FINANCING REQUIREMENTS

The amount of long term financing required under the Financial Plan is set forth below:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>$ In Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Improvements</td>
<td>$ 2,590</td>
</tr>
<tr>
<td>Capitalized Expenses</td>
<td>930</td>
</tr>
<tr>
<td>State Advance</td>
<td>800</td>
</tr>
<tr>
<td>MAC Capital Reserve Fund</td>
<td>230</td>
</tr>
<tr>
<td>MAC Refunding</td>
<td>560</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 5,180</strong></td>
</tr>
</tbody>
</table>

**Capital Improvements**

A critical element of the Financial Plan is the City’s plan for capital improvements. (See Section IV - Ten Year Capital Plan). Essential expenditures for restoration, replacement, and expansion of the City’s roads, sewers, water supply system, bridges and other aspects of its physical plant have been deferred or cancelled because of the fiscal crisis. For example, at current expenditure rates highways, water mains, and sewers are being replaced at a 200 to 300 year cycle.

The objectives of the City’s long term capital program are threefold: to establish and maintain realistic rehabilitation and maintenance schedules (including investments to address the serious backlog of deferred maintenance); to provide funds for capital projects that will protect the economy and the revenue base of the City; and to provide funds for capital projects that will reduce operating expenses.

Based on these objectives, the highlights of the capital plan presented in Section IV - Ten Year Capital Plan include:

- Improvements to the physical and environmental plant.
  - institution of 35 year replacement cycle for City streets, 40 year cycle for City bridge roadways, 100 year cycle for City sewers and 75 year cycle for the City water system in accord with established engineering standards at a cost of more than $300 million annually
  - $150 million for water pollution control plants in Brooklyn and Manhattan; this is the required City match for $1.850 million of State and Federal funds
$1 billion to advance the City’s Water Tunnel #3; this is required to supplement the existing water tunnels which are 55 and 44 years old; failure of either of the existing tunnels without a third tunnel poses a serious health and environmental problem to the City.

- Doubling of investments for transit modernization.
- Replacement of aging police, fire and sanitation facilities and equipment.
- Substantial upgrading of correctional facilities in response to Federal and State mandates to provide increased services to detained persons.

**Economic development**

- Design and construction of a new City convention center, creating up to 30,000 new jobs and $45 million in new annual tax revenues to the City and State.
- Modernization of piers and markets, and development of sites for industrial parks.

**Capital investment to reduce operating costs**

- Introduction of new technologies to reduce energy consumption costs, improve and control personnel utilization and streamline various labor-intensive processing activities throughout the government.
- Modernization of police and fire communication systems to improve deployment and scheduling of these emergency resources in response to demands for service.
- Establishment of rational replacement cycles for heavy duty vehicles such as used by the Sanitation Department in order to reduce operating maintenance and refuse collection costs.

In the first two years major efforts will be devoted to designing projects. The proposal reflects both design costs and the increases needed in the remaining years to fund the construction required.

While this plan appears ambitious and encompasses virtually every element of the City's physical plant, it is an essential, but reasonable thrust, to revitalize the City. Several major projects have not been incorporated, such as:

- full completion of Third Water Tunnel ($2.100 million)
- full completion of the 63rd Street Tunnel, 2nd Avenue Line, JFK Airport Link ($300 million City funds; $1,200 million total cost)
- a new municipal office building ($200 million)
- several new courts and hospitals ($75 million)

Capitalized Expenses

The Financial Plan proposes that the City eliminate operating expenses from the capital budget over a three-year period, four years sooner than required by the MAC Act. The purpose of the accelerated phase-out is two-fold:

- to bring the expense budget into balance according to generally accepted accounting principles by the end of the Plan period
- to reduce the total amount of long term financing

The amount of expense items in the capital budget to be financed is $450 million in Fiscal 1978, $500 million in 1980, and $150 million in 1981.

Bonding the State Advance

The annual $800 million State advance is a residue of the financial crisis and represents a permanent working capital shortage of the City. Because of the timing of the advance and its method of repayment, it increases by $800 million the peak seasonal borrowing requirements of both the City and the State. Bonding of the advance would reduce the seasonal cash needs of the City by 42% to approximately $1.0 billion from a current level of approximately $1.8 billion. State seasonal borrowing would be reduced by 26% from a current level of approximately $4 billion. Such reductions would improve the market for both City and the State short-term notes. The advance is proposed to be bonded by MAC bond offerings of $200 million in Fiscal 1980, $300 million in 1981, and $300 million in 1982.

Refunding MAC Debt and Funding MAC Capital Reserve Requirements

MAC has previously announced plans to refund certain issues of its outstanding debt and to meet its capital reserve requirements
through the issuance of MAC bonds. While the amount and timing of such public offerings are subject to market conditions, projections in the financial plan include $560 million of MAC bonds for refunding and $260 million to meet capital reserve requirements. This MAC financing will result in budgetary savings to the City over the four year period.

SOURCES OF LONG TERM FINANCING

To accomplish the projected $5.1 billion of long term financing over the four year period, the City will seek substantial financing from local sources.

No direct long term financing from the Federal government is requested. However, a Federal guarantee of a portion of the debt to be issued is essential to the ability of the City and MAC to issue $5.1 billion of bonds over this period.

Sources of Long Term Financing
Fiscal Years 1979-1982

$ in Millions

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City and State Pension Funds</td>
<td>$2.250*</td>
</tr>
<tr>
<td>New York Financial Institutions</td>
<td>1,000</td>
</tr>
<tr>
<td>Public Offerings</td>
<td>1,050</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,300</strong></td>
</tr>
</tbody>
</table>

Purchase of Guaranteed Debt by City and State Pension Funds

It is proposed that certain New York City and state pension funds purchase $2.25 billion of 25 year bonds to be issued to finance true capital expenditures. Such bonds would be guaranteed to the extent of 90% of their principal amount by the Federal government. The State would provide 10% backing of such bonds issued by appropriating and paying such amount to a trustee for the bonds. The Federal guarantee would not apply until the amount held by the trustee has been exhausted. The guarantee would be non-transferable and would terminate if the bonds were sold by the pension funds to third parties.

The plan contemplates an expiration of the guarantee prior to full maturity of the bonds. The number of years to be guaranteed is dependent on the requirements of the pension funds and the Federal government but a ten year period would appear to be a minimum.

In addition to helping satisfy the fiduciary obligations of

* 90% guaranteed by Federal Government with 10% backing by the State.
the trustees of the pension funds, the guarantee as proposed
would avoid the issue of taxability of federally guaranteed
obligations of a municipality since it would accrue only to
the pension funds, which are tax exempt.

For further discussion of the guarantee, see Section V-
Long Term Financing Plan.

New York Financial Institutions

As part of the overall plan, certain New York-based financial
institutions, including New York City commercial banks, savings
banks, and insurance companies, will be asked to commit to purchase
a total of $1 billion of MAC bonds to be issued during the four
year period.

Public Offerings

The amount of debt to be issued in public offerings will be
$1,850 million over the four year period. Of this amount, the
City would offer $100 million of serial bonds to finance capital
of MAC bonds would total $1,510 million in addition to the $1 billion
of MAC bonds to be purchased by New York financial institutions.

For a schedule of debt to be issued by the City and MAC,
see Section V-Long Term Financing Plan, Table I.

FISCAL CONTROLS AND MONITORING

In consideration for the Federal guarantee and State backing
of City bonds, the City would agree to a continuation of outside
review of its finances. The Emergency Financial Control Board
expires December 31, 1978. Prior to that time, another fiscal
monitor will be established. The monitor would have a professional
staff to review the operating budget, the capital budget and the
multi-year financial plan to insure that:

- estimates of revenues are realistic
- estimates of expenses are complete and realistic and
  within the amount of revenues projected
- estimates of the cost of all long-term contracts are
  complete and accurate

In addition to accepting the fiscal monitor, the City would
agree to:

- establish a Debt Service Fund
- submit and adopt balanced budgets

I - 13
establish budgetary controls
- accept limitations on short term debt
- maintain a General Reserve
- liquidate the State advance
- publish monthly, quarterly, and annual reports
- prepare a four-year financial plan
- submit to outside audit of its financial statements

For more complete descriptions see Section VII-Financial Controls and Monitoring.

SEASONAL FINANCING

The Federal Seasonal Financing Act of 1975 has provided a means for the City to meet its seasonal borrowing needs through June 30, 1978. Under this Act, the City could borrow a maximum of $2.3 billion to be fully repaid before the end of the City's fiscal year.

In Fiscal 1978, the City has not used this full authority. It has borrowed a total of $1.575 billion and does not expect to require any further loans this year.

The City's seasonal cash needs arise because of an imbalance between the City's cash inflow and expenditures during the fiscal year. However, the availability of the Federal guarantee for City capital debt, together with the other elements of the Plan, would enable the City to reduce its cash imbalances. In this context, the City estimates that its seasonal cash needs in 1979 could be accommodated within a maximum Federal seasonal borrowing limit of $1.2 billion and a $600 million line of credit which the New York Clearing House banks will be asked to provide. The Federal facility could be reduced by $400 million annually as the City gains working capital by bonding the State advance as proposed under the Plan and as the City gains access to the public credit markets.

The current Federal Credit Agreement requires the City to use its best efforts to meet its seasonal financing needs without resort to borrowing from the Treasury. To do so, in the Fall of 1977 the City attempted to issue Revenue Anticipation Notes to the public; this attempt was unsuccessful. There are, however, other kinds of actions that would help reduce the City's need for Federal seasonal financing assistance.

I - 14
A program to reduce the City's seasonal borrowing needs requires the participation of the State and Federal governments as well as the City:

- the City will accelerate collection of real estate taxes within the fiscal year by changing its quarterly tax payment dates
- the State should correct its current practice of delaying payment of State aid for health, mental health, and the City University until after the City has made the related expenditures
- the State should advance 100% of State aid for public assistance and medicaid each month, instead of 80%, consistent with Federal policy of advancing 100% of the Federal aid portion
- the State should agree to defer for two months withholding of State aid for repayment of the Spring State advance
- the Federal government should pay federal revenue sharing monthly rather than after the end of each quarter

If these actions, including the bonding of the State advance, can be accomplished by the end of the four year period, the City could reduce its peak seasonal borrowing needs from approximately $1.8 billion to as low as $400 million. For a more complete discussion of this matter, see Section VI - Seasonal Financing Plan.

TOTAL FEDERAL CREDIT FACILITIES

The Plan contemplates that over the four year period the City's requirement for Federal seasonal loan assistance will decline while the amount of guaranteed loans increases. Total Federal commitments during the period would be:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>($ in Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of Guaranteed Bonds to be Issued (Cumulative)</td>
<td>427</td>
<td>960</td>
<td>1,896</td>
<td>2,330</td>
</tr>
<tr>
<td>Portion Federally Guaranteed (90%)</td>
<td>381</td>
<td>864</td>
<td>1,415</td>
<td>2,025</td>
</tr>
<tr>
<td>Maximum Federal Seasonal Loan</td>
<td>1,200</td>
<td>800</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td>Total Federal Credit Facilities</td>
<td>1,581</td>
<td>1,664</td>
<td>1,845</td>
<td>2,025</td>
</tr>
</tbody>
</table>
The maximum Federal exposure would come in the fourth year. This exposure would be reduced as the guaranteed bonds are redeemed.
SECTON II

BUDGET PLAN - REVENUES AND EXPENSES
FY 1979 - FY 1982

INTRODUCTION

This section provides base line projections for each of the four plan years and indicates the budget gap to be eliminated both under generally accepted accounting principles (GAAP) and as allowed by the MAC and emergency financial legislation. Revenues are indicated by major sources and categories and expenditures are indicated by major purposes. This section also includes a narrative description of the assumptions used in developing these projections for each of the major revenue sources and expenditure purposes.

In addition this section provides a comparison of FY 1979 revenues and expenditures with actual Fiscal Year 1977 experience and budgeted Fiscal Year 1978 data.
| TABLE I |
|------------------|------------------|------------------|------------------|
| REVENUES         |         |         |         |         |
| General Sources  | 4,958   | 4,902   | 5,023   | 5,278   |
| Real Estate Taxes| 3,155   | 3,117   | 3,105   | 3,127   |
| Federal/State Aid| 5,282   | 5,439   | 5,459   | 5,870   |
| Sub-Total        | 13,395  | 13,458  | 13,597  | 14,275  |
| Less: Reserve for Disallowances | 100     | 100     | 100     | 100     |
| TOTAL REVENUES   | 13,295  | 13,308  | 13,497  | 14,175  |
| EXPENSES         |         |         |         |         |
| Personal Service | 5,650   | 5,758   | 5,883   | 5,973   |
| Other Than Personal Service | 6,426 | 6,723 | 7,020 | 7,342 |
| Debt Service     | 1,535   | 1,436   | 1,342   | 1,268   |
| MAC Debt Service | 466     | 474     | 497     | 525     |
| General Reserve  | 100     | 100     | 100     | 100     |
| Accrued Pension Liability | 115 | 199 | 10 | - |
| Expense items properly chargeable to the Capital Budget | (75) | (79) | (101) | (109) |
| TOTAL EXPENSES   | 14,217  | 14,512  | 14,750  | 15,129  |
| Budget Gap Under Generally Accepted Accounting Principles | $ 1,227 | $ 1,104 | $ 1,063 | $ 954 |
| Adjustments permitted by Emergency Financial Legislation and MAC Act: |         |         |         |         |
| Accrued Pension Liability | (115) | (100) | (10) | - |
| Expense Items chargeable to Capital budget but must be phased out | (450) | (305) | (150) | - |
| GAP TO BE CLOSED | $ 457   | $ 794   | $ 903   | $ 954   |
## TABLE II
### SUMMARY OF REVENUES AND EXPENSES
#### FY 1977-FY 1979
($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 1977</th>
<th>FY 1978*</th>
<th>FY 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ACTUAL</td>
<td>FORECAST</td>
<td>FINANCIAL PLAN</td>
</tr>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Sources</td>
<td>$4,781</td>
<td>$5,020</td>
<td>$4,858</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>3,236</td>
<td>3,160</td>
<td>3,155</td>
</tr>
<tr>
<td>Federal/State Alg</td>
<td>4,745</td>
<td>4,230</td>
<td>4,282</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>117,761</td>
<td>117,420</td>
<td>117,295</td>
</tr>
<tr>
<td>Less: Reserve for Disallowances</td>
<td>25</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$122,436</td>
<td>$119,303</td>
<td>$117,295</td>
</tr>
</tbody>
</table>

|                  |         |          |          |
| **EXPENSES**     |         |          |          |
| Personal Service | $5,471  | $5,500   | $5,650  |
| Other Than Personal Service | $7,768 | 6,313 | 6,426 |
| Debt Service     | 1,747   | 1,627    | 1,552   |
| MAC Debt Service | 397     | 440      | 666     |
| General Reserve  | -       | 141      | 100     |
| Accrued Pension Liability | 50 | 130 | 115 |
| Expense items properly chargeable to the Capital Budget | (75) | (75) | (75) |
| **TOTAL EXPENSES** | $13,556 | $14,066 | $14,217 |

|                  |         |          |          |
| Budget Gap Under Generally Accepted Accounting Principles | $920 | 763 | 1,962 |

Adjustments permitted by Emergency Financial Legislation and MAC Act

|                  |         |          |          |
| Accrued Pension Liability | $50 | 120 | 115 |

**Expense items chargeable to the Capital Budget but must be phased out**

|                  |         |          |          |
| Remaining Gap After Adjustments | $320 | -0- | $457 |

* Through Modification No. 12
** Includes additional items which were reclassified by New York State Accounting System directive after the FY 1977 budget was adopted.
<table>
<thead>
<tr>
<th>TABLE III</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE DETAIL</td>
</tr>
<tr>
<td>(In Millions)</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>GENERAL SOURCES</td>
</tr>
<tr>
<td>Sales Tax</td>
</tr>
<tr>
<td>Utility Tax</td>
</tr>
<tr>
<td>Commercial Rent Tax</td>
</tr>
<tr>
<td>Personal Income Tax</td>
</tr>
<tr>
<td>Unincorporated Business Tax</td>
</tr>
<tr>
<td>General Corporation Tax</td>
</tr>
<tr>
<td>Financial Tax</td>
</tr>
<tr>
<td>Stock Transfer Tax</td>
</tr>
<tr>
<td>Federal Revenue Sharing</td>
</tr>
<tr>
<td>Federal Counter-cyclical</td>
</tr>
<tr>
<td>NY State Revenue Sharing</td>
</tr>
<tr>
<td>Water and Sewer Charges</td>
</tr>
<tr>
<td>Title IV and TVA Settlement</td>
</tr>
<tr>
<td>Penn Central Settlement of Back Taxes</td>
</tr>
<tr>
<td>Other Refunds</td>
</tr>
<tr>
<td>TOTAL GENERAL SOURCES</td>
</tr>
<tr>
<td>REAL ESTATE TAXES</td>
</tr>
<tr>
<td>Current Year</td>
</tr>
<tr>
<td>Prior Year</td>
</tr>
<tr>
<td>TOTAL REAL ESTATE TAXES</td>
</tr>
<tr>
<td>FEDERAL/STATE AID</td>
</tr>
<tr>
<td>Current Year</td>
</tr>
<tr>
<td>TOTAL Revenues</td>
</tr>
<tr>
<td>Revenue Source</td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td>Cigarette Tax</td>
</tr>
<tr>
<td>Mortgage Tax</td>
</tr>
<tr>
<td>Auto Use Tax</td>
</tr>
<tr>
<td>Off-Track Betting Revenues</td>
</tr>
<tr>
<td>Hotel Occupancy Tax</td>
</tr>
<tr>
<td>Conveyance of Real Property</td>
</tr>
<tr>
<td>Interest and Penalties</td>
</tr>
<tr>
<td>Gasoline &amp; Motor Fuel Taxes</td>
</tr>
<tr>
<td>Railroad Reimbursement</td>
</tr>
<tr>
<td>Motor Vehicle Registration Fees</td>
</tr>
<tr>
<td>Highway Maintenance Fees</td>
</tr>
<tr>
<td>Licenses</td>
</tr>
<tr>
<td>Permits</td>
</tr>
<tr>
<td>Franchises and Privileges</td>
</tr>
<tr>
<td>Government Charges</td>
</tr>
<tr>
<td>Housing Enterprise</td>
</tr>
<tr>
<td>Rental Income</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Interest Income</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
</tr>
</tbody>
</table>

**TOTAL**
| TABLE V |
|---|---|
| REVENUE DETAIL |
| FY 1977 – FY 1979 |
| ($ In Millions) |

<table>
<thead>
<tr>
<th>GENERAL SOURCES</th>
<th>FY 1977</th>
<th>FY 1978*</th>
<th>FY 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax</td>
<td>$ 867</td>
<td>$ 901</td>
<td>$ 959</td>
</tr>
<tr>
<td>Utility Tax</td>
<td>100</td>
<td>119</td>
<td>136</td>
</tr>
<tr>
<td>Commercial Rent Tax</td>
<td>203</td>
<td>192</td>
<td>201</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>742</td>
<td>756</td>
<td>811</td>
</tr>
<tr>
<td>Unincorporated Business Tax</td>
<td>78</td>
<td>76</td>
<td>72</td>
</tr>
<tr>
<td>General Corporation Tax</td>
<td>519</td>
<td>594</td>
<td>526</td>
</tr>
<tr>
<td>Financial Tax</td>
<td>149</td>
<td>168</td>
<td>151</td>
</tr>
<tr>
<td>Stock Transfer Tax</td>
<td>279</td>
<td>250</td>
<td>157</td>
</tr>
<tr>
<td>Federal Revenue Sharing</td>
<td>201</td>
<td>305</td>
<td>106</td>
</tr>
<tr>
<td>Federal Countercyclical</td>
<td>89</td>
<td>140</td>
<td>84</td>
</tr>
<tr>
<td>NY State Revenue Sharing</td>
<td>434</td>
<td>533</td>
<td>526</td>
</tr>
<tr>
<td>Water and Sewer Charges</td>
<td>205</td>
<td>231</td>
<td>232</td>
</tr>
<tr>
<td>Title IVa and XV1 Settlement</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Penn Central Settlement of Back Taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>979</td>
<td>1,005</td>
<td>733</td>
</tr>
<tr>
<td>Refunds</td>
<td>(154)</td>
<td>(136)</td>
<td>(36)</td>
</tr>
<tr>
<td>TOTAL GENERAL SOURCES</td>
<td>$4,781</td>
<td>$5,030</td>
<td>$4,858</td>
</tr>
</tbody>
</table>

| REAL ESTATE TAXES |
|---|---|---|
| Current Year | $3,123 | $3,089 | $3,081 |
| Prior Year | 74 | 74 | 74 |
| TOTAL REAL ESTATE TAXES | $3,297 | $3,163 | $3,155 |

| FEDERAL/STATE AID |
|---|---|---|
| $4,746 | $5,210 | $5,292 |

| SUB-TOTAL | $12,763 | $13,428 | $13,385 |
| Lease Reserve for Disallowances | $125 | $125 | $125 |
| TOTAL REVENUES | $13,688 | $13,553 | $13,510 |

* Through Modification #12
## TABLE VI
**Revenue Detail of Other General Services**

**FY 1977 - FY 1979**

<table>
<thead>
<tr>
<th></th>
<th>FY 1977 (1)</th>
<th>FY 1978(*)</th>
<th>FY 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigarette Tax</td>
<td>$61</td>
<td>$61</td>
<td>$61</td>
</tr>
<tr>
<td>Mortgage Tax</td>
<td>38</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>Auto Use Tax</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Off-Track Betting Revenues</td>
<td>68</td>
<td>61</td>
<td>63</td>
</tr>
<tr>
<td>Hotel Occupancy Tax</td>
<td>10</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Conveyance of Real Property</td>
<td>17</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Interest and Penalties</td>
<td>43</td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td>Gasoline &amp; Motor Fuel Taxes</td>
<td>42</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Railroad Reimbursement</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Motor Vehicle Registration Fees</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Highway Maintenance Fees</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Licenses</td>
<td>6</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Permits</td>
<td>11</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Franchises and Privileges</td>
<td>44</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Government Charges</td>
<td>243</td>
<td>240</td>
<td>130</td>
</tr>
<tr>
<td>Housing Enterprise</td>
<td>84</td>
<td>65</td>
<td>50</td>
</tr>
<tr>
<td>Rental Income</td>
<td>45</td>
<td>46</td>
<td>49</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
<td>93</td>
<td>100</td>
<td>102</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>22</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>Interest Income</td>
<td>25</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>All Others</td>
<td>110</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$978</strong></td>
<td><strong>$2,005</strong></td>
<td><strong>$723</strong></td>
</tr>
</tbody>
</table>

*Through Modification No. 12*
ASSUMPTIONS IN BASELINE REVENUE PROJECTIONS

GENERAL SOURCES

Sales Tax: The tax is projected to grow at an average annual rate of 5 percent. By comparison, sales tax receipts upstate are expected to rise approximately eight percent annually, and national retail sales are projected to grow slightly less than ten percent annually.

Commercial Rent Tax: An annual growth rate of 2 percent is reflected. The growth in FY 1981 and FY 1982 is offset by the second and third steps in the commercial rent tax rate reduction implemented in FY 1978. The reduction from FY 1977 is currently 10 percent and will become 15 percent in FY 1981 and 20 percent in FY 1982.

Personal Income Tax: Personal Income is assumed to grow at an annual rate of 5.6 percent. The tax, because of its progressive rate structure, is expected to grow at a slightly higher rate, 6.1 percent. Allowance has been made in these projections for a continued but slower rate of decline in the city's employment base.

General Corporation Tax: The average rate of growth is 7.4 percent. Although U.S. corporate profits are projected to grow at an annual average of 12 percent, the New York City business mixture does not contain the more rapidly growing industries (such as heavy equipment manufacturing) reflected in the national average.

Financial Tax: The average rate of growth over the first three years of the plan period is approximately 5 percent, but year-to-year growth varies widely reflecting such factors as interest spreads, security investment, and loan volume. In FY 1982 the tax yield improves by approximately 21 percent, in part as a result of scheduled changes in loan loss provisions of the current Federal tax codes affecting commercial bank operations.

Stock Transfer Tax: Decline in revenue reflects the planned phase-out of the tax, offset by a 2 percent growth in the volume of transactions. In FY 1979, the 25 percent surcharge will be phased-out through an offsetting credit against other business taxes, and the basic tax will be phased out at the rates of 30, 60, and 100 percent in the following three years. The State will share in the cost of the surcharge phase-out in the first year only to a maximum of $16 million, and in the phase-out of the basic tax to a maximum of $120 million.
Federal Revenue Sharing: The present legislation expires in FY 1981 and it is assumed for this projection that the existing mechanism of computation will be retained in extending legislation. However, it is likely that because of inflation, some increase in the overall appropriation will be made in FY 1981 as it was in FY 1977 when revenue sharing was extended for the first time. A conservative assumption of an increase of 2 percent in overall funding is used for FY 1981 and FY 1982 over FY 1979. As a result of the current per-capita limit, mandated by federal legislation, the City loses $4 - $11 million annually that it might otherwise receive over the plan period.

Federal Countercyclical: Assumes continuation of the current program until the national unemployment rate falls below 6 percent in FY 1981 yielding $84 and $57 million in FY 1979 and FY 1980 respectively, down from $240 million in FY 1978. No receipts are projected for FY 1981 and FY 1982. The passalong of the State is federal countercyclical revenues ($34 million) provided in FY 1976 has been eliminated as a non-recurring revenue in the category of NY State Revenue Sharing.

New York State Revenue Sharing: Reflects an annual growth of ten percent in the State Personal Income Tax as projected by the State in the five year State financial plan issued in the spring of 1977. In FY 1981 and FY 1982 allowance has been made for a probable downward adjustment reflecting a lower 1980 census population count. Implementation of a reduction in New York State Personal Income Tax now being discussed will lower the City's Revenue Sharing receipts. Each reduction of $100 million in the New York State Personal Income Tax would result in a loss to the City of $1 million. No adjustment for this has been included in this plan as the City is assuming the State will hold the City harmless.

Title IVa and XVI Settlement: These additional revenues of $31 million in FY 1979 represent payments for claims against NEH: the revenue does not recur in later years.

Penn Central Settlement: A total of $56 million is scheduled during the four year period under the tax arrears collection plan approved by the railroad trustees and submitted to the Court for approval. Actual timing of receipt of the funds will affect the accounting and appropriation of this revenue.

Other: Includes Off-Track Betting revenues, cigarette tax, hotel occupancy and auto use, taxes, etc., and miscellaneous revenues such as licenses, permits and franchise fees collected by City agencies. Most of these revenues are assumed to remain constant with some expected to yield modest increases. Non-recurring revenues anticipated in FY 1978 for sale of the Westway right-of-way ($80 million) and loan repayments due from the Educational Construction Fund ($66 million) are not included in FY 1979 and beyond.
Refunds: Increase over the plan period in proportion to increased revenue estimates for such taxes as the personal income tax and general corporation tax.

REAL ESTATE TAXES: Assume a rate of $8.75 during the plan period. Assessed values are assumed to decline slightly during the four year period as is the rate of delinquency resulting in slightly declining revenues. Recent court decisions, particularly in Guth vs. Commissioner of Assessment of the City of Syracuse and Hellerstein vs. Assessor of the Town of Islip, however may have a substantial impact on the City's present method of assessing real property. The pressure of these and other recent cases is to force 100 percent full value assessment. While this change does not necessarily result in any reduction in the City's tax incurring powers, it would result in substantial shifts in tax burden among some property owners. If methods are adopted by the City to reduce the impact of these court decisions on one and two family home owners who would be adversely affected economically, the City might have to absorb substantial losses in revenue over the next few years, amounting possibly to hundreds of millions of dollars. At present, no allowance for these potential changes has been made in these projections.

FEDERAL/STATE CATEGORICAL AID: This category consists mainly of revenues received as reimbursement for expenditures incurred by the City for various service delivery programs required by Federal or State mandates. Such revenues, referred to as expenditure-driven, exactly balance the expenditures over the plan period. Examples of these are CETA and CO funds, the reimbursable aid for Public Assistance and reimbursement for fees for service expenditures such as Medical Assistance.

Categorical aid, also includes certain Federal and State revenues determined on specific service formula bases such as aid to education which is determined by enrollment. Unrestricted categories of Federal and State Aid such as Revenue Sharing and Countercyclical Funds are contained in General Source Revenues.

RESERVE FOR DISALLOWANCES: A $100 million reserve is provided each year in the plan period. This represents a reduction from the $25 million reserve contained in FY 1976-FY 1978 financial plan in accord with actual experience with claim disallowances over that period.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PERSONAL SERVICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Salaries and Wages</td>
<td>$3,877</td>
<td>$3,877</td>
<td>$3,877</td>
<td>$3,877</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>431</td>
<td>572</td>
<td>631</td>
<td>691</td>
</tr>
<tr>
<td>Pensions</td>
<td>1,247</td>
<td>1,326</td>
<td>1,375</td>
<td>1,405</td>
</tr>
<tr>
<td><strong>TOTAL PERSONAL SERVICE</strong></td>
<td>$5,656</td>
<td>$5,758</td>
<td>$5,883</td>
<td>$5,973</td>
</tr>
<tr>
<td><strong>OTHER THAN PERSONAL SERVICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies, Equipment, Contractual Services</td>
<td>$1,792</td>
<td>$1,994</td>
<td>$2,040</td>
<td>$2,169</td>
</tr>
<tr>
<td>Public Assistance</td>
<td>1,498</td>
<td>1,530</td>
<td>1,576</td>
<td>1,615</td>
</tr>
<tr>
<td>Medical Assistance</td>
<td>1,823</td>
<td>1,793</td>
<td>1,868</td>
<td>1,980</td>
</tr>
<tr>
<td>Health and Hospital Corp.:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Support (1)</td>
<td>242</td>
<td>243</td>
<td>242</td>
<td>242</td>
</tr>
<tr>
<td>Medicaid</td>
<td>593</td>
<td>528</td>
<td>594</td>
<td>582</td>
</tr>
<tr>
<td>Various Subsidies and Covered Organization Support</td>
<td>788</td>
<td>758</td>
<td>740</td>
<td>745</td>
</tr>
<tr>
<td><strong>TOTAL OTHER THAN PERSONAL SERVICE</strong></td>
<td>$6,436</td>
<td>$6,722</td>
<td>$7,020</td>
<td>$7,382</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$1,535</td>
<td>$1,436</td>
<td>$1,341</td>
<td>$1,265</td>
</tr>
<tr>
<td>MAC Debt Service</td>
<td>446</td>
<td>474</td>
<td>497</td>
<td>505</td>
</tr>
<tr>
<td>General Reserve</td>
<td>110</td>
<td>162</td>
<td>160</td>
<td>100</td>
</tr>
<tr>
<td>Accrued Pension Liability</td>
<td>115</td>
<td>100</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Expense items property chargeable to the Capital Budget</td>
<td>(75)</td>
<td>(75)</td>
<td>(101)</td>
<td>(109)</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURE</strong></td>
<td>$14,517</td>
<td>$14,512</td>
<td>$14,750</td>
<td>$15,124</td>
</tr>
</tbody>
</table>

(1) Includes 14.1 million in Tax Levy, .56 million in Capital Funds and $25 million of Federal Aid for the maintenance of the CETA program.
<table>
<thead>
<tr>
<th></th>
<th>FY 1977</th>
<th>FY 1978*</th>
<th>FY 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PERSONAL SERVICE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Salaries and Wages</td>
<td>$3,729</td>
<td>$3,866</td>
<td>$3,877</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>548</td>
<td>446</td>
<td>526</td>
</tr>
<tr>
<td>Pensions</td>
<td>1,194</td>
<td>1,188</td>
<td>1,247</td>
</tr>
<tr>
<td><strong>TOTAL PERSONAL SERVICE</strong></td>
<td>$5,471</td>
<td>$5,500</td>
<td>$5,650</td>
</tr>
<tr>
<td><strong>OTHER THAN PERSONAL SERVICE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies, Equipment,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contractual Services</td>
<td>$1,492</td>
<td>$1,605</td>
<td>$1,792</td>
</tr>
<tr>
<td>Public Assistance</td>
<td>1,402</td>
<td>1,454</td>
<td>1,498</td>
</tr>
<tr>
<td>Medical Assistance</td>
<td>1,345</td>
<td>1,413</td>
<td>1,603</td>
</tr>
<tr>
<td>Health &amp; Hospital Corp.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Support</td>
<td>212</td>
<td>242</td>
<td>242</td>
</tr>
<tr>
<td>Medicaid</td>
<td>435</td>
<td>480</td>
<td>503</td>
</tr>
<tr>
<td>Various Subsidies and Covered Organization Support</td>
<td>882</td>
<td>1,029</td>
<td>783</td>
</tr>
<tr>
<td><strong>TOTAL OTHER THAN PERSONAL SERVICE</strong></td>
<td>$5,766</td>
<td>$6,313</td>
<td>$6,426</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$1,747</td>
<td>$1,627</td>
<td>$1,535</td>
</tr>
<tr>
<td>MAC Debt Service</td>
<td>597</td>
<td>440</td>
<td>466</td>
</tr>
<tr>
<td>General Reserve</td>
<td>20</td>
<td>141</td>
<td>100</td>
</tr>
<tr>
<td>Accrued Pension Liability</td>
<td></td>
<td>129</td>
<td>115</td>
</tr>
<tr>
<td>Expense Items properly chargeable to the Capital Budget Program</td>
<td>(75)</td>
<td>(75)</td>
<td>(75)</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>$13,558</td>
<td>$14,066</td>
<td>$14,217</td>
</tr>
</tbody>
</table>

* Through Modification No. 12
ASSUMPTIONS IN BASELINE EXPENDITURE PROJECTIONS

PERSONAL SERVICE

Cost of Salaries and Wages: No growth in staff levels in Mayoral agencies and Board of Education.

Assume maintenance of CETA program funding ($306 million) to provide continued employment for 2,000 city employees and employees in non-profit agencies.

Includes COLA I adjustments of $84 million and increment of $13 million previously negotiated and approved for uniformed force personnel. It does not include $24 million for payments of increments in the Board of Education, previously deferred.

Includes continuation of City's match for 1978 Productivity COLA referred to as COLA II, on a fully annualized basis ($69 million). This does not include COLA II payments for the Board of Education or other covered organizations.

No future general salary increases are provided (each 1 per cent increase is estimated to cost approximately $35 - $40 million annually).

Fringe Benefits: A 10 per cent growth in PICA for FY 1979 and 9 per cent thereafter and a 10 per cent annual growth in health insurance is projected during the plan period. Includes $17 million annually for direct reimbursement of Federally mandated unemployment insurance, exclusively based on anticipated involuntary attrition, such as involuntary retirements.

Pensions: Cost escalation over the plan period includes the further implementation of the Mayor's Management Advisory Board's recommendation which were calculated to develop and fund realistic cost estimates of the future financing needs of the actuarial systems of the City. The budget impact of these improvements were to be phased in over a five year period commencing in Fiscal Year 1979. On a cumulative basis the cost of these improvements excluding the Fire Department and the independent authorities would be $157 million from Fiscal Year 1979 thru Fiscal Year 1982.

The reason for excluding the cost of these recommendations in the Fire Pension System is that enabling legislation would be required to change the rates of contribution by the City and the members which now prevail. If enabling legislation were enacted and members contributions were to increase than the unfunded liability which is estimated at $750 million could be eliminated over an actuarially acceptable time frame.

OTHER THAN PERSONAL SERVICE

Supplies, Materials and Contractual Services: 6 per cent average annual growth in costs of most goods and services in response to
projected inflationary trends. Fuel and energy costs increase at 10 per cent annually.

Public Assistance: The FY 1979 caseload estimate reflects the effects of the FY 1977 and FY 1978 cost reduction programs. The projected FY 1979 caseload is anticipated to remain constant during FY 1980, FY 1981, and FY 1982. Average grants increase by 7 per cent in FY 1979, 6 per cent in FY 1980, and 5 per cent thereafter as a result of movement of recipients' shelter rent upward towards the ceiling.

Medical Assistance: Medicaid caseload growth is assumed constant during the plan period but Medicaid rates increase 8 per cent annually for hospital care services and an average of 7 per cent for various health related services. FY 1979 and beyond include the cost of the newly State-mandated vendorization of home care services.

Health and Hospital Corporation: Includes constant caseload and billing profile collectibility over the plan period. No growth for personal service costs, 7 per cent annual increase of administrative and medical OPEB and 6 per cent growth in affiliation contract costs. The plan assumes for FY 1979 an 8 per cent rate increase for hospital care services and for the period 1980-1982 Medicaid in- flation of approximately 5 per cent each year. General City support, net of debt and pension costs is held constant for FY 1980-1982 at the FY 1979 level. This is expected to require Personal Service and Other Than Personal Service reductions as well as expanded revenue collection efforts.

Subsidies and Other Support: Assumes maintenance of current City contribution for City University, Housing Authority, Libraries and Cultural Institutions.

The Transit Authority subsidy is expected to decline slightly due to loan repayment in FY 1979; otherwise the City contribution is held constant during the plan period. Consequently, increases in TA costs such as salary increases would affect the fare and/or service levels.

Court expenditures are assumed to be phased-out on April 1, 1980 and become the responsibility of the State. As per current State estimates, the rate of phase-out is 50 per cent in State FY 1979, 75 per cent in State FY 1980 and 100 per cent in State FY 1981.

No growth in the appropriation for Judgements and Claims. Payments of $77 million are provided in each of the plan years. Payments from this account are determined by actions of the Office of the Comptroller and the Law Department.
DEBT SERVICE: CITY AND MAC

The estimate provides for costs associated with City long-term debt and MAC debt which would be issued and outstanding as of June 30, 1978.

In addition, costs are reflected for City and MAC debt which will be issued during the plan period and are discussed in the section entitled Long-Term Financing Plan. (See Section VI)

The interest costs associated with the seasonal borrowing needs of the City are also reflected in these estimates and detailed in the section entitled Seasonal Financing Plan. (See Section VI)

GENERAL RESERVE

Constant at $100 million over the plan period.

ACCUMULATED PENSION LIABILITY

If the City were to budget its pension contributions on an accrual basis, the additional cost in FY 1979 would be $115 million declining to zero in FY 1982, resulting from the Mayor's Management Advisory Board's recommendations having been fully implemented by that time (exclusive of the Fire system). This would increase the assets of the actuarial systems and tend to stabilize the contributions in the years beyond FY 1982.

INTERFUND AGREEMENTS

Capital funds for engineering and architectural costs in the expense budget, which are legitimate capital items, increase over the plan period to permit the more intensive planning and design efforts required to implement an expanded capital improvement program.

EXPENSE ITEMS IN THE CAPITAL BUDGET

The use of capital funds to support these expenditures will be completely phased out by FY 1982 rather than at the more modest rate allowed under the MAC legislation. Under that statute and the City's recently revised Charter, the phase-out was to be completed by 1982. The accelerated plan increases the deficit by $128, $195, $262 and $331 million in Fiscal Years 1979, 1980, 1981 and 1982 respectively.
SECTION III

BUDGET PROPOSALS TO ELIMINATE THE GAP

INTRODUCTION

Table I summarizes the budget gap to be closed in each of the four Fiscal Years, the impact of the City actions and the remaining budget gap which must be closed by Federal and State actions. Table II describes the City actions, Table III Federal Actions and Table IV the State actions that can eliminate the budget gap remaining after the City actions have been taken.

In addition, this section provides a narrative description of the existing situation, the actions to be taken and the resulting savings, increased revenues or other benefit to the City anticipated from such actions.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAP TO BE CLOSED</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed City Actions</td>
<td>$174</td>
<td>$337</td>
<td>$452</td>
<td>$544</td>
</tr>
<tr>
<td>Remaining Gap To Be Closed by Federal and State Actions</td>
<td>$203</td>
<td>$367</td>
<td>$451</td>
<td>$410</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>CITY ACTIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WELFARE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in Error Rates and Improved Job Placement</td>
<td>$14</td>
<td>$22</td>
<td>$23</td>
<td>$23</td>
</tr>
<tr>
<td>HEALTH</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid Utilization Control Through Health Maintenance Organizations</td>
<td>-</td>
<td>11</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>Home Care Services Improvements</td>
<td>10</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>PERSONNEL &amp; MANAGEMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of Staff by 14% through Attrition over 4 years (4% in 1979, 3% in 1980, 2% in 1981, 1% in 1982)</td>
<td>65</td>
<td>147</td>
<td>222</td>
<td>280</td>
</tr>
<tr>
<td>OTFS Cost Containment to 3% Growth Management Improvements</td>
<td>23</td>
<td>43</td>
<td>69</td>
<td>94</td>
</tr>
<tr>
<td>TOTAL CITY ACTIONS</td>
<td>$174</td>
<td>$337</td>
<td>$452</td>
<td>$544</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>WELFARE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid Welfare Relief</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Welfare Reform</td>
<td>-</td>
<td>-</td>
<td>54</td>
<td>16</td>
</tr>
<tr>
<td>Acceleration of the Transfer of Children to SSI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expansion of the SSI Definition of Disability</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Revised Income Eligibility Standards for Foster Care</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>HEALTH</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare Funding of Skilled Nursing Facilities (SNF)</td>
<td>-</td>
<td>117</td>
<td>125</td>
<td>132</td>
</tr>
<tr>
<td>Impartial Inpatient Hospital Reviews</td>
<td>-</td>
<td>12</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td><strong>REVENUE SHARING AND OTHER UNRESTRICTED AID</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Nations Tax Contribution</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>United Nations Diplomatic Security Costs</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Elimination of the 145% Ceiling on Revenue Sharing</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Revenue Sharing-Population Estimates</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Revenue Sharing-Stock Transfer Tax</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Extension of Countercyclical Aid with a Hold Harmless Provision</td>
<td>55</td>
<td>83</td>
<td>100</td>
<td>140</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>CRIMINAL JUSTICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved Living Conditions in</td>
<td>$ 5</td>
<td>$ 5</td>
<td>$ 5</td>
<td>$ 5</td>
</tr>
<tr>
<td>Correctional Facilities as</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>mandated by Federal Courts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drug Law Enforcement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>HOUSING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased Reimbursement for</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Police Protection in Public</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Conversion of City/State</td>
<td>26</td>
<td>26</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Aided Housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PARKS &amp; RECREATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gateway National Park</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL FEDERAL ACTIONS</strong></td>
<td>$224</td>
<td>$379</td>
<td>$484</td>
<td>$552</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>WELFARE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Share-Excess Supplementary Security Payments</td>
<td>6.11</td>
<td>6.11</td>
<td>6.11</td>
<td>6.11</td>
</tr>
<tr>
<td>Reduction of Welfare Fraud-Hide Reporting System</td>
<td>6</td>
<td>26</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Increase in State Share of Home Relief</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>State Assumption of Local Share of AFDC</td>
<td>36</td>
<td>113</td>
<td>173</td>
<td>297</td>
</tr>
<tr>
<td>Reimbursement for State Mental Inpatient Discharges</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Day Care Reimbursement Policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>HEALTH</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voluntary Hospital Improvement</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mandatory Second Opinion for Elective Surgery</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Payment of fringe benefits cost for state</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Supported Employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>REVENUE SHARING AND OTHER UNRESTRICTED AID</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Corporation Indemnification</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Municipal Overburden</td>
<td>58</td>
<td>58</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Railroad Tax Exemption</td>
<td>10</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Revenue Sharing Formula</td>
<td>88</td>
<td>102</td>
<td>112</td>
<td>112</td>
</tr>
</tbody>
</table>

\[ \text{Y} = 6 \]
<table>
<thead>
<tr>
<th>STATE ACTIONS (continued)</th>
<th>FY 1979</th>
<th>FY 1980</th>
<th>FY 1981</th>
<th>FY 1982</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITY UNIVERSITY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase of State Subsidy for CUNY,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including CUNY Payments</td>
<td>$35</td>
<td>$47</td>
<td>$59</td>
<td>$72</td>
</tr>
<tr>
<td>CRIMINAL JUSTICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Housing of State Prisoners</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Full Payment of State Share of Probation</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Formula Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIGHWAYS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway Maintenance Reimbursement</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>HOUSING</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursement for Police Protection in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Housing</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>MENTAL HEALTH</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of Local Share</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>ONE TIME REVENUES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mental Health Disallowances</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Two Party Check Disallowances</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL STATE ACTIONS</td>
<td>$433</td>
<td>$487</td>
<td>$584</td>
<td>$757</td>
</tr>
<tr>
<td>TOTAL FEDERAL AND STATE ACTIONS</td>
<td>$657</td>
<td>$666</td>
<td>$1,068</td>
<td>$1,209</td>
</tr>
</tbody>
</table>
CITY ACTIONS

WELFARE

Reduction in Welfare Error Rates and Improved Job Placements: Based on a state quality control audit by the State of New York, the City of New York has a welfare ineligibility rate of 8.6% and an overpayment error rate of 21.4%. A specialized investigative field unit will be established to perform eligibility redeterminations of welfare clients. This effort will reduce the ineligibility rate by 7% and the overpayment rate by 3%, saving $10 million in FY 1979 with cumulative savings amounting to $19 million by 1982.

In addition, the current CETA WI program, designed to encourage the employment of public assistance recipients in order to eliminate or reduce the cash payments which they receive, will be increasingly directed toward their employment. A minimum of 3,000 CETA WI positions will be allocated to AFDC recipients (1,224) and HI (1,836), resulting in a savings of $4.0 million annually through Fiscal Year 1982.

HEALTH

Control of Medicaid Utilization through Health Maintenance Organizations (HMO's): Although New York City's share of Medicaid costs for FY 1978 will total over one half billion dollars, it has no control over Medicaid rates or the utilization of Medicaid services. The high costs may be attributed in part to unnecessary physician visits, unapproved surgery, and other service charges which have been indiscriminately. In order to gain control over these runaway expenditures, New York City proposes the use of negotiated, fixed, pre-paid premiums administered through Health Maintenance Organizations. Such an arrangement would provide the necessary cost control since any expenditures above the negotiated amount would be borne by the HMO rather than by the City. Based on a comparison of the present Medicaid payment system and the proposed HMO fixed premium model, the enrollment of 130,000 AFDC family members and 100,000 HI adults in the HMO system would have an estimated $31 million in FY 1980, $34 million in FY 1981, and $36 million in FY 1982.

Improvements in Home Care Services: Expenditures in the home care program have grown sixfold from Fiscal Year 1971 to Fiscal Year 1977, and are projected at $165 million in Fiscal Year 1979. Utilization controls to restrict this service by limiting the duration of 24 hour care and reducing other services will achieve savings of $6.5 million annually for Fiscal Years 1979-1982.

In addition, the State of New York has mandated that the City make certain improvements in the program to bring it into compliance with existing regulations. These improvements will increase from $2.75 to $4.50 the effective hourly rate paid for these services including fringe benefits, increased training and supervision, and administra-
tive costs. Eliminating the 5% contingency reserve paid to vendors, requiring the vendor to use City owned or leased space and equipment, and attaining economies of scale by requiring 500 case minimum contracts will affect a savings of $3.7 million in Fiscal Year 1979, increasing to $4.4 million in Fiscal Year 1982. Implementation of both Home Care controls will yield total savings of $10 million in FY 1979 and increase to $11 million in FY 1982.

PERSONNEL AND MANAGEMENT

Staff Reduction: The City will implement a 10% staff reduction program (mainly through attrition) in the 4 year Financial Plan period -- 4% in Fiscal Year 1979, 2% in Fiscal Year 1980, 2% in Fiscal Year 1981, 1% in Fiscal Year 1982. The annual cumulative savings during the Fiscal Years 1979-1982 are $65, $147, $222 and $280 million.

OTPS Reductions: Various efforts to reduce or contain controllable Other Than Personnel Services costs will be undertaken through the introduction of new management improvements for energy conservation, space planning, and communication equipment utilization. The OTPS costs will be held to a 3% growth, yielding savings of $13 million in Fiscal Year 1979, $45 million in Fiscal Year 1980, $69 million in Fiscal Year 1981, and $94 million in Fiscal Year 1982.

Management Improvement Projects: The management improvement projects result from recommendations that were raised in previous audit reports of the City Controller. The following projects are examples of what could be initiated in FY 1979:

Board of Education: The contracting of custodial services to replace the present system would reduce costs. A court decision that enjoined the replacement of custodians by contractors has been appealed. Although the case has not been settled, the suit would not prohibit the practice of limiting a custodian to caring for only one building. This restriction would permit 103 school buildings to be serviced by contractors. Implementation of the above program would yield savings of $5 million in each of the next four fiscal years.

The reduction of current stockpiles of supplies and materials in the various Board warehouses will reduce the need to purchase additional supplies and materials by $5 million in each of the next four fiscal years.

The current workload in the design and construction area of the Division of School Building does not justify the size of the present staff of 404 technical and related personnel. The staff could be reduced by 133 persons. This would provide an annual savings of $3 million in each of the next four fiscal years.

The City currently provides subsidies of $7 million for school lunch programs. Since there is no federal or state matching requirement, the Board can reduce its contributions without jeopar-
dizing funding sources from other levels of government. The savings can be achieved through management improvements without adversely affecting the quality or quantity of the lunches. Examples of the improvements are separation of food service and business management operations and improved financial management controls. These improvements will save $5 million in Fiscal Year 1979, and $10 million annually in Fiscal Years 1980, 1981 and 1982.

Concessions: Increasing the use of competitive bids for concessions by The Departments of Parks, Economic Development, Ports and Terminals will yield additional revenues over and above those achieved in Fiscal Year 1978. The increased revenues will be $1 million in Fiscal Year 1979 and $2 million annually in Fiscal Years 1980, 1981 and 1982.

Fire Department: Improving management in the Fire Prevention Unit will accelerate the inspections of premises requiring permits for the storage of combustible materials. This will result in a $1 million annual savings for Fiscal Year 1979 through Fiscal Year 1982.

Water Resources: The first phase of the implementation of a new system for water and sewer billing during Fiscal Year 1979 and Fiscal Year 1980 would accelerate the billing cycle from a monthly to a weekly cycle. The second phase, to be implemented in Fiscal Year 1981, would provide additional revenue resulting from improved management techniques such as automatic comparison of real estate tax rolls to billings. This new system will yield $2 million in Fiscal Year 1979, $2 million in Fiscal Year 1980, $4 million in Fiscal Year 1981, and $8 million in Fiscal Year 1982.

Parking Violations Bureau: Implementation of a new management system will generate savings by eliminating the need to keep on file tickets which cannot be processed, by matching recently issued tickets to the license plate number contained in the files of the State. Quality control improvements in the generation and input of tickets will also result in savings. The upgrading of the entire PVB processing system will stabilize and then increase the yield of each ticket by 15%, from $2.22 to $10.60 per ticket. PVB will also increase the number of tickets issued by improving the supervision of ticket issuers. These improvements will cost the City $5 million in Fiscal Year 1979 but will generate additional revenues of $7 million in Fiscal Year 1980, $17 million in FY 1981, and $28 million in FY 1982.

Finance Department: An additional thirty auditors will be hired to accelerate and improve collection efforts of the Tax Enforcement Units. The salaries of ten of the auditors, who will work in the Sales Tax division, will be paid for by the State. The activities will yield additional revenues of $1 million in both Fiscal Years 1979 and 1980, $2 million per year in Fiscal Years 1981 and 1982.

Other Management Improvements: The City will intensify its successful Operation Revenue effort and develop additional management improvement programs as part of its FY 1979 Executive Budget process to realize at least $40 million of additional savings.
FEDERAL ACTIONS

WELFARE


National Welfare Reform: The City continues to support current efforts in Congress to enact Welfare Reform legislation by Fiscal Year 1981. In estimating savings under the current proposal, "Better Jobs and Income" (HR 9030), the City projected payment standards of BJE to its most recent caseload figures. Based on the current rates of Federal and state financial participation in welfare expenditures, the City would achieve $136 million in savings in FY 1981 and $192 million in FY 1982. However, the City is proposing, as state actions under the four year plan, substantial increases in the State share of AFDC and NR expenditures prior to welfare reform. Adjusting the National Welfare Reform plan to conform to this latent proposal, the savings from the Federal government, previously announced $182 million, would be reduced by 60% in Fiscal Year 1981 and 88% in Fiscal Year 1982 to $54 million and $16 million, respectively.

Transfer of Eligible AFDC Children to Supplementary Security Income (SSI): Children suffering from disabilities which may interfere with future self support are eligible for SSI. However, parental embarrassment and lack of information about the availability of special programs for disabled children keep many from receiving needed services. The City's Human Resources Administration estimates that there are approximately 30,000 disabled children in the City of New York who could qualify for SSI but who are currently receiving AFDC. The SSI program provides the families of disabled children greater cash benefits than the AFDC program. This shift from AFDC to SSI would save the City approximately $5.0 million annually.

Expansion of the Definition of Disability for Supplemental Security Income (SSI): Currently, a large number of persons, particularly addicts and alcoholics who are incapable of working, receive Home Relief, a City/State funded program. The eligibility requirements for Supplementary Security Income (SSI) disqualify large numbers of addicts and alcoholics who would have been eligible for assistance under the Aid to the Aged, Blind and Disabled (AABD) program which expired on December 31, 1973. Almost 90% of the SSI applications made by addicts and alcoholics are disapproved. In addition, while 14,000 addicts and alcoholics were initially "grandfathered" into the SSI program in New York City, SSI's current caseload includes only 4,500 such individuals in this category.
The City’s Home Relief program now supports 6,425 alcoholics and addicts at a cost of approximately $15.0 million to both the City and the State. Addicts and alcoholics whose physical or mental condition prevents gainful employment are effectively disabled, and should be eligible for federal assistance under SSI. Broadening the definition of disability to include addicts and alcoholics who are incapable of working, in the SSI program can be expected to reduce the cost to the City by $5.0 million annually.

Income Eligibility Standards for Federal Foster Care Reimbursements: The federal Foster Care program is funded through Title IV-A of the Social Security Act which also funds public assistance payments. Both programs use the income eligibility standards set by the State of New York (a maximum of $5,712 annually for a family of four). The City proposes that foster care eligibility be determined under the income standards of Title XX (using 80% of the State median income, $12,884 for a family of four) since foster care is a social service, not public assistance. The City estimates that at least 20% of those not now eligible, or 1,700 children now in care, would become eligible for federal funding under this change and save the City $3 million in Fiscal Year 1979, increasing to $4 million by Fiscal Year 1982.

HEALTH

Medicare Funding of Skilled Nurse Facilities (SNF): Medicare currently pays the full cost of only the first 20 days of care in SNF’s. For the next 80 days of care, MedicareN supplies only partial payment, with Medicaid supplying the difference for the indigent. If the federal government assumes full financial responsibility for Medicare eligible persons for SNF’s, then the City will be relieved of its share of the cost of providing extended health care needs to the elderly. This change will also permit the national development and evaluation of uniform high quality standards of all nursing homes. This transfer would result in savings of $11.7 million for Fiscal Year 1980 and increase to $132 million by Fiscal Year 1982.

Full Implementation of an Impartial Inpatient Hospital Review: In 1972, the Federal government required States to implement federally sponsored programs to determine the necessity and appropriateness of medical care. The Professional Standards Review Organizations (PSRC) were intended to improve the quality of care and were expected to reduce expenditures through the elimination of unnecessary services. On the contrary, the federally supported program has had negligible impact on New York.
The more impartial on-site review program implemented by the State government has had a significant impact where it was permitted to operate. The federal government must either operate an impartial FSRO program or permit the State to operate its own program which would save the City $12 million in Fiscal Year 1980 and increase to $14 million by Fiscal Year 1982.

REVENUE SHARING AND OTHER UNRESTRICTED AID

Payments in Lieu of Taxes for United Nations Property Located Within the City: Payments in lieu of taxes, based upon the local jurisdiction's real property tax rate, should be provided to localities where the United Nations or other international organizations own real property. The United Nations complex is assessed at $95 million. Reimbursement of the City's tax loss would be $8 million annually through Fiscal Year 1982.

United Nations Diplomatic Security: Broadening the extraordinary protection guidelines to include security needs of foreign diplomats in addition to UN and temporary domicile coverage, and extending the coverage to include the costs of the daily coverage of foreign missions, consulates, and residences, would provide a savings to the City of $3 million annually through Fiscal Year 1982.

Revenue Sharing, Elimination of the 145 per cent Ceiling Provision of the State and Local Assistance Act: This provision reduces the City's share under the general distribution formula to no more than 145 per cent of the statewide per capita average of shared revenue payments to local units. Eliminating the ceiling restrictions would yield additional General Revenue Sharing Funds of $6 million in Fiscal Year 1979, $8 million in Fiscal Years 1980 and 1981, and $9 million in Fiscal Year 1982.

Revenue Sharing, Population Estimates: Population estimates used in the formula for General Revenue Sharing should include the number of illegal aliens residing within the local jurisdiction. It is estimated that there are 750,000 such individuals residing in New York City. If added to the City's measured population, the adjustment for illegal aliens would yield an annual increase of $20 million in General Revenue Sharing entitlements.

Revenue Sharing, Inclusion of Stock Transfer Tax in Adjusted Taxes: Recognition of the stock transfer tax as a local rather than a State tax would increase the City's share of the funds distributed under the formula, subject to the 145 per cent ceiling. Declining revenues from the stock transfer tax are expected since the tax is being phased out. Inclusion of this tax in the City's distribution formula would provide additional revenues of $7 million in FY 1979, $7 million in FY 1980, $6 million in FY 1981 and $4 million in FY 1982, providing of course, that the 145 per cent ceiling is repealed.
Extension of Countercyclical Aid With a Hold Harmless Provision:
The program terminates on September 30, 1978. The program has proved to be an essential urban aid in Fiscal Year 1977 and Fiscal Year 1978, enabling the city to maintain basic services which would have had to be otherwise reduced. The city estimates that it will receive the $149 million for Fiscal Year 1978. The program should be extended and the city should receive no less than it received in Fiscal Year 1978. This would increase the countercyclical funds, contained in the baseline revenue assumptions by $56 million in Fiscal Year 1979, $83 million in Fiscal Year 1980 and $140 million in both Fiscal Years 1981 and 1982.

CRIMINAL JUSTICE

Improved Living Conditions in Correctional Facilities: The Federal government should provide reimbursement for local costs incurred in satisfying Federal Court mandates, which prescribe certain basic living conditions for incarcerated persons. These include compact visits, single celling, and renovations of the Manhattan House of Detention. This would save the City $5 million annually through Fiscal Year 1982.

Drug Law Enforcement: The City has approximately 30 per cent of the known addicts in the nation but has received less than 1 per cent of the federal funds available for drug law enforcement. While the Federal government spent $296 million for drug enforcement, New York City only received $0.1 million in Fiscal Year 1977.

The City should be reimbursed for the $34 million it spends per year for drug law enforcement. The major portion of these costs are in the Police Department which spends $17.3 million annually on narcotics enforcement activities. The City contributes an additional $4.5 million to the Federal, State, and City Joint Task Force on Narcotics. Finally, the City also commits $111.8 million annually to support the Special Narcotics Prosecutor and Special Narcotics Trial Units.

HOUSING

Increased Reimbursement for Police Protection in Public Housing: The federal share of the cost of police protection in Federally financed housing projects, which represent approximately 70 per cent of the projects operated by the Housing Authority, should be assumed by the Federal government. This action would both protect the federal investment and guarantee maintenance of the low rent base. This would save the city $17 million annually through Fiscal Year 1982.

Federal Conversion of City/State Aided Public Housing: The Federal government should continue its conversion of City and State aided public housing to complete the conversion of approximately 90,000 units, thus making these buildings for the Federal operating subsidy. Complete conversion would save the City $116 million in funds now budgeted as annual operating subsidies for the Housing
Authority from Fiscal Years 1979 through 1982. In 1979, the City would save $26 million; in 1980, $26 million; in 1981, $30 million, and in 1982, $35 million.

PARKS AND RECREATION

Gateway National Park: The proposed cooperative agreements, allowing the National Park Service to reimburse the City for police and fire services to be provided at Gateway National Park, should be approved. This would save the City $1 million annually through Fiscal Year 1982.
STATE ACTIONS

WELFARE

Local Share of Excess Supplementary Security Income Payments: Currently the local share of the State supplementation payment for SS recipients is based on the calendar year 1972 share of the local cost of the Aid to the Aged Blind and Disabled program. Since the SS program began in 1974, the City proportion of the statewide caseload has declined from 71% to 61% while its share of the expenditures has remained at the 1972 level of 71%. This inequity is now being challenged in the United States District Court. If properly remedied, the City would save $11 million annually through Fiscal Year 1982.

Reduction of Welfare Fraud-Wage Reporting System: Legislation is now pending in the State legislature to allow the Department of Social Services to compare its public assistance rolls against social security numbers and earnings records supplied by employers. These procedures will reduce the incidence of welfare fraud, save an estimated $6 million in Fiscal Year 1979, and reach an estimated $90 million savings in Fiscal Year 1982.

Increase in the State Share of the Home Relief Program: Under current legislation, the City and the State share equally in the cost of AFDC payments to 130,000 individuals who are not eligible for federally funded public assistance payments. In the latter half of 1979, the State authorized an increase in State funding to 60% of these costs for those counties in which AFDC ineligibility rates in the second half of 1976 were 5% or less. This measure, in effect, was designed to exclude New York City with an error rate over 8%. The City proposes that the law be amended to provide this increased funding to cities with a population share of the State supplementation over one million whose AFDC ineligibility rate is 7.5% or less. This revision recognizes the efforts the City has already made in reducing its error rate from 14.38 in 1973 to 8.62 in 1976. It would provide savings to the City in Fiscal Year 1979 of $25 million increasing to $27 million in Fiscal Year 1982.

Increase in the State Share of the Aid to Families with Dependent Children Program: Under current legislation the federal government pays 50% of the cost of welfare under AFDC and the City and State equally share the non-federal portion of cash payments to 825,000 recipients. The City proposes that the State gradually increase its share of the non-federal costs of AFDC as follows:

| Percentage of Total AFDC Expenditures by City Fiscal Year |
|-------------|-------------|-------------|-------------|-------------|
| City        | 25   | 20   | 35   | 10   | 0    |
| State       | 25   | 30   | 35   | 40   | 50   |

II - 16
This funding shift would only affect the share of cash payments and would not include administrative costs associated with the AFDC program. The latter costs would continue to be shared under the current formula. This shift would be consistent with the policy in other high benefit states such as California and New Jersey where a local share is required. In Fiscal Years 1971 and 1982, national welfare reform would affect both the city and state of substantial portion of these costs. Cash payments savings would amount to $56 million in FY 1979 and increase to $297 million in FY 1982.

State Payment for State Mental Hygiene Discharges: The New York State Department of Mental Hygiene discharges large numbers of institutional patients into communities. Chapter 621 of the New York State Social Services Law directs the State to pay the full share of the local costs of public assistance, services, and Medicaid for those patients who had been in an institution for five years or more. A vast majority of these individuals are placed in small institutions in order to qualify for SSI payments. Since the current law does not consider SSI a form of public assistance, the costs of SSI supplementation are shared by the State and local districts. New York City proposes that Section 621 of the NYS Social Services Law be amended to mandate the State to assume full costs of SSI supplementation to patients discharged from Mental Hygiene facilities. The number of such patients is expected to reach the level of 1,600 in FY 1979, and rise to 4,200 in FY 1982. Savings are estimated at $2 million for FY 1979 and will increase to $5 million by FY 1982.

Revision of Regulation for Day Care Attendance Reimbursement: The New York State Department of Social Services has imposed attendance disallowance restrictions on Title XX reimbursement for the City's group day care program. This prohibition was appropriate when the day care program had a low utilization rate. The current program is enrolled at 110% of licensed capacity and is being utilized at 97% of capacity system-wide. The regulation should be rescinded to permit full capacity reimbursement for group day care and save the City approximately $2 million annually through Fiscal Year 1982.

STATE HEALTH

Voluntary Hospital Improvement: Recent studies by the City indicate that voluntary hospitals in the City pay 40% more for their medical supplies than the Health and Hospitals Corporation, which uses centralized purchasing. Since the cost of this difference is built into the rates for Medicaid promulgated by the State of New York, a State program to mandate improvements in the purchasing practices of these facilities will result in lower Medicaid costs to the City. It is estimated that the City will save $1 million in FY 1979, $2 million in FY 1980, $2 million in FY 1981, and $2 million in FY 1982.
Mandatory Second Opinion for Elective Surgery: Recent studies indicate that the incidence of unnecessary surgical procedures ranges between 13% and 85% for various segments of the population. The Federal government has implemented a program to reduce unnecessary surgery for Medicare patients. The State of New York, under legislation passed in 1974, has the authority to permit the deferral of surgical procedures that would not adversely affect the health of the patient. This authority should enable the State to develop a mandatory second surgical opinion program in New York State. The City and Federal governments have urged the State to take the appropriate steps to implement a program with savings expected to increase from $9 million in Fiscal Year 1979 to $11 million in Fiscal Year 1982.

State Participation in Department of Health Fringe Benefits: In the health and social services areas, many State agencies, including the New York State Department of Social Services, participate with State funds in the cost of the fringe benefits of local agencies. However, the New York State Department of Health participates in the costs of operating the City Department of Health except for employee fringe benefits. Participation in the full cost of the Health Department would save the City $8 million annually.

REVENUE SHARING AND OTHER UNRESTRICTED AID

Insurance Corporation Indemnification: The State has stopped its annual reimbursement of $15 million to the City to compensate for the 1974 State removal of the City's tax on insurance companies. The City continues to provide substantial services to the industry and the indemnification payments should be reestablished. This action would provide the City $15 million each year through Fiscal Year 1982.

Municipal Overburden: State aid and property tax relief, comparable to the aid received by the five large upstate cities, based on the amount of the assessed value of the State property and the City's real property tax rate, should be extended to the City of New York. The State provided $24.0 million to relieve local taxpayers of the property tax burden resulting from the impact of all exempt properties on revenue yields. Allocation of the $24.0 million to the upstate cities was based on a complex formula that applied the local tax rate to the assessed value of all exempt property. Strict application of the formula would result in the City receiving more than $27.3 million in State aid. A realistic approach would be to have the State compensate the City for the taxes lost on exempt State property. This would yield $38.0 million annually in revenues through Fiscal Year 1982.
Railroad Exemption and Reimbursement: The State Legislature, over the City's opposition, modified various sections of the Real Property Law. These amendments reduced City revenues. The legislation extended to Amtrak and Conrail the same real estate tax exemptions granted to the bankrupt Penn Central Railroad. These amendments should be repealed.

This change would be consistent with the taxation practices in Connecticut and Rhode Island which do not allow exemptions. New Jersey exempts railroad property devoted to passenger services, but subsidizes a locality for its revenue losses. The State of Pennsylvania does not tax railroad property, but rather, collects revenues from a 4% gross receipts tax. The Cities of Philadelphia and Pittsburgh tax station properties. This action would increase property tax revenues by $26 million annually.

Revenue Sharing Formula: As enacted, State legislation provided that localities in New York State would share the revenues of the State personal income tax. Originally the legislation specified that 21% of these revenues would be allocated to the Revenue Sharing program. However, the law was amended and the localities' share was reduced to 18% before the first distribution was made. Based upon current estimates, the City's share of a 21% distribution would be $88 million, $98 million, $102 million, and $123 million higher than projected under current law for Fiscal Years 1979-1982. This action also assumes that localities will not have their revenues reduced as a result of the Governor's proposal to reduce personal and corporate income taxes.

CITY UNIVERSITY

City University of New York Subsidies: The State should assume the responsibility of full financing of the senior college operations by 1982 and relieve the City of a projected $54.0 million annual subsidy to the University. The State's share, now 75%, would be increased to 85% in 1979, 90% in 1980, 95% in 1981, in Connecticut and Rhode Island which - $3.0 million in 1980, $43.0 million in 1981, and $54.0 million in 1982. The State should also gradually assume the City's share, now 50%, of City University Construction Fund debt service, to correspond with the transfer of senior college financing to New York State. This would relieve the City of obligations in the amounts of $13.0 million for Fiscal Year 1981, and $18.0 million in Fiscal Year 1982.
CRIMINAL JUSTICE

Temporary Housing of State Prisoners: Reimbursements for the temporary housing provided to state prisoners in City correctional facilities should be increased to reflect the average daily cost of $62 per day rather than the current allowance of $5 per day. This change would save the City an estimated $6 million each year through Fiscal Year 1982.

Full Payment of State Share of Probation Formula Cost: State legislation (Executive Law, 243ff) calls for a maximum of 50% State funding of the budget of the Department of Probation to the extent of available State monies. The legislature, therefore, at its discretion, has set the funding in Fiscal Year 1978 at 42.5%. If the percent were to be increased to 50%, it would provide a savings to the City of $1 million annually through Fiscal Year 1982.

HIGHWAYS

Highway Maintenance Reimbursement: Reimbursement should be made for the maintenance of State arterial and interstate highways located within the City, based upon the actual cost to the City of $2.50 per square yard, rather than at the current reimbursement rate of forty cents per square yard. The reimbursement should be extended to other than "State built" interstate highways and other arterials. Together these actions would increase State highway maintenance reimbursement by $25 million annually.

HOUSING

Reimbursement for Police Protection in Public Housing: If the State proportionally shared the cost of police protection in State supported public housing projects, which represent 23 percent of the projects operated by the Authority, the City would save $11 million annually through Fiscal Year 1982. This action would maintain and protect the State’s investment in public housing as well as protect the low rent base.

MENTAL HEALTH

Reduction of Local Share of Mental Hygiene Expenditures: The State policy of releasing mental hygiene facilities has placed a substantial burden on City services to care for these patients. The City proposes that the State increase its share of local mental hygiene costs to 75% from 50% as compensation to localities for the increased costs of providing services. This is expected to save the City $18 million per year during the plan period.
ONE TIME REVENUES

Mental Health Disallowances: State Aid to Mental Health programs was unexpectedly reduced for Fiscal Year 1975, and notice of the reduction was not given until twelve months after the start of the City's Fiscal Year. As a result, New York City was forced to absorb program costs for which State support has been anticipated. This inequity should be remedied by a single $20 million reimbursement for Fiscal Year 1979.

Reimbursement for Two-Party Check Disallowance: Prior to the passage of Public Law 95-171, Title IV-a of the Social Security Act permitted localities to "restrict" or limit the use of AFDC public assistance checks if the payee evidenced an inability to manage money properly. However, the number of restricted checks could not exceed 10% of the local AFDC caseload. New York City, in an effort to insure proper utilization of public assistance monies, issued two-party checks to landlords and utilities in cases where there was a history of financial mismanagement. In so doing the City exceeded the restriction ceiling and incurred reimbursement disallowances from the State. The recently enacted Public Law 95-171 increases the ceiling to 20% and negates penalties previously required by Title IV-a. In view of this change, the State should make a one time payment of $20 million to the City as reimbursement for the funds previously disallowed.
SECTION IV

TEN YEAR CAPITAL PLAN

INTRODUCTION

This section describes the City's capital program which is intrinsic to its long-term financing proposals. The purpose of this report is to describe:

- the impact of the fiscal crisis on the City's capital program.
- the City's true capital needs for improving its plant, stimulating economic development and capitalizing operating costs.
- a major but reasonable and achievable capital program to address these needs.

Over the ten year period approximately $1.1 billion will be spent for this effort. $1.6 billion will be committed in the period FY 1979 - FY 1982.
SUMMARY

Reduced capital spending during the period of the fiscal crisis has had a significant detrimental impact on the City's infrastructure and physical plant requirements. Capital projects were cancelled (105 projects, $300 million) and scaled down, with capital spending reduced to $200 million per year. The effect of these drastic actions is not as visible as the other actions taken during the period (e.g. the layoff of 60,000 persons) but nevertheless have as serious an impact on service delivery and the quality of life in the City. The extent of the tremendous capital requirements is clearly demonstrated by the following examples of current practices and conditions (described in detail on pg. IV-9):

- a 300-year replacement cycle for streets and water mains.
- a 300-year replacement cycle for sewers, and the virtual halt of extension of sanitary and storm sewers in recently developed areas of the City such as Staten Island.
- 130 firehouses (55%) over 75 years old, and 30% of police facilities over 60 years old.
- the halt of the City's water pollution control plant construction program and the critically needed third city water tunnel.

The objectives of the City's long-term capital program are threefold:

- to establish and maintain realistic rehabilitation and maintenance schedules (including investments to address the serious past backlog of undone maintenance);
- to provide funds for capital projects which will increase the revenue base or economy of the City; and
- to provide funds for capital projects which will reduce operating expenses.

The need for realistic maintenance schedules is to prevent further decay to the City infrastructure. Utilizing capital projects for economic development purposes is essential to the viability of the City and the maintenance of essential services. Likewise capital projects which will reduce operating funds are essential because they contribute to a balanced budget without reducing services.
Based on these objectives, the highlights of the capital plan presented on Pg. IV-17 include:

- Improvements to the physical and environmental plant.
  -- institution of 35 year replacement cycle for City streets, 40 year cycle for City bridges, roadways, 100 year for City sewers, 15 year for the City water system in accord with established engineering standards at a cost of more than $300 million annually.
  -- $150 million for water pollution control plants in Brooklyn and Manhattan. This is the required City match of $1,050 million State and Federal funds.
  -- $1.0 billion to advance the City's Water Tunnel #3. This is required to supplement the existing water tunnels which are 55 and 44 years old. Failure of either tunnel without a third tunnel poses a serious health and environmental problem to the City.
  -- doubling of investments for Transit modernization.
  -- replacement of aging Police, Fire and Sanitation facilities.
  -- substantial upgrading of correctional facilities in response to Federal and State mandates to provide increased services to detained persons.

- Economic Development
  -- design and construction of a new City Convention Center, creating up to 31,450 new jobs and $45 million in annual tax revenue to the City and State.
  -- renovation of piers and markets, and develop sites for industrial parks.

- Capitalisation of Operating Costs
  -- introduction of new technologies to reduce energy consumption costs, improve control personnel utilization and streamline various labor-intensive processing activities throughout the government.
  -- modernization of Police and Fire Communication systems to improve deployment and scheduling of these emergency resources in response to demands for service.
--- establishment of rational replacement cycles for heavy duty vehicles such as used by the Sanitation Department in order to reduce operating maintenance and refuse collection costs.

Major efforts will be devoted to designing projects in the first two years, and the proposal reflects this and the increases needed in the remaining years to fund the construction required. (See Tables I - III).

While this plan appears ambitious and encompasses virtually every element of the City's physical plant, it is an essential, but reasonable thrust, to revitalize the City. Several major projects of concern have not been incorporated, such as:

- full completion of the Third Water Tunnel ($2,100 million).
- full completion of the 61st Street Tunnel, 2nd Avenue Line, JFK Airport Link ($300 million City funds; $3,200 million total cost.)
- a new municipal office building ($200 million).
- several new courts and hospitals ($75 million).
<table>
<thead>
<tr>
<th>Year</th>
<th>Bricks &amp; Mortar</th>
<th>JPA*</th>
<th>Sub Total</th>
<th>Capitalized Expenses**</th>
<th>Total Approv.</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>$ 348</td>
<td>$ 75</td>
<td>$ 423</td>
<td>$ 450</td>
<td>$ 876</td>
</tr>
<tr>
<td>80</td>
<td>458</td>
<td>79</td>
<td>537</td>
<td>300</td>
<td>837</td>
</tr>
<tr>
<td>81</td>
<td>645</td>
<td>101</td>
<td>746</td>
<td>150</td>
<td>896</td>
</tr>
<tr>
<td>82</td>
<td>775</td>
<td>109</td>
<td>884</td>
<td></td>
<td>884</td>
</tr>
<tr>
<td>83</td>
<td>1015</td>
<td>112</td>
<td>1127</td>
<td></td>
<td>1127</td>
</tr>
<tr>
<td>84</td>
<td>1015</td>
<td>118</td>
<td>1133</td>
<td></td>
<td>1133</td>
</tr>
<tr>
<td>85</td>
<td>1108</td>
<td>125</td>
<td>1433</td>
<td></td>
<td>1433</td>
</tr>
<tr>
<td>86</td>
<td>1351</td>
<td>130</td>
<td>1481</td>
<td></td>
<td>1481</td>
</tr>
<tr>
<td>87</td>
<td>1396</td>
<td>136</td>
<td>1532</td>
<td></td>
<td>1532</td>
</tr>
<tr>
<td>88</td>
<td>1437</td>
<td>143</td>
<td>1580</td>
<td></td>
<td>1580</td>
</tr>
</tbody>
</table>

Based on assumptions in program area analysis that follows and 6% annual inflation; includes exempt and debt limit issuances.

* Legitimate capital expenditures for engineers in the expense budget.

** An accelerated phase out schedule.

*** For purposes of the financing plan assumed to be capped at $1.3 billion. The balance to be made available through such programs as Federal Public Works, and Community Development.
<table>
<thead>
<tr>
<th>Year</th>
<th>Bricks 6 Mortar</th>
<th>IFA</th>
<th>Capitalized Expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>$416</td>
<td>$75</td>
<td>$450</td>
<td>$941</td>
</tr>
<tr>
<td>80</td>
<td>495</td>
<td>79</td>
<td>300</td>
<td>874</td>
</tr>
<tr>
<td>81</td>
<td>1325</td>
<td>101</td>
<td>150</td>
<td>1576</td>
</tr>
<tr>
<td>82</td>
<td>1240</td>
<td>109</td>
<td></td>
<td>1349</td>
</tr>
<tr>
<td>83</td>
<td>1279</td>
<td>112</td>
<td></td>
<td>1341</td>
</tr>
<tr>
<td>84</td>
<td>1380</td>
<td>118</td>
<td></td>
<td>1498</td>
</tr>
<tr>
<td>85</td>
<td>1362</td>
<td>125</td>
<td></td>
<td>1397</td>
</tr>
<tr>
<td>86</td>
<td>1398</td>
<td>130</td>
<td></td>
<td>1528</td>
</tr>
<tr>
<td>87</td>
<td>1466</td>
<td>136</td>
<td></td>
<td>1602</td>
</tr>
<tr>
<td>88</td>
<td>1541</td>
<td>143</td>
<td></td>
<td>1684</td>
</tr>
<tr>
<td>Year</td>
<td>Bricks &amp; Mortar</td>
<td>JPA</td>
<td>Capitalized Expenses</td>
<td>Total</td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>-----</td>
<td>----------------------</td>
<td>--------</td>
</tr>
<tr>
<td>79</td>
<td>308</td>
<td>57</td>
<td>426</td>
<td>801</td>
</tr>
<tr>
<td>80</td>
<td>390</td>
<td>60</td>
<td>276</td>
<td>716</td>
</tr>
<tr>
<td>81</td>
<td>846</td>
<td>75</td>
<td>126</td>
<td>1047</td>
</tr>
<tr>
<td>82</td>
<td>757</td>
<td>78</td>
<td></td>
<td>835</td>
</tr>
<tr>
<td>83</td>
<td>748</td>
<td>80</td>
<td></td>
<td>828</td>
</tr>
<tr>
<td>84</td>
<td>809</td>
<td>86</td>
<td></td>
<td>895</td>
</tr>
<tr>
<td>85</td>
<td>856</td>
<td>89</td>
<td></td>
<td>945</td>
</tr>
<tr>
<td>86</td>
<td>859</td>
<td>93</td>
<td></td>
<td>952</td>
</tr>
<tr>
<td>87</td>
<td>900</td>
<td>97</td>
<td></td>
<td>997</td>
</tr>
<tr>
<td>88</td>
<td>944</td>
<td>103</td>
<td></td>
<td>1047</td>
</tr>
</tbody>
</table>
BACKGROUND

During the period 1966-1975 the City experienced an expanded rate of Capital expenditure. Construction awards for this period totaled almost $6 billion. The fiscal crisis abruptly halted this accelerated construction program. So severe was the impact of this crisis that 105 Capital projects were cancelled having a total value of over $330 million. Cancelled projects covered a broad range of operations such as hospital rehabilitations, sewer projects, highway work, correctional facilities, schools, police stations, transit facilities, and day care centers. As an example of the severity of this cancellation - 13 school projects having a dollar value in excess of $150 million were stopped in mid-construction. The impact of the crisis has carried over into successive years such that our current expenditure rate of Capital funds for true capital purposes is approximately $200 million or only 20 - 25% of our prior peak years.

The next ten years of capital construction and expenditures must address a wide range of needs if the physical and environmental infrastructure which supports the City's economy is to be maintained and strengthened. In addition, the City must make increased commitments to economic development ventures in order to restore its wealth, and maintain its unique place within the world's business and economic marketplace. Finally, more productive use of capital investments must be made to reduce labor-intensive operating costs if the City is to reduce its expense budget and achieve recurring balanced budgets.

INFRASTRUCTURE

Among the most significant elements of the infrastructure are streets and highways, water supply, its environmental support systems (including storm and sanitary sewer, water pollution control and waste disposal systems) and transit. These areas have the highest urgency of need and priority of function and the City must make a serious capital investment.

Streets and Highways

The City's 6,000 miles of streets and water mains are being renewed at rates that approximate a 200 year replacement cycle. While no one can say with certainty what replacement cycle is optimal, it seems unreasonable to believe that street paving or water pipes can hold up for two centuries. Maintenance requirements must address two issues: sufficient investments are needed each year to keep the system quality from deteriorating; and the serious past backlog of undone maintenance must also be overcome. The recent collapse of portions of the West Side Highway can be traced, with certainty, to the lack of maintenance.

New York City's 5,300 miles of paved streets range in scale from eight-lane divided roadways such as Queens Boulevard to 50 foot pavements serving single family residences on Staten Island. What
they share in common, all too often, is a growing state of deterioration resulting from insufficient maintenance and excessive wear and weather. In recent years the City’s Highway Department has filled over a million potholes per year.

Pothole filling and other continuing maintenance such as resurfacing is a necessary component of a street improvement program. Indeed New York City has spent, in recent years, on the order of $40 million per year for its street maintenance program. However, a basic problem remains and has not been addressed adequately: many streets are in need of major reconstruction of the roadway, the underground, the sidewalks and the drainage system.

The level of street construction of the past decade averaged $20 million of contract awards per year, sufficient to partially rebuild only about 40 miles of roadway per year. At this rate, the average city street would be rebuilt every 150 years.

It is difficult to set a precise target for how long street construction should be expected to last under conditions of normal maintenance. Several municipal professional engineering organizations believe that an optimal full replacement level is being every 20 - 25 years; at this rate, New York City would have to spend on the order of $300 million per year for street reconstruction, without taking into account either cost escalation or the present backlog of streets in substandard condition. A less desirable target of rebuilding at an average rate of every 40 years would still require investments of $120 million per year — several times as much as was expended in average years before the onset of the financial crisis and concomitant retrenchment of capital expenditures.

The street system of New York City includes 2,000 bridges or other elevated structures over twenty feet in length. This includes highway overpasses, railroad crossing bridges, and the 51 waterway bridges, major bridges such as the Brooklyn, Manhattan, Williamsburg and Queensboro bridges over the East River.

The City’s bridge construction and rehabilitation program in recent years has operated at a $10 to $15 million level. This is well below the $50 million per year level that the city’s bridge engineers project would be needed for a major effort to reconstruct about half of the estimated 24 million square feet of bridge deck in a ten year period.

The major waterway bridges are in sound condition but require periodic rehabilitation as well as painting. Of the large bridges, the Queensboro Bridge is the most in need of major repairs. These are estimated to cost about $16 million.

The city has built few bridges in recent years. One that has been in design for some time would replace an existing bridge over the Plunkett River in Queens with a high-level fixed bridge at a cost of about $33 million (about half of which would be for utility replacement). At least part of this cost would be recouped
through avoidance of operating costs to open the bridge and
the greater potential for large shipment to industries located
on the river beyond the bridge.

**Water Supply**

The water supply system consists of distribution mains
ranging from pipes of six foot diameter down to some older lines
in Manhattan as small as six inches. The Department of Water
Resources following the pattern being adopted by other major urban
centers has set ten inches as its minimum diameter for new work
and wants to replace the antiquated six inch lines as soon as
feasible. The old six inch lines are a source of major trouble in
the distribution system; the 11% of the Manhattan system which is
still served by six inch water main laid as long ago as 1870
accounts for about 40% of the breaks that occur each year in that
borough.

Another major repair problem in the distribution system centers
is the 20,000 trunk valves. Six percent of these valves are in
such poor condition that they can't be closed when a line break
occurs.

The entire distribution system encompasses approximately
6,000 miles of water mains of various sizes. In recent years, such
as 1974 -- again even before the impact of the fiscal crisis --
the Department of Water Resources constructed only 42 miles of new
main. Of this amount, 20 miles were not additions to the system
(mostly in Staten Island growth areas) and only 22 miles replaced
obsolete mains.

At a replacement rate of 22 miles per year, it would take
approximately 270 years to replace the entire system. Even if the
entire 42 miles construction rate of 1974 were devoted to replace-
ment of obsolete mains, the replacement cycle would still be a
disturbing 140 years.

**Environmental Support Systems**

The City recently began a ten year program of installing sewers
in the unserved or inadequately served areas of the city. Phase I,
the first five years of the program, had an estimated cost of
$900 million. The second phase, originally scheduled to be com-
pleted by 1981, was estimated to cost an additional $700 million.
The City had only begun to accelerate toward the approximately
$150 million per year construction level called for in this program
when the fiscal crisis brought it to a virtual halt; sewer construc-
tion in 1971-75 averaged $41 million per year, well below the
$13 million per year of the preceding five years but well below the
planned annual level of $150 million.

Finally, the city faces a serious need to continue to repair
and replace ancient sewers in many of the older sections of the
city. The present rate of reconstruction is equivalent to a more
than 300-year replacement cycle, far below what would be adequate.
Even modern sewers, built to far higher standards that was the case
in much of the city's earlier sewer work, are estimated to need replacement on a 100 year cycle.

For the past decade, New York City has been engaged in a massive program of constructing water pollution control plants linked by interceptor sewers to the entire sanitary sewer system. The major remaining new elements of this system to be completed are:

- The North River plant in the upper west side of Manhattan, whose superstructure will require well over $500 million to complete.

- The Red Hook plant in Brooklyn, which will cost $300 million plus another $400 million for interceptor sewers.

Even with the bulk of these funds being available from State and Federal grants which together finance up to 67.5% of the cost of such facilities, the City will be required to invest $125 million of its capital funds.

Water supply is one of the least visible but most critical urban resources. New York City's growth and development has benefited from wise early action to establish one of the nation's most adequate and highest quality supply and distribution systems. Today, this valuable asset is threatened on a variety of fronts. The drought of 1965 revealed a shortfall between safe yield and demand levels that calls for additional sources of supply. There are no such readily available sources. Growth in the suburban ring around the city is generating pressures on New York City to share its present water sources with the adjacent counties. The heart of the distribution system -- the two existing water tunnels -- are aged and in need of backup. But the supplemental facility designed to provide extra capacity and emergency backup is marred in legal and financial difficulties. The aging distribution system suffers from growing numbers of breakdowns. Unless the replacement rate is considerably speeded up, this pattern could worsen markedly.

The distribution system itself is made up of two primary elements: the major water tunnels that deliver water from Hillview Reservoir to the city and the system of mains that connect these tunnels to individual consumers.

From Hillview Reservoir, two major underground tunnels extend into the City linking the watershed areas with the distribution system. City Water Tunnel No. 1 delivers water to the Bronx and Manhattan; City Water Tunnel No. 2 carries water to Queens, Brooklyn and -- via a recently constructed Richmond Tunnel -- to the Silver Lake storage area on Staten Island.
Tunnels 1 and 2 are now about 35 and 40 years old, respectively. Concerned with their age and the serious problems that a breakdown in either tunnel would cause, the city began construction in 1976 of the first stage of a third water tunnel. This facility, 20 to 25 feet in diameter and up to 300 feet beneath the earth’s surface was scheduled to run initially from Hillview to about mid-Manhattan and then to cross into Queens where it would connect to Tunnel No. 1. Eventually Tunnel No. 3 was contemplated to run in a great loop through Queens and back to Hillview and Kensico Reservoirs. The first stage was bid at $400 million and the assumption was that the eventual cost of the entire loop would be about $1 billion.

Unfortunately, the digging of Tunnel No. 3 ran into a series of delays and unforeseen physical problems in its passage through deep rock beneath the city. The contractors demanded extra payments in multi-million dollar amounts and, when no agreement was reached with the city, stopped work and entered into a $200 million lawsuit to recover their damage claims from the city. The fiscal crisis and the city's resulting inability to pay for additional work--even had the lawsuit been compromised--resulted in a complete stoppage of work on the tunnel.

Current city estimates indicate that it would cost up to $600 million to complete the first stage of Tunnel No. 3. Its extension to Lower Manhattan to relieve water supply problems in that congested business district would cost another $600 million. Until this new tunnel is completed, the potential danger of an outage in one of the two existing tunnels continues to loom as a serious threat to the city.

The City is approaching a solid waste crisis. Former plans for “super-incinerators” were scrapped because of their extraordinarily high cost and unacceptable pollution levels. The existing municipal incinerators can cope with only a declining fraction of the solid waste generated within the City and virtually all landfills except Fresh Kills on Staten Island are exhausted. Fresh Kills has already passed earlier estimates of its capacity.

Other alternatives to solid waste disposal considered in the past--such as rail shipment of garbage to strip mine areas in Pennsylvania or Ohio--no longer are under active consideration due to high costs and the difficult politics of garbage transfer.

The City in conjunction with State environmental officials recommended the construction of eleven “resource recovery” plants located throughout the city at a cost of $500 million. No city funds are presently available for these facilities.

Priority must be assigned to maintenance of those physical elements that are absolutely critical to continued operation of a high-density urban center. Significant failures or shortfalls in
service availability of any of the preceding systems would strike at the heart of urban life.

Transit

The City's mass transit system has two major components: rail rapid transit and surface operations. The rail rapid transit system consists of 6,700 subway cars operating on 232 miles of track (137 miles underground, 72 miles of elevated structures and 23 miles of open cut). At present the system carries about 3.6 billion passengers per year, down from an average of about 4.3 billion per year in the 1966-1976 decade. Another MTA subsidiary, SEPTA, operates an additional 26 cars on a single rail line on Staten Island. The surface transit system is primarily composed of 4,400 buses operated by the VA and its subsidiary MAESTOA. The public bus system carries about 750 million passengers per year.

Transit construction, involving both major investment in the existing rail system and equipment and in construction of new subway routes, has been a major capital investment priority for the city in the past decade. Sixteen percent of all city construction funds were allocated to transit in the 1966-1976 period; even more notably, in 1976 when total city construction starts fell sharply due to the fiscal crisis, transit accounted for $224 million of the restricted total of only $316 million in new construction. This high proportion was significantly influenced by the availability of Federal funds for the transit program. Without an aggressive program of capital investment there will be a continued decline in ridership and together with inflationary pressures will inevitably result in increased fares or continued declines in service.

Other Needs

While the above areas are in most urgent need of major capital investments, several other elements of the City's capital plant also needed increasing attention. Capital facilities used by operating agencies such as police, fire and sanitation, are increasingly obsolete. For example, more than 33 fire facilities or 55% of their plants are over 75 years old while one-third of police facilities are obsolete and antiquated. Maintenance costs are excessive, employee morale in some instances has suffered and effective interaction with involved community groups is limited. Major investments for rehabilitation and replacement are needed. In addition, important elements of urban amenity such as parks and museums have been woefully neglected in the recent past and require additional investments.

ECONOMIC DEVELOPMENT

The soundness of the City's basic infrastructure is essential for New York to remain a competitive location for business. The
efficiency of public facilities and services directly impacts on
the production costs for all firms in the City. An obsolete
and under-maintained City physical plant severely reduces the
competitiveness of New York as a location for modern
regional, national, and international markets. In particular,
the condition of the arterial highway and street network and
public transit system is critical for maintaining the efficient
flow of goods and labor resources. The advantages to firms from
locating in New York - proximity to inputs and markets, avail-
ability of multiple modes of transport, access to a large and
diversified labor pool with specialized resources - depend
upon modern physical resources.

The great loss of manufacturing employment from the City
can be partly attributed to an absence of large contiguous areas
of industrial land suitable for modern horizontal production
facilities. The limited availability of sites for industrial
parks with suitable access to the arterial highway system and rail
freight service forces the City to develop underutilized land which
requires costly infrastructure preparation. Experience in other
cities indicates that the development of industrial parks in urban
centers requires the selective construction of arterial access
facilities, improved arterial interchanges, and increased arterial
capacity in addition to street and sewer work. Even during the
period of increased City capital spending, the demands for the
basic City capital plant and operating agency facilities severely
limited the funds available for economic development projects.

At a time when municipal governments are being called upon to
play a more active role in shaping local economic development,
especially in the Northeast and Midwest, the City finds itself
under the most difficult financial circumstances. During the pros-
porous times of the past, the City neglected the important means
at its disposal for preserving and stimulating the private economic
activity that is the base of the City's fiscal health. Neverthe-
less, new capital projects, City services, development finance
vehicles and tax and land use policies are now being implemented to
preserve the City's tremendous private economic resources.

City funds are being appropriated, Federal Community Develop-
ment and Federal ODAQ and EDA grants are being sought for the acqui-
sition and preparation of land for industrial parks. The City
cannot remain competitive with other communities for the construc-
tion of new manufacturing space if firms are required to assume the
costs and risks of site development and land assembly which are
routinely borne by other communities. Important new projects in-
clude the 125 acre Federal surplus Brooklyn Army Terminal and the
unused 100 acre Harlem River Yards in the South Bronx. The latter
project is part of the "South Bronx Plan For Revitalisation" sub-
mitted to President Carter in December which plans part of a multi-
million dollar industrial retention program for the South Bronx
Industrial Corridor and infrastructure investments in the existing
Zerega Avenue and Lyons City industrial parks.
Recently enacted real estate tax exemption and abatement programs administered by the Industrial and Commercial Incentive Board and the Industrial Development Agency are stimulating substantial investments in plant and equipment by manufacturers and new construction by office and hotel builders.

In order to make better use of its limited capital resources, the City is currently developing a new planning capacity to target investments to better meet economic development needs. Land use policies are being altered to encourage commercial and industrial development and a survey of vacant City owned property is underway.

The City is attempting to augment its development finance capability by seeking federal funds for an insurance pool for industrial revenue bonds and for a loan pool for direct loans to firms to construct cogeneration plants.

The State is currently studying various locations in the City for construction of an intermodal freight facility to provide piggyback freight service to local companies. The South Bronx Plan for Revitalization requests federal funds for the clearance of obstructions in the Bronx which prevent piggyback transport.

New investment in containerport development in Red Hook, Brooklyn, will provide the modern facilities necessary to continue the City's position as a central hub of trade and to take advantage of its huge goods market.

The most important new construction project included in this capital improvement plan is the design and construction of a new Convention Center. This new facility is a vital part of the City's Economic Recovery Plan. A recent study conducted by Arthur D. Little, Inc., indicates that once such a Center is completed, it could be responsible for the creation of up to 31,750 new permanent jobs and would result in $15 million annually in new tax revenues and more than $1 billion in new business receipts to the benefit of both the City and the State. In addition, it is estimated that during construction as many as 6,350 new construction jobs would be created and $223 million in new business receipts would be realized by major elements of the City's private sector.

Substantial funds from Federal Community Development resources are being used for a city-wide Neighborhood Commercial Revitalization program which is designed to improve the viability of neighborhood shopping strips. The program will provide funds for street reconstruction, facade improvements, new lighting and street furniture, and the construction of off-street parking facilities. Increased commitments of city funds to similar efforts are anticipated. In addition, a number of major long term commercial development projects are proceeding through combined City capital and Federal funding. Federal HUD funds are being sought for construction of a parking garage as part of the Fordham Plaza retail
complex at the South Street Seaport Museum. Other major projects include the Jamaica Center retail complex and the Brooklyn Center retail complex for which future funding decisions are required.

CAPITALIZATION OF OPERATING COSTS

The city's past capital investment programs have had limited impact on increasing the productivity and efficiency of city personnel and services as part of a strategy to reduce operating costs. Future capital purchase decisions must be increasingly focused on reducing long-run maintenance costs, energy consumption costs and highly labor-intensive functions while maintaining or improving service delivery levels.

The use of improved and newer equipment should be added at several critical areas. In sanitation services, for example, the continued use of heavy, obsolete, and aged equipment has forced the cost of maintaining each truck substantially upward. In some instances, repair costs have exceeded replacement costs. Because the availability of capital funds has diminished, it has been difficult to overcome this obvious uneconomical allocation of resources. Moreover, the costs of missed collection services due to extensive vehicle down-time has created substantial expense budget burdens, diminished service levels and adversely affected the quality of life in our city. More rational replacements' policies should redress this problem in the sanitation as well as in other service delivery functions.

The use of new technologies must be fully exploited in several areas where operating costs are rising rapidly. For example, new ways of decreasing energy consumption must be sought. The newly implemented effort within the City's subway system designed to optimize acceleration and deceleration schedules is projected to reduce subway car energy consumption by 10% and result in a $10 million yearly savings. Such efforts must be extended to other targets of opportunities throughout the city government.

The introduction of computer facilities must also be maximized to reduce operating costs wherever the technology is feasible. The increased use of automated personnel time-keeping control systems, for example, should provide city managers with more substantial control over their staffs and result in improved service delivery at equal or diminished cost. Similarly the wide scale application of computer technology within the criminal justice system should speed the flow of defendants through the system, guaranteeing their right to a speedy trial, while at the same time providing for more efficient management of the resources devoted to the city's criminal justice system. Automated command and control systems within the Fire Department or other services should also improve the ability to schedule and deploy resources in the most cost effective fashion.

IV - 16
Other labor-saving devices such as power tools and equipment in vehicle repairs, building and lead maintenance activities and fire protection services are important means to reduce costs while maintaining or improving service delivery levels.

**THE TEN YEAR PLAN**

Specifically, the proposed ten year plan provides for major advances in virtually all vital programmatic areas. It should be noted that in many of the program areas the full impact of the accelerated program is not immediately realized due to the necessary design building and implementation period. (Tables I - IV).

**Highways**

Provides for implementation of a crash program for the rehabilitation of approximately 2,400 miles of city streets which are considered to be in immediate need of attention. Under this plan the City expects $810 million a year to totally rebuild approximately 120 miles of street per year. This program would require 20 years to fully implement. Concurrent with the above “crash” program for the planned replacement of the remaining 1,600 miles of streets, on a 15 year cycle, will be implemented at a cost of $85 million a year. In addition, it will be necessary to expend $5 million a year for resurfacing work on heavily used arteries. A final decision concerning implementation of the Westway project has not been arrived at. The funds planned under the highway programs would be sufficient to provide for the City $100 million ($18 million/year) share of the total construction costs. If it should be decided to proceed with the “trade-in” and use federal funds for other alternatives such as mass transit, sufficient matching funds can be made available within the transit allocations proposed in this ten-year capital plan (discussed later).

**Bridges**

Provides for the implementation of a crash program for the rehabilitation of 1,900 of the city’s approximate 2,000 spans over a 5 year period at a cost of $40 million a year. At the same time, the plan would establish a long range replacement program using a 40 year life cycle at a cost of $10 million a year.

**Sewers**

Emphasis on a 20 year program for completion of the remaining 1,500 miles of the City’s storm and sanitary sewer system in recently developed areas mainly in Queens and Staten Island at a cost of $145 million a year.

Commence a 20 year program for the replacement of 1,500 miles of deteriorated combined sewers at a cost of $75 million a year. Establish a rational 100 year replacement cycle for existing sewers at a cost of $50 million a year.

IV - 17
Sewage Treatment Plants

Continue to fund the city's share for the construction of new plants and upgrading of existing plants including North River, Oakwood Beach, Red Hook, Owl's Head, Coney Island and Newton Creek.

Maintain an annual level of expenditure for renovation of existing plants of $2 million per year.

Water Supply

Provides for continued construction and ultimate completion of the Mid-Manhattan and Brooklyn sections of the Third City Water Tunnel which is vital to ensure a dependable supply of water to the City's local distribution systems. Tunnels No. 1 and No. 2 could then be closed and repaired. This plan does not provide for completion of the Queens loop, estimated to cost an additional $21.1 million. Since that section would serve the City as well as the contiguous counties of Nassau and Suffolk, a joint effort with those entities, the State and Federal Governments would be pursued for long term financing.

Provides for immediate implementation of a crash 5 year program to replace 200 miles of 75 year old water mains at a cost of $80 million per year.

Also establishes a rational replacement policy of 75 years at a cost of $16 million per year while continuing to provide for a program of upgrading and modification of the system at an added cost of $5 million per year.

Transit

Provides for the funding required for completion of all new routes presently under construction at an annual expenditure of $10 million per year.

Further, provides for continuing a program of modernization and upgrading work at a cost of $5 million per year. Also provides for a program of non-fixed transit improvements at a cost of $5 million per year.

Economic Development

Establish a systematic program of basic renovation for piers at a level of $5 million per year.

Develop a program of renovation of Markets and Terminals at an annual level of $5 million.

Acquisition and development of sites for Industrial Parks and Marine Terminals at the rate of $10 million per year.

Funding for the City's share of the Federal Program of Economic Recovery (UDAG) at the annual amount of $20 million.

IV - 18
Convention Center

Proceed with program for construction of Convention Center
providing $10 million for design funding in fiscal year 1979
with construction funding as required during the subsequent
three years.

New Waste Disposal Technologies

Develop and implement program for new solid waste disposal
technologies including rapid construction of new processing plants
at a cost of $300 million of city funds in the next ten years.

Education

Extraordinarily large amounts of resources were invested in
upgrading the City's educational facilities during the decade
from 1966 to 1976. It is estimated that over 35% of the total
capacity of the school system is housed in either newly constructed
or renovated structures. Accordingly, the emphasis in Education
will be on improvement and upgrading of the existing plant rather
than a large scale new school construction program.

The plan provides for completion of those new schools now in
the pipeline and a program of upgrading work at an annual level of
$50 million per year.

Higher Education

Double the level of funding for renovation work at the
Community Colleges to $1 million per year.

Continue the program for the purchase of electronic equipment
and miscellaneous vehicles at a level of $1 million per year.

Courts

Provide construction funds of $94 million in fiscal Year 1981
for the Brooklyn Criminal Court.

Establish a program for normal renovation work of $3 million
per year.

Police

Provides for the upgrading of the communications system and
renovation and modernization of existing facilities at a cost of
$6 million per year. There are over 75 police buildings. All
but 20 are either relatively new or have been modernized. This
plan calls for the replacement of these obsolete Station Houses at
the rate of 2 a year at a cost of $8 million per year.

Fire

Provides for the modernization of the communications and
dispatch systems at a cost of $5 million per year. Also provides
for modernization of the apparatus fleet at a cost of $10 million per year. There are a total of 240 Fire Department buildings, 30 of which are relatively new. Of the remainder, more than 130 are 75 years old. These will be replaced at a rate of 5 per year and at a cost of $8 million per year.

Sanitation

Provide for continued modernization and renewal of the vehicle fleet at a cost of $13 million per year. Also provide for construction of waste disposal handling and shipping facilities at a cost of $10 million. There are 70 Sanitation garages, 60 of these are in need of replacement. A replacement policy of one new garage with capacity to replace two old ones will be established. At the rate of three new garages per year costing $9 million per year we will affect a complete replacement in 10 years.

Parks-Recreation-Librarian

Establish a systematic program of upgrading and renovation of parks, libraries and cultural institutions at a level of approximately $20 million per year for parks and libraries and $2 million per year for cultural institutions.

Department of General Services

Continue program of upgrading and conversion of lighting system of new High Pressure Sodium type at cost of $3 million per year.

Advance project for modernization of Municipal Building to achieve greater space efficiency and reduce energy consumption at cost of $40 million.

Advance project for acquisition through purchase or construction of new Executive Office Building to provide efficient housing for majority staff agencies at cost of $15 million.

Continue accelerated program for purchase of new mini-computers for increased management capabilities at a cost of $10 million per year.

Hospitals

Complete construction of new Bellevue Hospital Psychiatric Ward at cost of $15 million.

Continue program of upgrading of existing hospital facilities at cost of $20 million per year.

Traffic

Continue program for renovation, upgrading and modernization of Signal System and Parking Garages at cost of $3 million per year.
Corrections:

Continue program of renovation and upgrading of existing institutions at cost of $2 million per year.

Implement master plan program for major upgrading of existing institutions and new construction to bring entire penal system up to accepted national standards at cost of $100 million.

City Needs

Implement accelerated program for energy conservation in all public buildings including schools, at cost of $10 million per year.

Implement and continue various programs for upgrading and modernization of City facilities at a cost of $20 million per year.

Provides for implementation of a 10 year replacement cycle for the city's fleet of 2,000 capital funded vehicles at a cost of $6 million per year.

The plan stated herein provides for only the basic minimal needs of the City over the next ten years. There are many important projects which are not provided for in the plan such as:

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion of the 2nd Avenue Subway</td>
<td>$2,250 million</td>
</tr>
<tr>
<td>Completion of the 63 Street Tunnel</td>
<td>349</td>
</tr>
<tr>
<td>Queens Link</td>
<td></td>
</tr>
<tr>
<td>Full completion of 1st Water Tunnel</td>
<td>2,100</td>
</tr>
<tr>
<td>Completion of Kennedy Airport Rapid Transit Line</td>
<td>600</td>
</tr>
<tr>
<td>Construction of Queens Civil Court</td>
<td>40</td>
</tr>
<tr>
<td>Construction of New Brooklyn Hospital</td>
<td>25</td>
</tr>
<tr>
<td>Construction of new Municipal Building</td>
<td>200</td>
</tr>
</tbody>
</table>
SECTION V

LONG TERM FINANCING PLAN
FY 1979 - FY 1982

INTRODUCTION

This section details the long term financing actions proposed in the Four Year Plan. It also provides a brief description of each of these actions as well as assumptions underlying each action.
LONG TERM FINANCING PLAN

THE GUARANTEE PROPOSAL

The long-term financing plan contemplates the purchase of $2.25 billion of long-term bonds by City and State employee pension funds, which investment would be 90% guaranteed by the Federal government and 10% backed by the State. The guarantee would extend only to the pension funds. If the bonds were subsequently purchased by a third party, the guarantee on those bonds would lapse. The Federal guarantee would cover 90% of the principal amount of bonds purchased and held by the pension funds.

The State backing would cover 10% of the principal amount of the bonds purchased by the pension funds. The dollar amount would be fixed at the time the guaranteed bonds are issued; thus, the percentage amount backed by the State would increase as the bonds are retired. The State would pay the fixed amount to a trustee who would hold the funds until they exceed the amount of guaranteed bonds still held by the pension funds, at which time the trustee would return such excess funds to the State.

If any principal and interest due on the bonds were not paid by the City, the trustee for the State would disburse the amount due until the State funds held by the trustee were exhausted; at that point, the Federal guarantee would cover any further amounts due.

The City realizes that this Federal guarantee must be accompanied by an assurance that the City’s financial practices will be conducted according to sound principles and overseen by a fiscal monitor. A ten-point program to provide this assurance is outlined below in Section VII - Financial Controls and Monitoring.

The City will pay a guarantee fee of ¼ of 1% on the amount of guaranteed bonds outstanding. The Federal guarantee legislation should authorize the Secretary of the Treasury to waive the Federal government’s first claim to repayment of any federal losses under the guarantee (or seasonal loans), should the Secretary determine that such a waiver is in the national interest or necessary to restore the City’s access to the public credit market.

The Plan contemplates an expiration of the guarantee prior to full maturity of the bonds. The number of years to be guaranteed is dependent on the requirements of the pension funds and the Federal government, but a ten-year period would appear to be a minimum.
Purchases by Pension Funds

The guaranteed bonds would be issued to finance the City's true capital expenditures and would be purchased by the City Pension Funds and the State Pension Funds, including the State Teachers' Retirement Fund. At the current time, the assets of these funds are approximately:

<table>
<thead>
<tr>
<th></th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Pension Funds</td>
<td>$ 9,000</td>
</tr>
<tr>
<td>State Employees Pension Fund</td>
<td>6,000</td>
</tr>
<tr>
<td>State Teachers' Retirement Fund</td>
<td></td>
</tr>
<tr>
<td>Total State</td>
<td>$15,000</td>
</tr>
<tr>
<td>Total Assets City and State Pension Funds</td>
<td>$24,000</td>
</tr>
</tbody>
</table>

It is envisioned that the funds would purchase the guaranteed bonds on a basis roughly proportional to the ratio of each fund's assets to the total of the three funds' assets, that is: 40% City Pension Funds, 40% State Employees Pension Funds and 20% State Teachers' Retirement Fund. Such a ratio would result in the following annual purchases by these funds:

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ending June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Pension Funds</td>
<td>$ 159</td>
</tr>
<tr>
<td>State Employees Fund</td>
<td>159</td>
</tr>
<tr>
<td>State Teachers' Fund</td>
<td>85</td>
</tr>
<tr>
<td>Total Purchases</td>
<td>$ 323</td>
</tr>
</tbody>
</table>

PUBLIC OFFERINGS OF CITY BONDS

The portion of the City's true capital requirements not met by issuance of guaranteed bonds to the Pension Funds is planned to be met by public offerings of City bonds of $100 million in 1981 and $240 million in 1982. The City expects that the bonds offered to the public will have the benefit of the financial controls and fiscal monitor that the City plans to accept in connection with the obtaining of federal guarantees.

For a more complete description of the City's capital spending requirements, see Section I - "Four Year Financial Plan Summary-Financing".
Financing of Capitalized Expense Items

The City's accelerated phase-out of the expense items in the capital budget requires the issuance of a total of $950 million of bonds during the four year period:

- 1979: $450 million
- 1980: 200 million
- 1981: 150 million
- 1982: 100 million

These items would be financed by the public sale of Municipal Assistance Corporation bonds. These bonds are assumed to be sold to the public as 20 year serial bonds at a cost of 6%.

Bonding the State Advance

The $800 million State Advance is made in the final three months of the City's fiscal year and is repaid through withholding of State aid due the City in the first six months of the following fiscal year. The Advance contributes to the City's repayment of the Federal Seasonal Loan.

Under the Four Year Financial Plan, the State Advance will be bonded out during the first half of each of the following years:

- 1980: $200 million
- 1981: 150 million
- 1982: 50 million

These bonds would be sold by MAC to the public. It is assumed that they would be sold as 20 year serial bonds at a cost of 6%.

Refunding of Municipal Assistance Corporation Bonds

In November 1979, MAC announced its intention to refund up to $750 million of its presently outstanding debt as a step toward achieving approximately level debt service over time and thus providing budgetary relief to the City. The recently completed sale of $250 million of MAC refunding bonds was the first part of this refunding program. The effect of such refunding is generally to decrease MAC funding requirements during the early years while creating additional funding requirements in later years.

The Plan calls for MAC refunding of $560 million over the next four years:

- 1980: $200 million
- 1981: 200 million
- 1982: 200 million
- 1983: 20 million

V - 4
It should be noted that this schedule is tentative and that the timing, amount and terms of such offerings are subject to market conditions.

**Financing of Municipal Assistance Corporation Capital Reserve Fund Requirements**

MAC has indicated its intention to publicly finance its capital reserve funding requirements. The total amount to be financed is estimated to be approximately $250 million -- the capital reserve funding requirements net of investment earnings.

The four year financial plan calls for selling these bonds to the public with the terms and conditions to be set in light of market conditions.

**Bonding of Outstanding Bond Anticipation Notes**

MAC presently holds approximately $1 billion of City Bond Anticipation Notes received in various MAC exchange offers and issued by the City to MAC in consideration for cash paid for operating purposes or the redemption of City short term debt. Of these amounts, it is estimated that approximately $800 million can be bonded. The City will issue an 18-year serial bond having 16 principal payments at an estimated 8% interest rate.

The City's payment of principal and interest on the "BAN Bond" will, when actually received, reduce the amount of MAC's requirements that are funded from State revenues otherwise payable to the City.
### TABLE I

**SCHEDULE OF LONG TERM FINANCING**

($ Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>$ 423</td>
<td>$ 537</td>
<td>$ 646</td>
<td>$ 644</td>
<td>$2,250</td>
<td>City(a) (Guaranteed)</td>
<td>City</td>
<td>Public</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>240</td>
<td>340</td>
<td>City</td>
<td>Private</td>
<td>Public</td>
</tr>
<tr>
<td>Capitalized Expenses</td>
<td>450</td>
<td>350</td>
<td>150</td>
<td>-</td>
<td>900</td>
<td>MAC/City(b)</td>
<td>Public</td>
<td>Public</td>
</tr>
<tr>
<td>MAC Capital Reserve</td>
<td>200</td>
<td>50</td>
<td>-</td>
<td>-</td>
<td>250</td>
<td>MAC</td>
<td>Public</td>
<td>Public</td>
</tr>
<tr>
<td>MAC Refunding</td>
<td>100</td>
<td>200</td>
<td>200</td>
<td>60</td>
<td>360</td>
<td>MAC</td>
<td>Public</td>
<td>Public</td>
</tr>
<tr>
<td><strong>Total Long Term Financing</strong></td>
<td>$1,173</td>
<td>$1,287</td>
<td>$1,396</td>
<td>$1,244</td>
<td>$5,100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) City serial bonds issued with 90% Federal guarantee and 10% State backing. Bonds may be issued through a State agency.

(b) MAC first and second resolution bonds for which the City would issue serial bonds to MAC with similar terms.

(c) New York based financial institutions will be asked to purchase $1 billion of MAC securities over the four year period.
<table>
<thead>
<tr>
<th>Table II</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUMMARY OF LONG-TERM FINANCING SOURCES</td>
</tr>
<tr>
<td>($ In Millions)</td>
</tr>
<tr>
<td>Fiscal Year Ending June 30</td>
</tr>
<tr>
<td>CITY AND STATE PENSION FUNDS(a)</td>
</tr>
<tr>
<td>$423  $537  $664  $644  $2,250</td>
</tr>
<tr>
<td>PUBLIC</td>
</tr>
<tr>
<td>MAC(b)</td>
</tr>
<tr>
<td>750  750  650  300  2,510(c)</td>
</tr>
<tr>
<td>City(a)</td>
</tr>
<tr>
<td>-    -    100  240  340</td>
</tr>
<tr>
<td>Total Public</td>
</tr>
<tr>
<td>$750  $750  $750  $540  $2,850</td>
</tr>
<tr>
<td>TOTAL ISSUES</td>
</tr>
<tr>
<td>$1,173  $1,287  $1,414  $1,184  $5,100</td>
</tr>
</tbody>
</table>

(a) Securities issued for true capital purposes.
(b) Securities issued for capitalized expenses, State Advance, MAC capital reserve, and MAC refunding.
(c) New York based financial institutions will be asked to purchase $1 billion of MAC securities over the four year period.
## Table III

### City and MAC Bond Issues

<table>
<thead>
<tr>
<th></th>
<th>Capital Expenditure</th>
<th>Capitalized Expenses</th>
<th>MAC Revenue</th>
<th>MAC Revenue Defunding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Guaranteed</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>City</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>$213</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$213</td>
</tr>
<tr>
<td>January - June</td>
<td>213</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>213</td>
</tr>
<tr>
<td>1976</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>267</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>267</td>
</tr>
<tr>
<td>January - June</td>
<td>267</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>267</td>
</tr>
<tr>
<td>1977</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>222</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>222</td>
</tr>
<tr>
<td>January - June</td>
<td>222</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>232</td>
</tr>
<tr>
<td>1978</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>222</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>222</td>
</tr>
<tr>
<td>January - June</td>
<td>222</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>232</td>
</tr>
<tr>
<td><strong>Total City</strong></td>
<td>$2,128</td>
<td>$772</td>
<td></td>
<td></td>
<td>$2,900</td>
</tr>
</tbody>
</table>

### Municipal Assistance Corporation

<table>
<thead>
<tr>
<th></th>
<th>Capital Expenditure</th>
<th>Capitalized Expenses</th>
<th>MAC Revenue</th>
<th>MAC Revenue Defunding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>$-</td>
<td>$-</td>
<td>$100</td>
<td>$-</td>
<td>$100</td>
</tr>
<tr>
<td>January - June</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>1976</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>-</td>
<td>-0</td>
<td>200</td>
<td>50</td>
<td>250</td>
</tr>
<tr>
<td>January - June</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>1977</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>-</td>
<td>75</td>
<td>300</td>
<td>-</td>
<td>375</td>
</tr>
<tr>
<td>January - June</td>
<td>-</td>
<td>75</td>
<td>-</td>
<td>-</td>
<td>75</td>
</tr>
<tr>
<td>1978</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July - December</td>
<td>-</td>
<td>75</td>
<td>-</td>
<td>-</td>
<td>75</td>
</tr>
<tr>
<td>January - June</td>
<td>-</td>
<td>75</td>
<td>-</td>
<td>-</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total MAC</strong></td>
<td>$2,128</td>
<td>$772</td>
<td></td>
<td></td>
<td>$2,900</td>
</tr>
</tbody>
</table>

### Total Issuance

<table>
<thead>
<tr>
<th></th>
<th>Capital Expenditure</th>
<th>Capitalized Expenses</th>
<th>MAC Revenue</th>
<th>MAC Revenue Defunding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>$2,128</td>
<td>$772</td>
<td></td>
<td></td>
<td>$2,900</td>
</tr>
<tr>
<td>1976</td>
<td>$2,128</td>
<td>$772</td>
<td></td>
<td></td>
<td>$2,900</td>
</tr>
<tr>
<td>1977</td>
<td>$2,128</td>
<td>$772</td>
<td></td>
<td></td>
<td>$2,900</td>
</tr>
<tr>
<td>1978</td>
<td>$2,128</td>
<td>$772</td>
<td></td>
<td></td>
<td>$2,900</td>
</tr>
</tbody>
</table>

### Notes

- City rental bonds to be issued to MAC with terms similar to the terms on MAC bonds issued for capitalized expenses.
<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>CITY DEBT SERVICE</th>
<th>MAC*</th>
<th>TOTAL CITY &amp; MAC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-Term</td>
<td>Short-Term</td>
<td>Total</td>
</tr>
<tr>
<td>1979</td>
<td>$ 1,427</td>
<td>$ 108</td>
<td>$ 1,535</td>
</tr>
<tr>
<td>1980</td>
<td>1,338</td>
<td>98</td>
<td>1,436</td>
</tr>
<tr>
<td>1981</td>
<td>1,262</td>
<td>79</td>
<td>1,341</td>
</tr>
<tr>
<td>1982</td>
<td>1,213</td>
<td>55</td>
<td>1,268</td>
</tr>
<tr>
<td>1983</td>
<td>1,261</td>
<td>50</td>
<td>1,311</td>
</tr>
<tr>
<td>1984</td>
<td>1,296</td>
<td>50</td>
<td>1,346</td>
</tr>
<tr>
<td>1985</td>
<td>1,309</td>
<td>50</td>
<td>1,359</td>
</tr>
</tbody>
</table>

* Net of debt service received on holdings of City notes and bonds.
SECTION VI

SEASONAL FINANCING PLAN

INTRODUCTION

This section presents the City's proposal for Federal seasonal borrowing assistance for the period 1979 to 1982. It also presents a program of cash flow actions to be taken by the City, State and Federal governments that would help eliminate the City's reliance on Federal seasonal loans. In addition, it shows cash flow projections for the 1979 fiscal year and indicates how the City's cash flow needs would be reduced by the implementation of the action program.
SEASONAL FINANCING PLAN

SEASONAL FINANCING PROPOSAL

The seasonal financing plan proposes that the Federal government provide seasonal borrowing authority for the City on a declining basis through 1981. The maximum seasonal borrowing requested of the Federal government would be $1.2 billion in 1979 or $1.1 billion less than the annual amount currently available to the City under the Seasonal Financing Act of 1975. Maximum seasonal borrowing from the Federal government would decline to $800 million in 1980 and $400 million in 1981. In 1982 the City would meet its total seasonal financing requirements without Federal assistance.

To complement the Federal seasonal loan a $600 million line of credit would be sought from the New York Clearing House Banks.

The ability of the City to achieve these significant reductions in the amount of Federal seasonal financing depends in large part on the implementation of three major elements of the financing plan:

- a cash flow program so that the City can more closely match its cash inflows to its outflows
- Federal guarantees of City bonds so that the City can achieve a regular pattern of cash inflow for capital expenditures
- bonding of the State advance over the four year period to eliminate $800 million of annual seasonal borrowing needs

The City has projected a peak seasonal borrowing need of $1.8 billion in 1979 (See Table 1). If no actions are taken, this peak will recur in later years. Bonding of the full State Advance should, however, reduce total seasonal needs to $1.0 billion as follows:

<table>
<thead>
<tr>
<th>Peak Needs</th>
<th>Reduction From Bonding of State Advance (in Millions)</th>
<th>Needs After Bonding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979 $1,800</td>
<td>-</td>
<td>$1,800</td>
</tr>
<tr>
<td>1980 $1,600</td>
<td>200</td>
<td>1,600</td>
</tr>
<tr>
<td>1981 $1,600</td>
<td>200</td>
<td>1,400</td>
</tr>
<tr>
<td>1982 $1,400</td>
<td>300</td>
<td>1,100</td>
</tr>
</tbody>
</table>

VI - 2
However, under the City's cash flow program the seasonal borrowing authority requested from the Federal government drops more quickly than the savings from bonding the State advance.

<table>
<thead>
<tr>
<th>Needs after Bonding</th>
<th>Federal Authority Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in Millions)</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>$1,880</td>
</tr>
<tr>
<td>1980</td>
<td>1,566</td>
</tr>
<tr>
<td>1981</td>
<td>1,390</td>
</tr>
<tr>
<td>1982</td>
<td>1,066</td>
</tr>
<tr>
<td>1983</td>
<td>800</td>
</tr>
<tr>
<td>1984</td>
<td>400</td>
</tr>
<tr>
<td>1985</td>
<td>200</td>
</tr>
</tbody>
</table>

Clearly, to live within the declining Federal seasonal borrowing authority, the City must sell increasing amounts of short-term notes to the public and improve its general cash position.

CASH FLOW PROGRAM

To improve its cash position, the City proposes a cash flow improvement program requiring City, State and Federal actions.

The City will speed cash collections of real estate taxes within the fiscal year. The State and Federal governments will be asked to correct their policies of delaying payment of aid due the City until after the City has advanced funds to make the related expenditures:

- The State should pay its aid to the City for health, mental health, and the City University before or while the City makes the related expenditures.

- The State should advance 100% of State aid for public assistance and medicaid each month, instead of 20% consistent with Federal policy of advancing 100% of the Federal aid portion.

- The State should agree to defer for two months withholding of State aid for repayment of the spring State advance.

- The Federal government should pay Federal revenue-sharing monthly rather than after the end of each quarter.

This set of actions applied to the 1979 cash flow projection would reduce seasonal borrowing requirements by $600 million. By 1983 full bonding of the State advance will have reduced seasonal needs to $1.0 billion. If the action program is also implemented, total seasonal borrowing needs could be as low as $400 million.

However, other factors could also cause increases in general needs over this time period. If revenues to balance the budget arrive in the last quarter of the fiscal year, or expenditure reductions are experienced later in the fiscal year rather than earlier, seasonal financing needs may increase. Also, segregation
of the portion of real estate tax collection attributable to the debt service levy in a Debt Service Fund (See Section V-
Long Term Financing Plan) will take some amount of cash out of General Fund use. This will have an impact on cash flow within the month as well as from month to month. However, given balanced budgets, full bonding of the State Advance and implementation of the cash flow program, it does appear that after 1982 seasonal needs should not exceed the amount of seasonal borrowing the City could expect to obtain without Federal assistance.

SHORT TERM INTEREST

Payment of interest costs on seasonal borrowings and the State Advance is provided for in the City's budget. Interest costs included in City Debt Service in the Four Year Financial Plan (see Section II) are based on the 1979 peak need adjusted in later years for the bonding of the State Advance.

<table>
<thead>
<tr>
<th>Seasonal Borrowings at 5%</th>
<th>Previous Year's State Advance at 5%</th>
<th>Short Term Interest (In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,800</td>
<td>$ 800</td>
<td>$ 108</td>
</tr>
<tr>
<td>1,600</td>
<td>800</td>
<td>98</td>
</tr>
<tr>
<td>1,300</td>
<td>600</td>
<td>79</td>
</tr>
<tr>
<td>1,000</td>
<td>500</td>
<td>55</td>
</tr>
</tbody>
</table>

1979 CASH FLOW PROJECTIONS

The City's request for $1.2 billion of Federal seasonal borrowing authority and a $600 million line of credit from the commercial banks in 1979 is based on the projections shown in Table I and the related explanatory material. As seen in Table I, peak seasonal needs will be $1.2 billion in 1979. Provision for adequate cash balances and the possible cash flow impact of a Debt Service Fund brings potential seasonal borrowing needs to $1.8 billion.

Table II and the related explanatory material indicate how the City's seasonal financing needs could be reduced by $600 million in 1979 if the full cash flow improvement program is in place by the end of the current fiscal year. They also describe more fully the City, State and Federal actions that would be required to achieve this reduction.

VI - 4
<table>
<thead>
<tr>
<th>Description</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (in parentheses)</td>
<td>$1,085</td>
<td>$21 (70)</td>
<td>$121</td>
<td>$118</td>
<td>$15</td>
<td>$41</td>
<td>$3</td>
<td>$136</td>
<td>$15</td>
<td>$128</td>
<td>$209</td>
<td>$128</td>
<td>$15</td>
</tr>
<tr>
<td>Adjustments</td>
<td>$1,085</td>
<td>$21 (70)</td>
<td>$121</td>
<td>$118</td>
<td>$15</td>
<td>$41</td>
<td>$3</td>
<td>$136</td>
<td>$15</td>
<td>$128</td>
<td>$209</td>
<td>$128</td>
<td>$15</td>
</tr>
<tr>
<td>Other Income (Loss)</td>
<td>$776</td>
<td>$49</td>
<td>$15</td>
<td>$115</td>
<td>$25</td>
<td>$3</td>
<td>$136</td>
<td>$15</td>
<td>$128</td>
<td>$209</td>
<td>$128</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Total Income (Loss)</td>
<td>$776</td>
<td>$49</td>
<td>$15</td>
<td>$115</td>
<td>$25</td>
<td>$3</td>
<td>$136</td>
<td>$15</td>
<td>$128</td>
<td>$209</td>
<td>$128</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,085</td>
<td>$21 (70)</td>
<td>$121</td>
<td>$118</td>
<td>$15</td>
<td>$41</td>
<td>$3</td>
<td>$136</td>
<td>$15</td>
<td>$128</td>
<td>$209</td>
<td>$128</td>
<td>$15</td>
</tr>
</tbody>
</table>

V1 - 5
Table I projects the City's cash flow pattern for 1979 before seasonal financing. The underlying assumptions of the analysis are: 1) that the City will have a balanced budget; and 2) that with some adjustments as indicated, the City's cash flow pattern in 1979 will be essentially the same as the pattern the City is experiencing in its current fiscal year. Thus, it is assumed that actions taken to close the budget gap, either through increased revenues or decreased expenditures, will not affect the City's cash flow pattern either favorably or adversely. A major exception is the assumption that $193 million in new revenues to pay for expenses that will no longer be paid for by capital funds under the accelerated schedule for phasing out capitalized expenses will not be realized in cash until 1980. Thus, receipt of cash from such revenue (or elimination of the expenditures altogether) during 1979 would improve the City's ending cash balance in 1979.

The ending cash balances projected for each month on the bottom line of Table I indicate that the peak seasonal need reaches $1.3 billion in March. Allowing $300 million to provide for appropriate cash balances and to meet any increase in seasonal needs that may arise from a Debt Service Fund brings the total borrowing requirement to $1.8 billion.

The table starts from the projections of Funds Used in Operations in FY 1978 from the Unrestricted Cash Flow Forecast (Report No. 11) in the City's November 1977 Financial Plan Statements (FPB). This represents five months of actual experience and projections for the remainder of the fiscal year. Several adjustments and additions are required to convert this 1978 pattern into a Net Flow that can be assumed to represent the basic 1979 cash flow pattern.

**ADJUSTMENTS**

**Advances, Other (Uses) Sources:** Taken from the November Financial Plan Statements. These adjustments reflect the cash impact of receiving advances and other cash prior to the month in which they are recorded as revenues.

**Debt Service Vouchering:** In 1978, Funds Used in Operations included three debt service payments in July and only one in September because of vouchering problems early in the year. This adjustment restates the amounts reported to reflect the appropriate payment of only two payments per month.
Non-Recurring Items: Revenues from Westway and the Educational Construction Fund bond issue projected for 1979 will not recur in 1978. Replacement revenues are assumed to flow to the City in June to compensate for loss of cash from these non-recurring items.

MAC Second Resolution Funding: Second resolution MAC bonds were projected to be funded according to previous practice of withholding State per capita aid in June. However, MAC is now funding second resolution bonds through withholding of sales taxes. As a result, in FY 1778 funding requirements will be reduced by $40 million, increasing the beginning cash balance for 1979 accordingly. In 1979 the procedure results in additional uses of cash in October, January and April offset by greater availability of cash in June.

Expedited Medicaid Payout: By June 1, 1978, the State will have assumed full responsibility for paying Medicaid providers for services they deliver. During 1979, the city will still be responsible for paying certain providers for services they delivered prior to June 1, 1978. At the same time, the State will be charging the City for the City's share of 1979 Medicaid costs. Since it is assumed that the State payout system will be faster than the City's current system, additional cash will be required in the first quarter of the fiscal year.

ADDITIONAL USES OF FUNDS

Repayment of State Advances: This provides for withholding of State aid starting July 1 in the 1979 fiscal year to repay the $200 million State advances to be provided to the City in 1978.

Capital Costs: Expenditures for bricks and mortar total $348 million. Expenditures for planning and engineering costs are included in Funds Used in Operations at $75 million, bringing the total capital program to $423 million.

Disallowances Paid: This is the cash impact of receiving disallowances against previous years' revenues. Disallowances are assumed to be applied two years after the original expenditures. Even after the City reduces its budget reserve for disallowances, the City must continue its $135 million reserve for cash disallowances for two years. Thus, the projected disallowance reserve of $100 million for 1979 will not reduce cash disallowance requirements to $100 million until 1981.

Net (Uses) Sources Before Financing: This is a projection of cash inflow or outflow for 1979 by month before application of the State Advance and Bond Proceeds.
SOURCES OF FINANCING

State Advance: The State is assumed to repeat in 1979 the advance of $825 million in April, May and June to be repaid by withholding of State Aid in the next City fiscal year, starting July 1. Under the Long Term Financing Plan, bonding of the State advance will not begin until 1980 so that in 1979 the full State advance will be required.

Bond Proceeds: Bond Proceeds are $423 million for capital costs and $450 million for capitalized expenses, both as provided in the Long Term Financing Plan. It is assumed that bond proceeds need not be segregated and are, therefore, available for the general cash flow.

NET FLOW

This projects for 1979 the net cash inflow or outgo for each month before taking into account the beginning cash balance.

CASH BALANCE-ENDING

This is the cash balance after taking into account the opening cash balance at the beginning of each month. This line indicates cumulative seasonal needs over the fiscal year. The most negative cash flow occurs in March, thus establishing the peak seasonal borrowing requirement at $1.5 billion.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CRIME REDUCED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage decline in violent crime</td>
<td>29.4</td>
<td>28.7</td>
<td>28.9</td>
<td>28.4</td>
<td>27.9</td>
<td>27.1</td>
<td>26.4</td>
<td>25.8</td>
<td>25.6</td>
<td>25.3</td>
<td>25.3</td>
<td>25.3</td>
<td>25.3</td>
<td>25.3</td>
<td>25.3</td>
</tr>
<tr>
<td>Percentage decline in property crime</td>
<td>32.1</td>
<td>31.4</td>
<td>31.5</td>
<td>31.1</td>
<td>30.6</td>
<td>29.7</td>
<td>29.0</td>
<td>28.3</td>
<td>28.2</td>
<td>27.9</td>
<td>27.9</td>
<td>27.9</td>
<td>27.9</td>
<td>27.9</td>
<td>27.9</td>
</tr>
<tr>
<td>Crime rate per 100,000 population</td>
<td>120.3</td>
<td>119.9</td>
<td>119.9</td>
<td>119.5</td>
<td>119.1</td>
<td>118.6</td>
<td>118.1</td>
<td>117.6</td>
<td>117.4</td>
<td>117.1</td>
<td>117.1</td>
<td>117.1</td>
<td>117.1</td>
<td>117.1</td>
<td>117.1</td>
</tr>
<tr>
<td>CRIME PREVENTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police force</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Crime prevention program</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Overall prevention strategies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>CRIME DETERRECTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police force</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Crime prevention program</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Overall prevention strategies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>
Table II projects how the City's seasonal financing requirements for 1979 could be reduced by implementation of a series of City, State and Federal Actions to improve the City's cash flow. The table assumes that the actions are all in place by the end of 1978.

The ending monthly cash balances on the bottom line of the table indicate that seasonal needs would peak in February at $885 million. Allowing $300 million to provide for appropriate cash balances and to accommodate the potential cash flow impact of a Debt Service Fund brings seasonal needs to $1.2 billion, a $600 million reduction from the level of seasonal financing that would otherwise be required.

The table starts from the Net Flow (before seasonal financing) calculated for 1979 in Table I. It then indicates how the action program would affect monthly cash flows.

**CITY ACTIONS**

Elimination of grace periods and changes in due date for Real Estate Taxes: City Real Estate Taxes are currently payable on the first day of each fiscal quarter with a grace period of 30 days. In addition the first quarter payment is due on August 1. The first quarter payment will be due in July and the grace periods will be eliminated. Since there is no historical pattern for predicting cash collections under this scheme, it is assumed that monthly collections will be received one month earlier than under the current pattern. Actual experience may differ, particularly in the first year.

**FEDERAL ACTIONS**

Monthly receipt of Federal Revenue Sharing: Federal Revenue sharing is currently paid in the month following the end of each quarter. This line shows the impact of receiving three monthly payments within the quarter in place of the post-quarterly payment. If this action is put into place in June, it will also affect the opening cash balance for the fiscal year.

**STATE ACTIONS**

Delay in Repayment of State Advance: The repayment of the annual State advance currently occurs through the withholding of all aid payments by the State beginning on July 1. Since the City's greatest cash needs occur in the beginning of the fiscal year, this line shows the cash effect of postponing the withholding for two months.
State Welfare Advances at 100% instead of 80%: The State currently advances 9% of its share of localities' welfare costs quarterly, and affects a settlement after the close of the quarter. This line shows the effect of switching to a 100% advance, parallelizing the Federal policy of advancing 100% of the Federal portion. This change affects the timing of availability of State aid for withholding to repay the State advance.

State Concurrent Funding: Under the present system, reimbursable expenses incurred by the City University, the Department of Health and the Department of Mental Health are claimed by the City after the end of the fiscal quarter. This section shows the cash impact of receiving advances from the state, thus eliminating the City's pre-financing of these items. Advances for CUNY and Health programs are assumed to be on a monthly basis. For Mental Health, State advances are shown at the beginning of the quarter. The legislation required to offset the Mental Health shift is currently in place, but implementation has been delayed twice. These changes affect the timing of availability of State aid for withholding to repay the State advance.

NET FLOW AFTER CASH FLOW PROGRAM

This line shows the net monthly flow for 1979 if the action programs had been put in place prior to July 1.

CASH BALANCE - ENDING

After the beginning cash balance each month has been taken into account, seasonal borrowing needs are projected to peak in February at $285 million.
SECTION VII

FINANCIAL CONTROLS AND MONITORING

INTRODUCTION

This section presents ten points which summarize the program of fiscal control the City is prepared to undertake in connection with the financing arrangements proposed in the Four-Year Financial Plan.
DEBT SERVICE FUND

Three debt service funds will be established: TAN and RAN Debt Service Funds for the retirement of Bonds and TANs and a General Debt Service Fund for Payment of budgeted debt service (exclusive of MAC), including but not limited to bonds and bond interest, interest on Bonds and principal and interest on publicly held bond notes. All real estate taxes paid to the City will be remitted to an independent trustee for the funds who will deposit required amounts in the three funds and remit the remainder to the City. All debt service payments will be invested in cash or short term United States Government securities.

General Debt Service Fund: The General Debt Service Fund will be required to have a Balance at the beginning of any month of an amount equal to budgeted debt service for the month. The trustee will deposit a percentage of tax collections into the General Debt Service Fund, calculated as follows:

Budgeted debt service for the year less City cash deposits to date, estimated real estate tax cash collections from current year's levy

This percentage will be recalculated each time the City makes a cash deposit in the fund. In addition, at the beginning of any month, the City will make a cash deposit in the fund, if necessary, sufficient to bring the balance of the fund to the required level. Under current debt service and real estate tax cash flow patterns, the City would have to make cash deposits only in the first two months of the fiscal year. Any cash remaining in the fund at the end of the year will be considered a cash deposit at the beginning of the next year.

TAN Debt Service Fund: The TAN Debt Service Fund will require the deposit of all real estate tax collections (after General Debt Service Fund deposits) when principal and interest of TANs outstanding equal 90% of available tax revenue (estimated future real estate tax collections from current year's levy less required future deposits in General Debt Service Fund).

RAN Debt Service Fund: The RAN Debt Service Fund will require deposit of revenues against which the RANs have been issued when the principal and interest on RANs outstanding is equal to 90% of the remaining amount of revenues expected to be received prior to the due date of the notes. For RANs issued against State revenues, deposits to the fund will be made directly by the State, pursuant to Section 25 (j) of the Local Finance Law for federal revenues and City taxes other than the real estate tax, a similar arrangement will be established by legislation to the extent possible.

BALANCED BUDGET

The expense budget as submitted by the Mayor and as finally adopted will be balanced in accordance with accounting principles.
defined by state law. For the most part, these accounting principles will be generally accepted accounting principles, with the funding of capitalised expenses items from bond proceeds and the principle of budgeting for pension costs on a cash basis.

Capitalized expenses will be limited as follows: $450 million in fiscal 1979, $300 million in fiscal 1980, and $150 million in 1981. In fiscal 1982 and thereafter, no expense items will be financed by long term debt of the City or MAC.

Deficits incurred in any fiscal year will be funded by a budget appropriation in the next fiscal year (such an appropriation would be used to retire any short term notes issued to finance the deficit).

BUDGETARY CONTROLS

The City will implement and maintain control systems and procedures of sufficient quality to provide the City with the information required to ensure the expenditures do not exceed appropriations. The City will be required to monitor and report monthly on actual and projected revenues and expenditures. These control requirements will be met by the Integrated Financial Management System now being implemented by the City.

LIMITATIONS ON SHORT-TERM DEBT

Tax Anticipation Notes: Tax anticipation notes will be issued only against taxes levied in the current fiscal year. Authority to issue TANs will be limited to 95% of available tax levy within the year. Available tax levy is defined as total tax levy for the year, less reserve for uncollected taxes, less tax collection during the year, less debt service to be paid during the year. TANs will be repaid by payment to the TAN debt service fund of all tax collections (after general debt service fund deposits) when TANs outstanding equal 90% of available tax levy. TANs must mature by June 30 although under certain circumstances may be renewed.

Revenue Anticipation Notes: Revenue anticipation notes issued during a fiscal year will be limited to (90)% of estimated revenues attributable to the current year's budget and the State advance. Revenues against which RANs are issued must be specified as to amount, program, estimated date of receipt, and donor government. Notes would be issued against state aid receivables in accordance with Section 25(j) of the Local Finance Law. Notes issued against Federal aid or City taxes would be similarly issued under an expanded version of 25(j).

RANs must mature by June 30 although under certain circumstances may be renewed.

Bond Anticipation Notes: Bond anticipation notes may be issued to finance specified objects or purposes and must be redeemed out of the proceeds of the first bond sale following the issuance of the BANs. The amount of BANs outstanding will be limited to the lesser of 25% of bonds issued in the public market in the previous 12 months or 3% of general fund revenues.

VII - 3
Budget Notes: Budget notes may be issued to finance unforeseen expenditure increases and shortfalls of revenue. Budget notes may be issued to the reserve fund to the extent assets of the reserve fund are sufficient to purchase such notes. If necessary, budget notes may be issued to the public. Budget notes must mature no later than June 30 following the fiscal year in which they were issued, and appropriation for their redemption must be provided in the budget for that year.

Redemption of VARs and EANS Repossessed: VARs and EANS which are renewed must mature no later than the fiscal year following the year in which they were issued and originally scheduled to mature. Funds for their redemption must be provided by appropriation in the budget for that year.

GENERAL RESERVE

The City will continue to appropriate each year a General Reserve to accommodate unanticipated shortfalls of revenue and unforeseen expenditure increases during the year.

LIQUIDATION OF STATE ADVANCE

The City will liquidate the annual $800 million State advance. This will be financed by proceeds of bonds and audited expense budget surpluses, if any, until the entire advance is liquidated. It should be noted that the liquidation of the advance would not increase the City's cash position at the end of the fiscal year.

REPORTING

The City will publish monthly, quarterly and annual reports. The annual report will include both a report on the economic condition of the City and financial statements prepared in conformity with defined accounting principles. Monthly and quarterly reports will be based on data generated by the new integrated financial management system and will include analysis of variance between actual and expected revenues, expenses and cash.

FINANCIAL PLAN

The City will prepare a financial plan for the four fiscal years beginning with the budget year, which will reflect for each fiscal year:

1. Projected statements of revenues and expenditures by major categories;

2. Projected cash flow plans which set forth by major category cash receipts and disbursements (including capital transactions) and which indicate projected long term and short term borrowings.

In the event projected expenses exceed projected revenues in any fiscal year, the financial plan will indicate one or more alternative actions which the City would propose to eliminate such projected budget gap, such as reducing expenditures, increasing local revenues.
changing state or federal laws to reduce mandated expenditures.

The financial plan may be modified from time to time and in any event will be modified at the time the Executive Budget is presented and after the second quarter report has been issued. In addition, the oversight body would be permitted to request a modification at any time to reflect actions or events which would have significant impact ($100 million or more) on any year of the financial plan.

INDEPENDENT AUDIT

The City will have its financial statements audited by nationally recognized independent public accountants retained and selected by the City. The audit may be performed by a single firm or by a consortium of firms, but there shall be a single report covering the financial statements of the City. The City is willing to take whatever steps are necessary in order that an opinion can be rendered.

The independent auditors will also review but not audit the City's quarterly reports and will report annually on compliance with debt requirements and on the adequacy of the City's internal controls. Such reports will be included in the City's annual report.

FISCAL MONITOR

The fiscal monitor would review the City's compliance with the requirements set forth above on a regularly scheduled basis, and would employ a professional staff capable of performing the required review functions. This staff would have complete access to the City's books and records.

The fiscal monitor would perform the following specific functions:

- Review of the executive budget submitted by the Mayor to determine whether it is balanced and contains reasonable estimates of revenues and expenses (including costs of contracts);
- Review of the budget adopted by the Board of Estimate and City Council to determine whether it is balanced and contains reasonable estimates of revenues and expenses (including costs of contracts);
- Quarterly review of budget condition to determine that the budget is balanced and contains reasonable estimates of revenues and expenses (including costs of contracts);
- Review of all City borrowings to determine whether they are consistent with the budget and financial plan;
- Determination that reporting and audit requirements are being fulfilled;

VII - 5
- Determination that a financial plan for the three years subsequent to the budget year has been submitted and modified as required;

- Determination that limitations on short term debt are complied with;

- Determination that Debt Service Funds are properly provided and used; and

- Determination that the required internal controls are in place.
APPENDIX II

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

FINANCE SUBCOMMITTEE WORKING PAPER - FORLM DOCUMENT

Subcommittee on Finance
Citizens Advisory Committee to the MTA Management Study

Finance Subcommittee:
Harold Handler, Esq., Chairman
Edith Fisher
Harold V. Gleason
Frederick O'Neill Hayes
Henry Livingston
Dr. Louis J. Pignataro
Dr. Herbert J. Ranschburg
S. J. Schulman

January 31, 1978

This paper has been prepared by the Finance Subcommittee for presentation to the Citizens Advisory Committee to the MTA Management Study pursuant to the resolution adopted by the Citizens Advisory Committee (CAC) at its meeting on July 12, 1977. It is intended for public distribution in order to facilitate and promote public comment and discussion on various proposals which have been made to the CAC and the Finance Subcommittee regarding financing of the MTA.

The MTA Management Study is being conducted by the New York State Department of Transportation in cooperation with the Metropolitan Transportation Authority and the City of New York.

Papers prepared by the Citizens Advisory Committee to the MTA Management Study do not necessarily reflect the views of the New York State Department of Transportation, the Metropolitan Transportation Authority, or the City of New York.
In considering the financial problems facing the MTA in providing
service to the metropolitan region, the Subcommittee on Finance
first turned its attention to the immediate need for providing a
stable source of funds for financing the operations of the system.

The equally important tasks of reviewing the operating expense
and capital expense budgets have been deferred until a later
stage of the study.

With substantial help from the MTA Management Study staff, the
Finance Subcommittee has reviewed the present methods for
financing the operating deficits and has made the basic assumption
that, on any reasonable projection, these deficits will increase
significantly (see Appendix A). Briefly, the operating loss has
increased from approximately $100,000,000 in fiscal 1968 to
approximately $247,000,000 in 1977. Moreover, conservative
estimates, even assuming no substantial increase in labor costs,

---

*The operating expense analysis will depend, to a considerable
degree, on the study now being undertaken by Booz, Allen & Hamilton.
Consequently, it is simply not possible to make judgments con-
cerning this important subject at this time. While significant
progress has been made, it is likely that more can still be done.
But, despite reports and conclusions of other groups, we believe
that operating efficiencies, such as reduction in redundant
services, productivity, split shifts, etc. while important are
not the complete answer to the MTA financing dilemma.

**Obviously the capital expense budget must be reviewed if for no
other reason than to analyze the amount of normal maintenance
costs which are still being financed from the capital budget.
Other topics would include the review of significant new capital
projects. However, we do not believe that the financing of
operations can be solved by diverting funds otherwise designated
for capital projects.
indicate that this loss will increase to $842,000,000 by 1980.* This is confirmed by the recent report of the Department of City Planning, Transit Operating Deficits, 1978-1982.

This paper, based on detailed studies (see Appendix A), examines briefly the alternatives available for financing this deficit and attempts to address the issue now facing the people of the region served by the MTA, i.e., can mass transit be adequately financed without increasing the fare or local subsidies? We recognize that there are many views concerning this problem. We want and need the public's views. This brief document is intended to stimulate public discussion by setting forth certain alternatives.

There are four sources from which the necessary funds can be obtained:

I. Revenue increases (by increasing ridership or raising fares, tolls, and other charges).

II. Expense decreases (by decreasing labor costs and other operating expenses or by rationalizing service to conform to ridership).

III. Subsidy increases (federal, state, or local).

IV. New sources of funds (earmarked taxes, tolls, or fees).

I. Revenue increases - The major source of revenue is fares and tolls. A 10% increase in these would yield about $105,570,000 assuming no loss in patronage. Every fare increase has reduced ridership and lowers the anticipated increases in revenue. Although estimates vary as to how many riders would be lost, under the most generally used rule of thumb a 30% fare and toll increase would be required to offset the $178 million unfunded deficit forecast for 1980 (see Appendix A, pp. 2-3).**

*Current subsidies (federal, state, and local) should cover these operating losses through calendar 1978. However, by 1980, the gap between operating loss and existing subsidies will be approximately $178,000,000.

**The City Planning Commission report, in fact, estimates that fares would have to rise to $.90 by 1982, or that the City operating subsidies increase by $380 million, to cover the increasing deficits.
In addition to fares and tolls, MTA affiliates have other income, such as airport fees, advertising, freight charges, rents, leases, and interest earnings. In 1975-76 these yielded $79.5 million, or about 8% of revenues. In 1977-78 these income sources are expected to increase by $0.2 million.

II. Expense Decrease - The major item of expense (about $66 billion systemwide) is labor costs, which are estimated to be $1,213,500,000 in 1978 (an average of about $24,000 per employee). The MTA deficit estimate included in this paper probably understates labor costs for future years since it assumes that the BM will settle for just a cost of living wage increase. Under the HECP productivity program, the BM estimated its productivity savings at almost $31,000,000. With a renewed fiscal crisis looming and new layoffs being proposed (New York Sunday News, December 11, 1977, page 3) it appears essential that productivity be further improved. However, it is unlikely that the entire deficit could be financed through reducing the work force since a cut in employees of the size required would drastically affect service.

Services could be rationalized. That is, service could be delivered only by the most effective possible means, eliminating duplicative routes, excess capital investment, and excess manpower. Service cuts in 1976 and 1977 were projected to have saved about $40 million annually. BM has taken steps to explore service rationalization in the Bronx, Staten Island, Brooklyn, and NSHA, and the NTA Management Study has also focused on this issue. Once again there appears to be little possibility of financing the deficit solely from service rationalization.

III. Subsidy Increase - The federal government is expected to contribute about $100 million annually in 1977 and 1978 in so-called Section 5 funds. A significant addition to these funds has been the Eenie Menee funds. The Eenie Menee is not anticipated to continue beyond 1978. There are numerous proposals to increase federal aid but none again.

*The City Planning Commission report estimates that a service cut to 53.1% of current levels would be necessary by 1972 to avoid the increased deficit.
none of them of a magnitude sufficient to eliminate the deficits we are discussing here. State operating assistance has remained at slightly more than $91 million since 1975. Local subsidies are not expected to increase and, depending on the fiscal condition of New York City, may have to be significantly decreased.

IV. **New Sources of Funds** - The Subcommittee studied a series of alternatives.* As an initial matter, the Subcommittee reviewed 15 types of property taxes, sales taxes, automobile nuisance taxes, and supplemental percentage of income taxes (see Appendix A, p. 13) and found most to be either (1) totally unrelated to the use of public transportation, (2) antithetical to the economic well-being of the region, or (3) inequitable. The following proposals are believed to merit full public consideration and discussion.

A. **Reduction of Fares and Transit Surcharge**

A general fare reduction could be coupled with a graduated transit surcharge. The surcharge would ensure a stable revenue source capable of increasing as earnings and inflation increase. If the surcharge accompanied a general fare reduction, the out of pocket cost to the transit user would be minimized, and perhaps eliminated. This out of pocket cost of the surcharge for transit users would also be further reduced by the eligibility of the surcharge as a deduction for federal income tax purposes. The general fare reduction could stimulate ridership and increase fare revenues.

The fare on the City buses and subways, and the commuter lines under the auspices of the MTA, could be reduced as follows:

*The Subcommittee also considered differential pricing for MTA services. It would appear that altering the technology of 3,359 turnstiles in the subway would represent a significant drawback to this proposal. Furthermore, increasing revenues for the system would appear to require an increase in fares during peak hours. (See *Financing Mass Transit in New York City*, Temporary Commission on City Finance, March, 1976.) As a consequence, differential pricing does not appear to be attainable in the near future.*
1. The fare for a bus or subway ride should be reduced to 25 cents. The senior fare 50% discount would continue; the half-fare program on Saturday nights and Sunday would be discontinued, and express bus fares would not be reduced.

2. There would be a 20% reduction in the weekly and monthly commuter fares to and from New York City destinations.

During the fiscal year of 1977, fares are projected to cover approximately 50% of the operating expense budget of the MTA. A reduction in fares will reduce revenues. But there will unquestionably be an increase in ridership. It cannot be expected that this increase will completely offset the loss of revenues as a result of cutting the fare, but the offset may be significant. The 50% reduction in fares is as large as that experienced in Cleveland ($3.30 fare reduced to $1.50) and nearly as large as Atlanta ($1.40 fare reduced to $0.70). The expansion of ridership in Cleveland (where a rapid transit line exists) was 25% in the first year, and 13.4% in Atlanta (where only bus service exists).

We recognize that these situations may not be truly analogous. Therefore, we have analyzed a series of alternatives to demonstrate the potential for increased ridership. Exhibit I analyzes loss of fare revenues on various assumptions for increased ridership. The estimates range from $353,000,000 (assuming only a 2% increase in CTA ridership during non-rush hours) to $297,000,000 (assuming a 16 2/3% increase in CTA lines and a 5% increase on commuter lines).

A worker in the City of New York who uses public transportation to and from his home each day now has a minimum commuting cost of $1.60 per day or $230 per year. A

---

*The basic assumption has been to discount any significant increase in ridership, particularly during rush hours. The marginal cost per rider of increased ridership during the 20 or so non-peak hours is probably quite small, though undoubtedly increased ridership will increase the total operating costs somewhat.*
25 cent fare would produce an immediate saving of 50 cents per day or $125 a year. To replace the $125 loss in transit revenue, a basic tax of $125 could be levied on all taxpayers with earnings in excess of $5,000 a year, and taxable income exceeding $500, who are now subject to the New York City income or earnings tax.\* 

Since the New York City income tax is levied on all residents, as well as all non-residents who have earnings from sources within New York City, the tax would be imposed only on those who use, or could use, the system. A non-resident of the City who does not earn his living within the City would not be subject to the tax.

The assessment could be graduated up to a maximum tax of $250 per taxpayer.** This will take advantage of the federal income tax system by substituting a limited form of income tax, which is deductible in calculating federal income tax liability,*** for the

\*Various computations can be made depending on the entry level, which can be higher than $5,000 in order to help those least able to pay.

**As one example, the income of a single taxpayer whose federal taxable income exceeds $32,000 is subject to the 50% federal tax bracket. His transit surcharge would be $250. If his federal taxable income were between $20,000 and $22,000, it would be subject to the 38% federal tax bracket and his graduated transit surcharge would be $202. The graduated rates will apply to any taxpayer whose gross income exceeds $16,000 per year, the income bracket in 1976 at which more than two-thirds of all New York taxpayers itemized their deductions.

***This approach is, of course, conditioned upon the continued deductibility of this local tax for federal income tax purposes. If, as a result of federal tax amendments, the number of New York State taxpayers who itemize deductions decreases, the income level at which the graduation in rates commenced could be shifted upwards to assure that at least two-thirds of all taxpayers paying the graduated surcharge (as opposed to $125) would gain the benefit of the itemized deduction.
non-deductible user charge (the present fare). The saving attributable to the federal tax deduction combined with the fare reduction should more than offset the amount of transit surcharge payable by most taxpayers. The cost of administering such a surcharge would be slight, and the complexity of calculation and collection minor.

This surcharge would be a readily definable source of funds linked to levels of income within the region. If the local economy improves, and if inflation continues, the amount of revenues should also increase. The combined surcharge and reduction of the fare would be mandated by statute, with the intention that net revenues could be utilized to reduce the local subsidies for financing operating deficits.

The revenue from this limited form of tax would be at least $491,000,000 (Exhibit II). As previously indicated, the loss of fare revenues may vary from a conservative estimate of approximately $255,000,000 to $297,000,000 if a more aggressive estimate of increased ridership is chosen (Exhibit I). The system would therefore have available added deficit coverage ranging from $136,000,000 to $194,000,000 in added revenues.

E. Specific Taxes on Private Vehicles

1. Ad Valorem Property Taxes - New York State, unlike Massachusetts, Connecticut, and at least a dozen other states, imposes an auto registration fee but not an ad valorem property tax on automobiles. An auto registration fee is not deductible from income in calculating taxable income for federal income tax purposes.

This shift from a user charge to a tax utilizes the federal income tax system to indirectly produce federal funds for public transportation. It is estimated that these funds, which offset the tax levied on area residents, could exceed $100,000,000.

Appendix B analyzes three typical situations and demonstrates that the cost of such a program for individual taxpayers who are users of the system should not exceed and may well be less than current contemporaneous costs.
purposes while an ad valorem tax is deductible, thereby allowing such tax to reduce the federal income tax liability of taxpayers who itemize deductions. An ad valorem property tax could be adopted in substitution for the present auto registration fee and may be perceived, in part, as a mere shift of costs rather than an imposition of a new fee.

There are 3.88 million private automobiles in the MTA District. On a basis similar to the tax imposed by Massachusetts, this tax would provide $261 million in revenues. If the state and City were reimbursed for the auto registration fees which they failed to collect, the balance, $130,000,000, could be used to support the transportation system.

2. **Revision of the State Gasoline Tax** - As a practical matter, what would appear to be a most sensible system for financing public transportation would be an increase in the state gasoline tax with the increased revenues being used to support the transportation system. At the moment New York State charges a lower gasoline tax than neighboring states. Moreover, there would appear to be some correlation between forcing the price of gasoline up through taxation and increasing the use of public transportation. Such an effect is directly related to the President’s energy program.

However, as a result of difficulties encountered by similar proposals, the Subcommittee has concluded that the likelihood of a substantial increase in the gasoline tax is remote. However, the Subcommittee does recommend discussion of changing the method for levying the tax. At present, the state tax levied is at a flat rate of 8 cents per gallon.

---

*On January 21, 1978, the President proposed the repeal of all personal property tax deductions. Notwithstanding this proposal, the ad valorem tax should be considered, perhaps at lower rates if the repeal occurs.*
This is imposed regardless of the wholesale price and will not vary as a result of inflation or increases in energy costs. Consequently, under the present system, if increased oil costs reduce consumption, tax revenues will decline even though dollar sales increase.

The tax could be changed to a percentage of the wholesale price. For example, if a 12 1/2% tax on an assumed wholesale price of 40 cents per gallon were imposed, yield to the MFA region would be $150,000,000.* Moreover, if the price were to increase as a result of the change in oil costs, the yield from the 12 1/2% tax would similarly increase.

C. Telling East and Harlem River Bridges - Without attempting to reiterate all of the political, economic, and environmental arguments that have been aired in the last several months, we suggest that the most important single issue which remains is that such tolls would provide an additional source of funds for public transportation and that imposition of tolls may have a positive effect on ridership in the system. It has been estimated that revenues would amount to over $140,000,000. At a time when the system is strapped for funds, it would seem inappropriate to turn our backs on this source of funds without complete discussion.

---

*A 3% tax on the $0.40 wholesale price (amounting to $.13 per gallon) would be necessary to yield $150,000,000 after reimbursements to the state and local governments of the revenues they now receive from the gasoline tax.

**We recognize that this issue has been complicated by provisions in the Clean Air Act, P.L. 95-95, which permits the governor of a state involving an implementation plan requiring a toll for the use of a bridge located entirely in one city to revise the implementation plan upon his certification that comprehensive measures have been adopted to expand or improve public transportation. Public discussion of this issue should be italicized in permitting the governor to develop a feasible implementation plan which necessarily would include the financing of mass transportation.
D. **Other Alternatives** - The use of any one of these revenue alternatives need not be considered as mutually exclusive. A combination of operating expense reductions, increased productivity, and increased state and federal subsidies might result in a lower operating deficit, thereby necessitating a much lower tax schedule even to the point of significantly reducing the tax on lower-income taxpayers.

E. **Utilization of Additional Revenues** - These new funds should be employed to rationalize the method of financing operating deficits. The portion of the operating deficit financed by the federal and state governments (see Appendix A, pp. 10-11) should be continued and, if possible, increased. But the region's local governments should be relieved of as much of these subsidies as possible. Attached as Exhibit III is a schedule of local subsidies for the years 1976 through 1977. The amount that can be eliminated from the budgets of the various governments in the region will obviously depend upon the amounts of revenues collected. At the very minimum, the transit surcharge will produce approximately $135,000,000. If, in addition to the surcharge, any one of the other three measures discussed is adopted, revenues will exceed $260,000,000. If all of the alternatives are adopted, revenues will exceed $557,000,000.2

As an initial matter, an attempt should be made to raise sufficient revenues to permit each of the local governments to eliminate from their budgets their subsidies for transit police, operating assistance, station maintenance, City payments for SIRCOA, and transfers equal to the proceeds of the mortgage tax. As shown in Exhibit III, this will require approximately $238,000,000 in supplementary revenues for 1977.

---

2The total is arrived at by adding the following:

1. Transit surcharge in excess of fare reductions $136,000,000 to $194,000,000
2. Tolls on bridges $141,000,000
3. Ad valorem tax $130,000,000
4. Gasoline tax revision $150,000,000
Conclusion

The amount by which MTA expenses will exceed revenues from all sources including government aid is expected to be extremely large in 1980. It may be possible through the MTA Study and other efforts to discover and implement productivity increases, service rationalizations, and fare policies that coupled with an effort to maximize revenue from such sources as concessions and leasing could offset a significant portion of cost over-runs. Of course, these changes and improvements will not remove the need for government subsidy. Many believe that even if the over-run did not occur it would be necessary to turn to new sources of revenue discussed in this paper to place mass transit financing on a solid basis, and remove from hard-pressed local governments the obligation to finance mass transportation from general tax revenues.
EXHIBIT I
ESTIMATED EFFECTS OF FARE REDUCTIONS AND RIDE SHIP INCREASES

A. Revenue Loss From Fare Reductions

<table>
<thead>
<tr>
<th>Service</th>
<th>1976-77 Base</th>
<th>Fare Reduction</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. TA - Rapid Transit</td>
<td>$443,001,000</td>
<td>50%</td>
<td>$221,500,000</td>
</tr>
<tr>
<td>2. TA-MEASTA - Surface</td>
<td>210,668,000</td>
<td>50%</td>
<td>105,334,000</td>
</tr>
<tr>
<td>3. SINTA</td>
<td>2,083,000</td>
<td>50%</td>
<td>1,042,000</td>
</tr>
<tr>
<td>4. LIRR</td>
<td>109,647,000</td>
<td>20%</td>
<td>21,932,000</td>
</tr>
<tr>
<td>5. ConRail</td>
<td>69,121,000</td>
<td>20%</td>
<td>13,824,000</td>
</tr>
</tbody>
</table>

$363,630,000

B. Revenue Gain From Ridership Increases Resulting From Reduction in Fares

<table>
<thead>
<tr>
<th>Forecasts of Ridership Increase</th>
<th>Non-rush Hour Revenue Gain</th>
<th>Rush Hour Revenue Gain</th>
<th>Total Revenue Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. City System 5%</td>
<td>$ 8,269,000</td>
<td>$ 9,551,000</td>
<td>$17,820,000</td>
</tr>
<tr>
<td>Suburban System 0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. City System 10%</td>
<td>16,539,000</td>
<td>19,101,000</td>
<td>35,640,000</td>
</tr>
<tr>
<td>Suburban System 0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. City System 16 2/3%</td>
<td>30,017,000</td>
<td>36,550,000</td>
<td>66,567,000</td>
</tr>
<tr>
<td>Suburban System 3%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Exhibit 11

**Estimates of the Number of City Income Tax and City Earnings Taxpayers**

**And Estimate of Yields from the Graduate Transit Surcharge: 1976 Income Year**

<table>
<thead>
<tr>
<th></th>
<th>New York City Residents</th>
<th>Non-City Residents</th>
<th>Total</th>
<th>New York City Residents</th>
<th>Non-City Residents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4,999</td>
<td>211,000</td>
<td>31,000</td>
<td>242,000</td>
<td>211,000</td>
<td>31,000</td>
<td>242,000</td>
</tr>
<tr>
<td>%</td>
<td>6.5</td>
<td>0.9</td>
<td>7.4</td>
<td>6.5</td>
<td>0.9</td>
<td>7.4</td>
</tr>
<tr>
<td>5,000-9,999</td>
<td>857,000</td>
<td>32,000</td>
<td>889,000</td>
<td>857,000</td>
<td>32,000</td>
<td>889,000</td>
</tr>
<tr>
<td>%</td>
<td>25.1</td>
<td>2.3</td>
<td>27.4</td>
<td>25.1</td>
<td>2.3</td>
<td>27.4</td>
</tr>
<tr>
<td>10,000-14,999</td>
<td>651,000</td>
<td>97,000</td>
<td>748,000</td>
<td>651,000</td>
<td>97,000</td>
<td>748,000</td>
</tr>
<tr>
<td>%</td>
<td>19.9</td>
<td>2.8</td>
<td>22.7</td>
<td>19.9</td>
<td>2.8</td>
<td>22.7</td>
</tr>
<tr>
<td>15,000-19,999</td>
<td>423,000</td>
<td>107,000</td>
<td>530,000</td>
<td>423,000</td>
<td>107,000</td>
<td>530,000</td>
</tr>
<tr>
<td>%</td>
<td>12.9</td>
<td>3.2</td>
<td>16.1</td>
<td>12.9</td>
<td>3.2</td>
<td>16.1</td>
</tr>
<tr>
<td>20,000-24,999</td>
<td>447,000</td>
<td>102,000</td>
<td>549,000</td>
<td>447,000</td>
<td>102,000</td>
<td>549,000</td>
</tr>
<tr>
<td>%</td>
<td>13.5</td>
<td>3.1</td>
<td>16.6</td>
<td>13.5</td>
<td>3.1</td>
<td>16.6</td>
</tr>
<tr>
<td>25,000-49,999</td>
<td>200,000</td>
<td>137,000</td>
<td>337,000</td>
<td>200,000</td>
<td>137,000</td>
<td>337,000</td>
</tr>
<tr>
<td>%</td>
<td>6.0</td>
<td>4.8</td>
<td>10.8</td>
<td>6.0</td>
<td>4.8</td>
<td>10.8</td>
</tr>
<tr>
<td>50,000-99,999</td>
<td>37,000</td>
<td>31,000</td>
<td>68,000</td>
<td>37,000</td>
<td>31,000</td>
<td>68,000</td>
</tr>
<tr>
<td>%</td>
<td>1.1</td>
<td>1.9</td>
<td>3.0</td>
<td>1.1</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>100,000 and over</td>
<td>1,605,000</td>
<td>9,000</td>
<td>1,614,000</td>
<td>1,605,000</td>
<td>9,000</td>
<td>1,614,000</td>
</tr>
<tr>
<td>%</td>
<td>41.2</td>
<td>18.6</td>
<td>59.8</td>
<td>41.2</td>
<td>18.6</td>
<td>59.8</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>2,656,000</td>
<td>54,000</td>
<td>2,710,000</td>
<td>2,656,000</td>
<td>54,000</td>
<td>2,710,000</td>
</tr>
<tr>
<td>%</td>
<td>81.2</td>
<td>18.8</td>
<td>100.0</td>
<td>81.2</td>
<td>18.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Data derived from unpublished tabulations, Bureau of Tax Research & Statistics, New York State Department of Taxation and Finance.*
<table>
<thead>
<tr>
<th>Local Subsidies</th>
<th>1974</th>
<th>1975</th>
<th>1976</th>
<th>(1977 est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit Police Reimbursement</td>
<td>$91,122,196</td>
<td>$88,740,227</td>
<td>$95,500,000</td>
<td>$96,000,000</td>
</tr>
<tr>
<td>Operating Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Transit Authority System</td>
<td>125,000,000</td>
<td>70,000,000</td>
<td>70,000,000</td>
<td>70,000,000</td>
</tr>
<tr>
<td>b) LIRR and ConRail</td>
<td>8,781,100</td>
<td>22,913,000</td>
<td>22,985,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Station Maintenance</td>
<td>13,091,046</td>
<td>9,828,829</td>
<td>25,773,235</td>
<td>34,447,000</td>
</tr>
<tr>
<td>Mortgage Tax</td>
<td>10,858,855</td>
<td>7,352,563</td>
<td>8,214,587</td>
<td>3,100,000</td>
</tr>
<tr>
<td>New York City Payment for SIRCOA</td>
<td>3,986,564</td>
<td>3,901,391</td>
<td>3,116,842</td>
<td>4,200,000</td>
</tr>
<tr>
<td><strong>Sub-total Subsidies</strong></td>
<td><strong>$253,327,261</strong></td>
<td><strong>$202,927,110</strong></td>
<td><strong>$225,589,684</strong></td>
<td><strong>$233,747,000</strong></td>
</tr>
<tr>
<td>Other Local Aid **</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursement to TA and Metra</td>
<td>$90,902,105</td>
<td>$75,200,947</td>
<td>$93,900,000</td>
<td>$68,600,000</td>
</tr>
<tr>
<td>for reduced fares for school children</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and elderly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond and note redemption and</td>
<td>152,622,908</td>
<td>165,337,369</td>
<td>157,095,333</td>
<td>175,800,000</td>
</tr>
<tr>
<td>interest budgeted by NYC for transit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nassau County payment to NSM</td>
<td>6,492,313</td>
<td>5,786,292</td>
<td>5,388,048</td>
<td>7,100,000</td>
</tr>
<tr>
<td><strong>Sub-total Other Aid</strong></td>
<td><strong>$250,027,328</strong></td>
<td><strong>$246,616,608</strong></td>
<td><strong>$236,383,381</strong></td>
<td><strong>$221,500,000</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$503,354,589</strong></td>
<td><strong>$449,543,718</strong></td>
<td><strong>$461,972,065</strong></td>
<td><strong>$455,247,000</strong></td>
</tr>
</tbody>
</table>

*Data are for the fiscal years of the affiliates which end in the year indicated.

**Debt Payments by TA shown in the October 11, 1977 submission by MTA are not included in Other Aid since for 1977 and beyond they largely reflect revenue anticipation notes and other short term debt payments which are offset by the proceeds from the notes.
ALTERNATIVES FOR FINANCING THE MTA DEFICIT

Donald J. Rahe, Ph.D.
Sylvia Adams
Andrew Clark

MTA Management Study Group

January 9, 1978
1. The MTA Deficit

MTA now operates at a loss, and even after subsidies the deficit is expected to increase. Alternatives for reducing or financing the deficit are limited to combinations of:

a. Revenue increases (by increasing ridership or raising fares, tolls, and other charges).

b. Expense decreases (by decreasing labor costs and other operating expenses or by rationalizing service to conform to ridership).

c. Subsidy increases (federal, state, or local).

d. New sources of funds (earmarked taxes, tolls, or fees).

According to the most recent information available, MTA's 1976-1980 financial condition (in millions of dollars) is as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1111.7</td>
<td>$1143.2</td>
<td>$1119.6</td>
<td>$1115.3</td>
<td>$1110.2</td>
</tr>
<tr>
<td>Expenses*</td>
<td>1778.6</td>
<td>1786.1</td>
<td>1804.1</td>
<td>1809.2</td>
<td>1952.2</td>
</tr>
<tr>
<td>Operating Loss</td>
<td>$666.9</td>
<td>$642.9</td>
<td>$684.3</td>
<td>$753.9</td>
<td>$842.0</td>
</tr>
<tr>
<td>Subsidies</td>
<td>$697.2</td>
<td>$657.7</td>
<td>$682.0</td>
<td>$653.1</td>
<td>$664.0</td>
</tr>
<tr>
<td>Deficit (Surplus)</td>
<td>(1.3)</td>
<td>(14.8)</td>
<td>2.5</td>
<td>100.8</td>
<td>178.0</td>
</tr>
</tbody>
</table>

*Includes cash balance adjustments

Revenues (fares and other income) are forecast to decrease by $1.5 million (about 0.13%) by 1980. This forecast is based on the following assumptions: (a) a 1.6% yearly decrease in

---

MTA, Report to MTA Division of the Budget, in accordance with Transportation Law Section 17-A, October 1977. (The data shown in the table are consolidated, using local fiscal years. 1976 data are adjusted post-audit numbers; 1977-1980 data are estimates.)
ridership for STRTA, LIRR, Conrail, and NSBA. (c) a slight
decrease in non-fare-box receipts, and (d) no fare increases.  
(Last year's report to the Division of the Budget assumed a
1% rather than 2% ridership decrease for TA and MTA.)
Current reports indicate that much of the recent decrease in
ridership is due to "school fare" passengers; the number of
"school fares" appears to be a negotiated number (neither a
census nor an estimate) which in turn influences the number
of school passes issued.

Expenses are forecast to increase by $173.6 million by 1980:
a 9.8% increase. This is partly the result of a 6% wage
increase yearly (not of productivity). (Last year's report
assumed a 2% annual wage increase.) Non-wage costs are assumed
to increase 8% yearly.

Subsidies are forecast to decrease by $3.2 million by 1980.
This is the result of several contradictory forces, the
strength of which is the assumed elimination of the 3% federal
subsidy to TA after 1978.

Whether MTA's estimates of rates of change in revenue and
expense items are correct is beside the point. The MTA deficit
will increase as long as expenses increase along with inflation
and revenue and subsidies increase at a lower rate than the
costs of inflation. This is what seems to be in the offing,
and the MTA forecasts are assumed to be based on.

2. Revenue Increases

For 1976-77, passenger fare and toll receipts for TA, MTA,
LIRR, Conrail, STRTA, NSBA, and TIBA were $1,025,700,000.2
A 10% fare increase would yield about $105,570,000 more
assuming no loss in ridership.

\footnote{Ibid, cover letter dated October 24, 1977.}

\footnote{Office of the Special Deputy Comptroller for the City of
New York, Report on New York City Transit Authority Revenues
for FY 1976 as of September 15, 1977, p. 11, and MTA Manage-
ment Study memorandum by Andrew Clark.}

\footnote{MTA, Report to NYS Division of the Budget, in accordance with
Transportation Law Sections 17-A, October 1977. (Data are for
the most recently completed year: 1976 for LIRR, Conrail,
NSBA, and TIBA, and 1977 for TA, MTA, STRTA, and STRTA.)}
But a fare increase without a loss in ridership is highly unlikely. A 10% increase would reduce ridership by 3.3%. If the generally accepted elasticity rule holds true, that is, a fare increase of 10% would result in 53,000,000 fewer passengers and only $61,000,000 more in passenger revenues. Therefore, to cover the $178,000,000 deficit forecast for 1980 would require a fare increase of 30%.

However, it is important to be cautious about the estimate of ridership loss due to fare increases. For example, a recent study by the Special Deputy's Comptroller's Office estimated that for TA and MASSPORTA alone a fare increase of 15% would decrease ridership by 4% and increase passenger revenues by about $74.0 million.

The latest general fare increase for MTA affiliates was on September 1, 1973: a 42.0% (or $0.15) increase for New York City buses and subways and a 25% increase for commuter rail. The ridership loss was quite small on the commuter rail systems (about 1%) and between 4% and 12% for the City buses and subways.

In addition to fares and tolls, MTA affiliates have other income, such as airport fees, advertising, freight charges, rents, leases, and interest earnings. In 1975-76 these yielded $79.5 million, or about 5% of revenues. In 1977-78 these income sources are expected to increase by $9.2 million. There is some indication that the MTA affiliates have not aggressively pursued increases in these sources in the recent past.

---

5 Ibid. For the estimate of passengers.
6 Office of the Special Deputy Comptroller for New York City, A Preliminary Study of Certain Factors Relating to Changing Transit Authority Passenger Levels, November 1977. The study, however, failed to distinguish between peak and off-peak travel. It has been shown that peak travelers have very inelastic travel demands.
7 MTA Management Study, Long-Term Financing of Public Transportation in the MTA District, March 1977, p. 21, and the discussion of the NYSDOT studies of fare elasticities in this report.
8 MTA, Report to NYS Division of the Budget, in accordance with Transportation Law Section 17-A, October 1977.
9 Donald Reeb, Revenue and Expenses of the MTA: A Long Range View, April 1977, p. 28.
3. Output Decisions
   a. Labor Costs and Productivity

   Since we might assume that the work force of an agency should be proportional to the amount of service provided by the agency, we might expect that changes in service levels would change manpower levels. We find this relationship to hold for some MTA rail and bus operations but not others. These others are SIRTOA and LIRR, where service increases are accompanied by manpower reductions, and ConRail, where service reduction is accompanied by manpower increases.

   Measuring service by the number of weekday trains/bus trips or runs and work force by the number of employees on the payroll, we find the following:

   **TABLE 1. CHANGE IN WEEKDAY SERVICE AND WORK FORCE**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekday</td>
<td>Work Force</td>
<td>Weekday</td>
</tr>
<tr>
<td>EA rail &amp; bus (excluding transit police)</td>
<td>-8.4</td>
<td>-5.7</td>
</tr>
<tr>
<td>MAESTA</td>
<td>-4.5</td>
<td>-6.3</td>
</tr>
<tr>
<td>SIRTOA</td>
<td>+ 4.5</td>
<td>+ 3.9</td>
</tr>
<tr>
<td>LIRR</td>
<td>+ 7.8</td>
<td>-4.9</td>
</tr>
<tr>
<td>ConRail (New Haven, Hudson/Harlem, Port Jervis Lines)</td>
<td>- 1.3</td>
<td>+ 8.0</td>
</tr>
<tr>
<td>MTA</td>
<td>- 3.4</td>
<td>- 3.2</td>
</tr>
</tbody>
</table>

   #1974-1976 data (1976 was MTA's first full year of operation)

---

Why the employment practices of agencies differ in response to service changes cannot be explained at this time; this phenomenon will be examined by the MTA Study staff and by the consultant during the Operations Study.

In any case, the 1978 work force of those agencies is expected to be 50,136, and labor costs (wages, retirement benefits, and other employee benefits) are estimated at $1,211,500,000 (an average of about $24,000 per employee). Work force is not estimated by the MTA beyond 1978, but wages are expected to increase by 4% a year between 1978 and 1982. Labor costs for TA and MABSTOA are predicated on the assumption that, when labor agreements expire on March 31, 1978, the unions will settle for just a cost-ofliving wage increase, although this assumption is not at all certain in the face of recent settlements made by federal and state government. LIN labor costs are predicated on a wage increase of $15.5 million over 2 1/2 years, although contracts that expired on June 30, 1976 are still being negotiated and the unions have demanded $50 million over 2 1/2 years. Within the next four months we should have a much better idea of what future MTA labor costs are likely to be.

At the same time, annual ridership projections for 1978-1982 are -1.0% for TA and MABSTOA and -1% for other agencies. Since ridership is an indicator of customer demand, which affects the amount of service required and the number of employees needed to operate the service, these figures imply that future manpower reductions to cut operating costs are in order, at least for TA and MABSTOA, and possibly for other MTA agencies as well.

Because three-quarters of MTA’s rail and bus workers are employed by TA and MABSTOA, it seems wise to study the employment practices of these agencies first. Management and labor policies regarding the hiring and discharging of personnel at TA and MABSTOA may be useful as guides in studying other agencies.

11 MTA, Report to NYS Division of the Budget, in accordance with Transportation Law §17-4, October 1977; Statement of MTA Chairman Harold L. Helper at the Formal Budget Hearing of the New York State Division of the Budget, October 27, 1977.
Thus far, manpower reductions by the TA have been accomplished mainly through attrition, with no
lay-offs of permanent employees other than transit
patrolmen. Attrition does not always occur in cities
where these are excess employees, and, although there
have been some employee transfers from "nonessential"
to "essential" jobs, the TA has had to hire replacements
for a number of positions vacated through attrition. As
a result, manpower reductions have not kept pace with
service decreases. "No lay-offs" appears to be a TA
policy, although the provision has never been formally
included in collective bargaining agreements.12 Probably
a substantial amount of money could be saved by laying
care of excess employees in addition to relying on attrition,
although potential savings cannot be estimated before
"nonessential" jobs are identified, a task that depends
on the outcome of the Operations Study.

The 6% annual wage increase projected by NTA for
1978-1982 is net of productivity savings. Cost savings
through productivity improvements (changes in hiring
practices, changes in work rules, and other measures)
have been estimated by several analysts of NTA operations.
For example, it has been stated that "millions" a year
could be saved by the TA if it (1) hired part-time
employees to work hours now paid as overtime to full-
time employees, (2) eliminated premium overtime rates
paid to an employee who works on his day off after having
taken leave on a scheduled workday during the same week,
(3) stopped the practice of paying employees more than
straight time for vacations, (4) reduced night and weekend
differential pay rates, and (5) eliminated the payment
for a daily 30-minute meal period.13

Another group has estimated that the TA and NABSTUA
could save $12.5 million through various revisions in
contract provisions (including changes in pension funding
and benefits) and in work rules.14

12Office of the Special Deputy Controller for New York
City, Report on Certain Transit Authority Work Rules
13Ibid.
14Temporary Commission on City Finances, Financing Mass
Transit in New York City, Interim Report to the Mayor,
March 1976.
TA and MABSTOA have themselves estimated potential savings through productivity improvements. In 1976 they submitted 72 ongoing and future productivity programs to the Emergency Price Control Board as justification of cost of living adjustment payments to be made to employees represented by the Transport Workers Union and the Amalgamated Transit Union. TA estimated potential annualized savings for programs implemented by January 1, 1977 to be $17,234,576 and for future programs to be $11,711,491 (a total of almost $31 million). Some programs have not been certified by EPCB; among those not certified were 4 programs (worth $8,654,200) that appeared to be reductions in service rather than productivity improvements. Perhaps more important, however, as an indicator of future attempts to improve productivity is the fact that 9 programs worth $2,085,000 (having to do mainly with reducing overtime and assigning excess personnel to jobs where they are needed) had by the time of TA's submission to EPCB been rejected by the unions. This action on the part of the unions leads one to suspect that TA and MABSTOA may be overestimating the cost savings that can be achieved in the future through increased productivity, since nearly all of the programs submitted to EPCB have to be negotiated with unions. What seems quite clear is that, under existing conditions, management's control over productivity is limited.

b. Service Rationalization

Public transportation deficits may be reduced by increasing revenues and decreasing costs through service rationalization, the adjustment of service to conform to ridership needs. MTA affiliates, while indicating that systemwide rationalization of service is necessary, appear to have made service adjustments to date on the basis of short-run budgetary pressures.

Subway service cuts announced in December 1975 were termed necessary as a $12.6 million contribution to a $96 million reduction mandated by EPCB in the 1976 operating budget. The cutbacks were made in three phases: in January, April, and August of 1976.


Service cutbacks in 1977 included running shorter trains during midday and early evening hours, suspending one subway route, and ending bus runs and nighttime subway service. TA announced that 208 bus runs would be cut between April 17 and May 1, whereas MTA announced that 319 runs were cut during the period. These service adjustments were part of a $380 million cut in expenses deemed necessary to achieve the STGP-endorsed zero-balance budget by June 30, 1976. TA has since reinstated some service, made more cuts in September 1977, and will make more cuts in January 1978.

TA has stated that changes in service are made only after analyzing their probable impact on expenses and revenues for each route and after analyzing line-by-line and station-by-station passenger counts. No one known to the MTA Management Study staff has evaluated the actual contribution of service cutbacks to cost savings.

The 1976-77 decline in ridership has been attributed by TA to the City's declining economy and not to cutbacks in service. This view has been recently supported by the Regional Plan Association.

MTA has begun a series of studies to rationalize service. A 1975 study of the Bronx made several recommendations: reduce redundant service, simplify route patterns, provide faster service, make better use of existing facilities, close lightly used stations, and encourage combined

---

17. Transit Authority news release, Bus Service Changes Listed, April 15, 1977; MTA Community Relations Letter on Service Reductions, undated (received by NYSUT May 2, 1977).
rail-bus travel.\textsuperscript{22} Similarly, MSHA commissioned a study to establish a new routing scheme,\textsuperscript{23} and some of the recommended route changes have been implemented experimentally.

MTA plans other service coordination projects. Public transportation on Staten Island and Brooklyn will be studied in order to reduce service redundancies.\textsuperscript{24}

MTA will also study service coordination between TA, LIRR, and MSHA.\textsuperscript{25} MTA Management Study staff found that Staten Island residents have shifted from use of rapid transit and the ferry to use of express buses and autos to get to the other boroughs. Yet there are indications that Staten Island is over-supplied with express bus service; in 1975, TA express buses ran with a substantial portion of seats empty.\textsuperscript{26}

The Operations Study of the MTA Management Study will examine service standards, service coordination, the need for service rationalization, and the potential for reducing costs.\textsuperscript{27}

\begin{itemize}
  \item \textsuperscript{22}Wilbur Smith and Associates for MTA, \textit{Bronx Transit Study}, January 29, 1976.
  \item \textsuperscript{23}Louis Klauder and Associates for MSHA, \textit{Report to MSHA on System Improvements}, January 20, 1976.
  \item \textsuperscript{24}Annual Work Program of MTA, 1976-77, Tri-State Regional Planning Commission Project 8290.
  \item \textsuperscript{25}Annual Work Program of MTA, 1976-77, Tri-State Regional Planning Commission Project 8270.
  \item \textsuperscript{26}Andrew Clark, \textit{Transportation Trends on Staten Island}, November 1977 (especially Tables 18 and 19).
  \item \textsuperscript{27}Booz-Allen & Hamilton, Inc., \textit{Schedule A, Scope of Work, Operations Study, Management Study of the Metropolitan Transportation Authority}.\end{itemize}
4. Subsidy Increases

a. Federal Operating Aid

UMTA Section 5 funds provide the following operating assistance to MTA affiliates (in millions of dollars).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban Railroads</td>
<td>$23.5</td>
<td>$17.9</td>
<td>$25.2</td>
<td>$26.0</td>
</tr>
<tr>
<td>TA/NewSTOA/STINTA</td>
<td>30.8</td>
<td>51.3</td>
<td>78.0</td>
<td>78.7</td>
</tr>
<tr>
<td>MSBA</td>
<td>0.2</td>
<td>0.4</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$54.5</strong></td>
<td><strong>$69.6</strong></td>
<td><strong>$104.2</strong></td>
<td><strong>$102.7</strong></td>
</tr>
</tbody>
</table>

N/A = no available data

UMTA Section 3 funds provide capital assistance (not discussed here), but Section 3h is relevant. It permits capital aid monies to be used for operating expenses up to one-half of the federal funds already approved by UMTA for a future specific capital project slated to be financed with Section 3 monies can be used for operating expenses if provision is made to finance the approved capital project from other (non-federal) funds. TA and NewSTOA received $36.9 million in 1972-76 in 3h monies and $23.3 million in 1976-77; they are expecting to receive $45.0 million in 1977-78, and nothing thereafter.

In addition to Section 5 and Section 3h federal aid, HR 3466 which became law in November authorizes by Section 18a about $6,000,000 more in operating assistance to the MTA suburban railroads for federal fiscal year 1975.

Also, there are three proposals for increasing operating assistance for mass transit that are being discussed by the federal government - the White House proposal, the House proposal, and the Williams bill. Based on preliminary analysis of these proposals an increase of $20.0 to $25.0 million is the most MTA could expect to receive in 1978.

There have been numerous other proposals to increase federal aid to the MTA; most of them are too deeply
involved in controversy to justify discussing them here. 

A recent proposal is that made by Representative Charles B. Rangel (D, NY), which has been accepted by the House and Senate Conferences on the Energy Tax. The proposal redefines taxable income for federal personal income tax purposes by permitting the employer to exclude free (or below market price) tokens or transit coupons from taxable income computations while permitting the employer to deduct the net cost of the tokens as a business expense. Although the Rangel proposal would encourage transit use, it might also encourage widespread counterfeiting of tokens and coupons/tickets, since there would be a market for bulk sales. The proposal would not tend to reduce the MTA operating deficit unless more riders (and token sales) increased revenues more than expenses were increased.

b. State Operating Assistance

MTA affiliates receive the following operating assistance from the state (in millions of dollars):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban Railroads</td>
<td>$20.0</td>
<td>$20.0</td>
<td>$20.0</td>
<td>$20.0</td>
</tr>
<tr>
<td>TA/MaBSTOA/SIRTDA</td>
<td>70.0</td>
<td>70.0</td>
<td>70.0</td>
<td>70.0</td>
</tr>
<tr>
<td>MIRRA</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$91.2</strong></td>
<td><strong>$91.1</strong></td>
<td><strong>$91.1</strong></td>
<td><strong>$91.1</strong></td>
</tr>
</tbody>
</table>

The New York State Department of Transportation has recommended that the program be permanent (rather than by annual appropriations) and warned that, unless strong government action is taken, fares will have to be increased to maintain services.

\[28\] One controversy, the testway, is not relevant since the argument involves alternative capital allocations.

\[29\] NYS Department of Transportation, Public Transportation Operating Assistance, 1977. The State also makes first instance advances to meet the LIRR freight deficit: $2,200,000 in 1977.
### Local Subsidies

Local subsidies to MTA affiliates for 1976-1978 are shown below (in millions of dollars). 30

<table>
<thead>
<tr>
<th></th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBTA</td>
<td>107.7</td>
<td>111.2</td>
<td>116.4</td>
</tr>
<tr>
<td>Station Maintenance</td>
<td>25.8</td>
<td>34.4</td>
<td>26.1</td>
</tr>
<tr>
<td>Mortgage Tax</td>
<td>8.2</td>
<td>8.1</td>
<td>10.0</td>
</tr>
<tr>
<td>NY School Program</td>
<td>89.7</td>
<td>57.8</td>
<td>52.8</td>
</tr>
<tr>
<td>NY Senior Citizens Program</td>
<td>6.2</td>
<td>10.8</td>
<td>13.8</td>
</tr>
<tr>
<td>NY Transit Police</td>
<td>95.5</td>
<td>96.0</td>
<td>96.2</td>
</tr>
<tr>
<td>Operating Assistance and Other Aid</td>
<td>153.1</td>
<td>102.7</td>
<td>107.9</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>426.2</strong></td>
<td><strong>426.0</strong></td>
<td><strong>426.2</strong></td>
</tr>
</tbody>
</table>

The two significant prospective changes in local subsidies are: station maintenance assessments and NY school programs.

---

30 MTA, Report to NYS Division of the Budget, in accordance with Transportation Law Section 17-A, October 1977, and Peter Schiedrich, MTA, December 7, 1977. (1979 and later data are not disaggregated to show local subsidies for all MTA affiliates. For NY, 1978 data are repeated through 1982 but with an $18 million increase in transit police reimbursements.) The station maintenance data are collections; if netted against the State first instance advances for station maintenance, the column totals would be reduced to $421.6, $406.2, and $426.2 millions, respectively.
Unless a locality has agreed to an expanded station maintenance program, local payments to MTA in 1977/78 will not exceed 1976/77 amounts: $16,869,000 for LIRR and $11,964,000 for ConRail. If this practice continues, it is estimated that 1980 station maintenance costs may exceed billings by $4.2 million.\footnote{1}

The 7A school program is a reflection of the 90% State Education Department reimbursement program for "allowable transportation expenses" together with the New York City Office of Management and Budget policy concerning "allowable transportation expenses." A change in either could change the amount of money received by 7A for its "school program." The school subsidy reached a high of $89.7 million in 1976, fell to $57.8 in 1977, and is expected to continue at $57.8 million a year through 1982. The amount of subsidy appears to reflect policies other than simple reimbursement for either expenses or number of students. Reductions in school program subsidies that are not offset by reductions in expenses will add to the deficit of the MTA.

5. **New Sources of Funds**

New local and regionwide taxes and tolls earmarked to fund the MTA deficit have been studied.\footnote{2}

<table>
<thead>
<tr>
<th>Auto-related Taxes</th>
<th>Income-Employment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Highway use</td>
<td>1. Income</td>
<td>1. TANDA bridge tolls</td>
</tr>
<tr>
<td>2. Gasoline</td>
<td>2. Employer</td>
<td>2. City bridge tolls</td>
</tr>
<tr>
<td>registration</td>
<td>4. Graduated transit surcharge</td>
<td>4. Alcohol tax</td>
</tr>
<tr>
<td>4. Parking</td>
<td></td>
<td>5. Sales tax</td>
</tr>
<tr>
<td>5. Taxes</td>
<td></td>
<td>6. Mortgage tax</td>
</tr>
<tr>
<td>6. Bus franchises</td>
<td></td>
<td>7. Stock transfer tax</td>
</tr>
<tr>
<td>7. Motor vehicle transfer</td>
<td></td>
<td>8. Property tax</td>
</tr>
<tr>
<td>8. Ad valorem auto</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All but four of these seem undesirable either because they would have small yield or because they would involve significant administrative or economic problems.

\footnote{1}{MTA Management Study, Long-Term Financing of Public Transportation in the MTA District, March 1977, and published by Rails to Trails, June 1977; Tri-State Regional Planning Commission, A Regional Tax for Public Transportation, March 1976; New York City Planning Commission, Potential Non-Transit Revenue Sources (no date, about 1975).}

\footnote{2}{MTA Management Study, Long-Term Financing of Public Transportation in the MTA District, March 1977, and published by Rails to Trails, June 1977; Tri-State Regional Planning Commission, A Regional Tax for Public Transportation, March 1976; New York City Planning Commission, Potential Non-Transit Revenue Sources (no date, about 1975).}
The estimated yields of the three taxes and the bridge tolls are as follows.  

| 1. East & Harlem River bridges ($1.50 round trip) | Yield: $41,000,000 |
| 2. Ad valorem auto tax ($2.50) | Yield: $30,000,000 |
| 3. Gasoline tax (wholesale price + 12.7%) | Yield: $150,000,000 |
| 4. Graduated transit surcharge ($1.25 - $250) | Yield: $491,000,000 |

Tolls on the East and Harlem River bridges have been the object of much discussion. The yield of $41,000,000 is probably conservative.

The ad valorem auto tax, a tax on automobile value, could more easily be instituted statewide than for the MTA region. The tax offers the advantage of federal tax deductibility to those using the long form (40-50% of the taxpayers).

The gasoline tax as a percentage of wholesale price offers the advantage of the tax yield’s remaining proportional to the price of gasoline; with inflation it is expected that the price of gasoline will increase faster than the quantity sold.

The graduated transit surcharge offers the advantage of a fare reduction with a tax increase and an increase in (implicit) federal revenue sharing.

All of these have the advantage that their yields will tend to increase with inflation.

---

33 See the following MTA Management Study papers in addition to the ones cited in Note 37: Ad Valorem Auto Registration Tax, August 1977, and City Income Tax Base for the Graduated Transit Tax, August 1977. An ad valorem tax was proposed as Budget Item S5062 in the 1975-76 Regular Session, State of New York.
### Examples of the Impact of Reduced Fares and Graduated Transit Surcharge

<table>
<thead>
<tr>
<th>Married employee living in Rockaway and working in downtown Manhattan, taking the bus and subway to work</th>
<th>Gross Income</th>
<th>Present Yearly Commutation Cost</th>
<th>New Yearly Commutation Cost</th>
<th>Commutation Cost Reduction</th>
<th>Graduated Transit Surcharge</th>
<th>Graduated Transit Surcharge Costs After Proposed Federal Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>$17,000</td>
<td>(250 x $2.00)</td>
<td>(250 x $1.00)</td>
<td>$250</td>
<td>$154</td>
<td>$125</td>
<td></td>
</tr>
</tbody>
</table>

| Married employee living in Larchmont and working in downtown Manhattan, taking the New Haven to G.C.T. and subway to work | (A)$30,000 | (12 x $51.50) | (12 x $41.20) | $248.60 | $183 | $125 |
|                                                                                                             | (B)$60,000 | (250 x $1.00) | (250 x $1.50) | $248.60 | $250 | $125 |

| Married employee living in Upper West Side and working in downtown Manhattan, taking the subway to work | $20,000 | (250 x $1.00) | (250 x $1.50) | $125 | $166 | $125 |
February 22, 1978

Hoa. William S. Moorhead, Chairman
House Subcommittee on Economic Stabilization
1200 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Moorhead:

As an officer of an apparel union here in New York City, I have watched, with considerable envy, advances made by city employees through the bargaining skills of their union leaders who served their memberships well.

I differ with Senator Proxmire who believes that if we focus on the good labor contracts worked out by the civil service unions and at the same time eliminate rent controls, we will resolve the city's problems. (In the apartment house in which I live, there are two remaining rent-controlled apartments. The rent on which has been raised since 1965.) I suggest that the problems of New York City stem more from well-intentioned Federal legislation and initiatives which we tend to forget.

With respect to understanding the problem, I think the words of the famous German philosopher, Georg Wilhelm Friedrich Hegel, in his "Philosophy of History," are most useful: "What experience and history teach us is this that people and governments never learn anything from history, or act on principles deduced from it." Or, to put it another way, the medical profession, which has long considered as a wonder drug, has been used very carelessly because of the serious side effects which have been discovered.

With these two precepts in mind, I suggest that we examine the impact of the St. Lawrence Seaway on the waterfront in New York City. This project, which represents Federal government expenditures of one billion dollars in 1955 dollars, enabled producers and manufacturers goods from Senator Proxmire's state to move all over the world. Expanded traffic, the New York Central Railroad and Hasburo's West Side docks. In those years the docks employed 25 percent of the working force in New York City, most of them either newly arrived immigrants or first generation immigrant workers. Today these docks employ fewer than 10 percent of the city's work force.

What was the impact of the Trade Act of 1962 on employment in the needle trades
In New York City? The waterfront and the garment industries were the two major employers. For the last seventy years, of newly arrived immigrants and in-migrants.

What was the effect on New York City and all the cities in the urban areas of the mechanization of the farms?

How many of our 1,000,000 welfare recipients in New York City are refugees from those good legislation initiatives which subsidized the mechanization of our farms?

In a statement which I presented to the White House Conference on Balanced National Growth and Economic Development on February 1, 1976, I spelled out in greater detail what I believe happened to our city in particular, and to most urban centers in general, because we failed to examine what went on before.

In order to deconstruct what is happening now. I enclose a copy of my statement and three exhibits which accompanied it.

I trust that a review of this statement will help your Committee to come to a favorable conclusion in the direction of securing New York City, not by more loans, but by relieving the basic overburden suffered by our city in particular and by most of the urban centers and community governments in the Northeast.

Sincerely yours,

[Signature]

Gerald H. Coleman
Secretary-Treasurer

Enclosures
STATEMENT
of
GERALD R. COLEMAN
Secretary-Treasurer

United Hatters, Cap and Millinery Workers International Union

Before the White House Conference

on

Balanced National Growth and Economic Development

Sheraton-Park Hotel, Washington, D. C.

February 1, 1978
The U.S. Department of Labor reports that New York City has had a loss of 600,000 jobs since 1960. Most of these jobs are in the labor intensive soft-goods industries. Since 1976 we have had an unemployment rate of 25% in the construction trades in our city. In the 1930's, 1940's and 1950's, our waterfront industries provided employment to some 25% of New York City's work force. Today that resource represents employment opportunities to but 10% of the work force. We currently have a 40% unemployment rate among young people in the Black and Hispanic communities. Our Department of Human Resources reports that there are 1,000,000 people receiving welfare benefits in our city. The U.S. Immigration and Naturalization Service reports that there are 1,000,000 illegal immigrants in our city who constitute a tax burden of some two billion dollars a year. (Exhibit 1)

The melting pot, at its zenith over!

Middle class families find it impossible to locate apartments in the few apartment houses being constructed in our city. These accommodations have priced themselves out of the market place primarily because of the loopholes in the Internal Revenue Code which have encouraged the construction of tax shelters rather than shelters from the elements. In our suburban areas, one can purchase a house next to a quarter of land at a lower price than the real estate syndicator, building a publicly-aided multiple dwelling in the city, gives as his cost of construction per dwelling unit (exclusive of a $500 per dwelling land cost). (Exhibit 2)

We think it important, before we make proposals on how to cope with these trends, that we understand the causes.

Beginning with the early 1950's, there has been a massive shift in population from the rural areas to the urban areas. The investment tax credits and the guaranteed market given to farmers in the South and in the West as an inducement to mechanize their farms have resulted in the transfer of some 50,000,000 people from the rural areas of our country to the urban areas. The tenant farmer and the sharecropper are well on their way to complete disappearance from our Southern states. The hard cotton chopper - the man with the hoe - is now in our cities without his hoe. This is a population which, by education and training, cannot meet the literacy and education requirements of the skilled and semi-skilled white collar jobs available.
Senator Warren E. Magnuson of Washington tells us:

"Since the beginning of World War II, 30 million people have
left rural America for the cities. This migration, although
largely voluntary, represents the largest migration of human
beings in the history of the nation. And it spawned what we
now call the 'urban problem.'

"In large measure, this migration occurred when the industrial
revolution arrived at the farm. Fewer people were needed to
produce food for the nation and the surplus labor moved to
where there were jobs."

The Journal of the Institute for Socioeconomic
Studies -- Autumn 1977

Senator William Proxmire of Wisconsin, who hates all about rent control
in New York City, had this to say in his December 1977 Washington speech to his
colleagues:

"Again and again I have been briefed by the CIA and the
top military intelligence officials of our government on the
economic strengths and weaknesses of this country and the
Soviet Union. They have told us that our agriculture is by
far America's most important area of superiority.

"Consider one simple fact: a massive one-third of the people
in the Soviet Union live and work on farms. In this country
only about four per cent of our people are in farming.

"Since the Soviet Union has a bigger population than the United
States that means that they have literally ten times as many
people working on their farms as we have.

"And the results? We produce 30 per cent more food than they
goodness. Food is the prime life-sustaining product for any
economy.

"And no wonder is the principal exportable resource. Because
our farms are so efficient, we free literally tens of millions
of Americans for productive work elsewhere, and this is the
major reason we can produce the Soviet Union overall by two to
one. It is this economic advantage that is in turn our prin-
cipal military advantage."

We suspect that Senator Proxmire that an examination of the problems of
the cities will disclose that tens of millions of Americans have been released
from their penums on the farms. However, the evidence of our welfare rolls
revels that millions of them have become a charge against the local tax structure
of our cities. No one questions the good intention of the subsidization and con-
sequent mechanization of our farm economy. What we worry about are the side
effects on our cities. In New York City, welfare and medicaid, between them,
required an expenditure last year of one billion, one hundred million dollars out
of the city's own tax revenue, a burden we can now trace to the massive migration
about which both senators speak.
The July 6, 1977 issue of BUSINESS WEEK contained a report of how mechanized farms now operate with the benefit of government subsidies. I quote:

"...Nine years ago Eugene Smith vowed to become a roaring success in farming. While completing a master's degree in agricultural engineering at Purdue University, Smith, with virtually no capital of his own, borrowed $20,000 from the government-run Farm Credit Administration to acquire 40 acres of land, a tractor, a cultivator, and a plow. Today his dream is a reality. In 11 years, Smith owns or rents 8,000 acres near Lebanon, Ind., on which he produces corn, soybeans, and hay, which together gross him more than $2 million a year. He has more than doubled his net worth every year since 1968, and he is determined to continue expanding. 'I am proving that success involves knowing what the economics of farming is all about,' he says.

"Smith is one example of a low-keyed and little-known elite of American agriculture, who represent only 1% of the nation's 2.3 million farmers yet generate an estimated two-thirds of all farm production. Practically all are millionaires, largely because of skyrocketing land prices. . . .

"Yet, top farmers regularly use the government loan system, which permits them to borrow from the government in virtually unlimited amounts by using their crops as collateral. Under existing legislation, farmers as of last March had placed 341 million bu. of wheat and 261 million bu. of corn under loan, up sharply from last year's levels of 47 million bu. and 145 million bu., respectively. 'I believe in taking advantage of what happens in Washington,' declares Smith, who has previously tapped the system for supporting the price of his corn. 'But I am not active in politics.'

"More Smith is active in his farm, and he is an example of how a one-man show can achieve economies of scale by capitalizing on rapid land acquisition, innovative technology, and long-range planning. Relaxing in the office adjoining the house in which he lives with his wife, Oprah, and their four children, Smith eagerly glances orders on his radio to his part-time workers on his vast 8,000-acre farm.

"Last week he explained his success this way: 'When I got into farming, my land was worth $450 an acre. Today it is around $2,200 and still climbing, and I usually borrow on it and other equity.' He notes that his annual borrowings now average $3.5 million. Indeed, his present approach is largely centered on being able to acquire 2,000 acres of new farmland each year, so that he can reach his goal of owning and running 12,000 acres within two years." (Emphasis added)

The guaranteed sales to Uncle Sam, in the form of the crop loan programs, have produced a massive production glut which the government stores, ever hopeful that there will be a crisis in farm production in Russia, China or India. Such subsidized farm production has become a major earner of export dollars for the American economy.

Farm area congressmen, on the grounds of protectionism, are quick to chide representatives of our trades when we complain about the runaway industries in Taiwan, Korea, Haiti and the importers from the Soviet bloc countries and Red China -
countries whose successes in selling to this country are based on their ability to exploit sweatshop labor. They ask us, how can our country sell our subsidized farm products, if they can't sell the products of their labor to us? Our tongue in cheek response is: Give our manufactures a guaranteed price of $24.00 for each of our own manufactured goods and we will sell a union labeled cap or turban on every worker in the undeveloped world.

In 1965, we expanded the Immigration laws. We changed the priorities for immigration from Western Europe to include the entire Eastern Hemisphere and South America. The Western European immigrant in the 1960's had a basic education and an industrial experience. But then we changed the priorities, the major group of immigrants who came in were rural poor from South America and some of the Middle Eastern countries. In addition to the legal immigrants, there are the 1,000,000 illegal immigrants previously referred to. These people, too, are part of our job market. Without benefit of "green card", they represent a specially exploited minority in the job market place.

Our waterfront industries, until the building of the St. Lawrence Seaway in the late 1950's, represented a major source of jobs for immigrant workers in the first half of the Twentieth Century. With the development of that bypass of New York's harbor, the New York Central Railroad's track system between Buffalo and the New York Harbor showed an ever-decreasing record of freight carloadings to the point of bankruptcy. As the work at the East Side docks of Manhattan decreased, the Port Authority transferred the operations for waterborne container-ship operations to 500 acres of land in Jersey Meadow. This had major impact on the work opportunities on both the Brooklyn and the Manhattan waterfronts. When's Oakland came in to take over the bankrupt railroads in the Northeast, this Federal government sponsored agency unilaterally decided that the railroad in the Northeast, would be in this new Jersey Meadow area. The railroad bridge across the Hudson River near Poughkeepsie stands abandoned and, because no maintenance work has been carried through on it, no freight trains are able to cross the river. The track system between the Kelleys Island and the Brooklyn waterfront right now has nearly three miles of turn-up track which Oakland refuses to repair. In the event of war, an enemy general intent on destroying the economy of New York City, would make use of...
first priority the destruction of those two rail linkages. Yet we, our mayor, our state officials and our Congressman stand strangely silent as this destruction continues.

The New York Times can bear witness to the impact of this loss of rail freight service. In the early 1970's, the newspaper built a modern printing plant on West End Avenue, in the upper 60's, immediately shutting down the New York Central rail track system. Almost as soon as that plant was ready to function, train service delivering newsprint to the printing plant was discontinued. The printing plant is now in Garfield, N.J.

The garment industry for many years made use of freight consolidators who occupied premises on 11th and 12th Avenues shutting the garment manufacturing district. These consolidators grouped cargo in carload quantities so that their customers (the small manufacturers) could get the benefit of carload rates. With the movement of the railhead to New Jersey, these consolidators also relocated in New Jersey. To get their goods to the consolidators costs more than the saving afforded the New York manufacturers in previous years.

Similarly, the big chain department and discount stores had their receiving departments in this same West Side area. These departments and the service they performed for the small manufacturers moved to New Jersey along with the consolidators, again at a substantial added cost to the manufacturers in New York City.

In 1975, the United States International Trade Commission, the advisory body which, under the Trade Act of 1974 reviews trade conditions, concluded that United States import duties are insignificant insofar as they may affect imports of foreign merchandise. In its report to President Ford, the Commission estimated that about 60 per cent of everything the United States imports comes in duty-free or at a tariff of five per cent or less. Only 2.7 per cent of imports are subject to duties of 25 per cent or more. The Trade Commission tells us that since 1962, when we adopted the policy of making substantial cuts in the tariffs designed to protect domestic factory products, we have succeeded in reducing tariffs to the point where the tariff device is useless for this purpose.

In this statement we emphasize the need for jobs for our labor-intensive industries. What we complain about the runaway production to Taiwan, Korea and
Haiti, our economists tell us about the theory of competitive advantage and that
is supposed to satisfy our complaints about the lack of concern of our Federal
government in terms of the impact of its trade policy. The industries located in
sweatshop factories abroad have one competitive advantage: cheap labor. It is
strange that congress, back in 1917, was very proud of the fact that the Clayton
Act justified the existence of labor unions from the Sherman Anti-Trust Act on the
grounds "...that the labor of a human being is not a commodity or article of commerce."

That is the law of the land. Where are we going to get Congress to enforce
that concept in the legislation governing international trade? In this connection,
it is worth noting that the Trade Act of 1974 instructed the President of the United
States, in Chapter 7, Section 123, as follows:

"(2) The President shall, as soon as practicable, take such action
as may be necessary to bring trade agreements heretofore entered
into, and the application thereof, into conformity with principles
promoting the development of an open, nondiscriminatory, and fair
world economic system.

"The action and principles referred to in the preceding sentence
include, but are not limited to, the following..."

"(4) The adoption of international fair labor standards..."

Clearly, we need an international wage and hour law. On August 7, 1975,
before the Interagency Committee on Trade Policy Staff, we made a proposal which
suggests one approach to such an international wage and hour law. We think it
deserves the consideration of this body. (Exhibit 3)

The New York City construction industry has been in the throes of a
depression since 1974, directly as a result of the "grandfather clause" in the
Tax Reform Act of 1969. That Act eliminated the accelerated depreciation tax
shelter given to commercial construction. However, the Act contained a section
which stated that if the builder had a "valid contract to construct, dated prior
to July 31, 1969," he could go ahead with his construction. Thus the boom began
in New York City. The tax shelter mechanics all ended up with valid contracts to
construct. They had the contracts all right, but no tenants. By 1974, they suc-
cceeded in constructing 30,000,000 square feet of vacant loft space. By and large,
the discovery of all that new vacant space resulted in major layoffs in the con-
struction industry in New York City which have continued to this date. Since that
time, these new buildings have been competing with the older commercial buildings.
for tenants. And the older commercial buildings competed with the empty loft buildings for tenants. The competition for rent payers was accelerated by the events noted above, namely, the loss of 500,000 jobs. Absent those 500,000 workers and their employers, the loft buildings were looking for tenants.

In the past seven years, the depredation practiced on the housing stock in our city is best measured by Con Edison’s figures on the loss of residential electric meters between 1970 and the first half of 1977. The company had 120,000 fewer such meters in the three boroughs of Manhattan, the Bronx and Brooklyn. Vandalism and arson for profit have wrecked several thousands of apartment houses in our city. In an effort to rehabilitate these buildings, the City Council amended the Administrative Code to give rehabilitated apartment houses a 10-year total tax abatement and an additional 15 years on a declining 10 per cent formula. These rehabilitated apartments, most of which are in the ghetto areas of the city, were the target of the legislation currently known in the trade as Section J-51. The locale of these buildings is not too attractive an investment for the developer. And now we discover that the newest game in town is the conversion of empty manufacturing loft buildings into apartments. The developer gets the J-51 tax abatement, but in addition, we recently learned, there is a section of the Internal Revenue Code, 167-K, which gives the developer a $50,000 tax shelter per dwelling unit which can be written off in five years. One such instance, of which the newspapers have taken note, is a square block between Broadway and Beaver Street, from West 3rd to West 4th Streets, occupied by 50 factories employing some 650 workers in nine loft buildings. The owner of these buildings has given a 99-year lease to a developer who will now produce 280 apartments. The developer has the opportunity to sell a limited partnership in this tax shelter scheme to doctors, lawyers and basketball players in the 70 per cent tax bracket — a tax shelter that will show a tax loss of $1,120,000 a year for the next five years. The only thing that stands in the way is that the building is still occupied by factories and workers. The landlord is busy evicting the tenants and we can expect, on the basis of experience with similar situations in other buildings, that there will be a job loss of about 20 per cent if these small manufacturers are forced to move. We are waiting for our City Council to take appropriate action to amend our Administrative Code and thus prevent
this type of abuse of real estate tax exemption. Of course, the most attractive
part of the deal is the Federal government's tax shelter legislation. So we will
still have to get Congress or Internal Revenue to act.

The City Planning Department has just completed a study which shows
that more than 23 per cent of the 905 buildings in downtown Manhattan are now in
the process of, or have completed, the transition from a work place to a 'living
apartment.'

As we look about our city, and as we read our newspapers, we have dis-
covered that the two major growth industries in this town are war, for the purpose
of building new housing and schools in order to sell and sell the housing
structures, and the organized theft of 300 automobiles per day from the streets of the
city and the stripping of these cars for sale of parts to dealers in this machinery.
The participation in these industries comes largely from our unemployed negro and
immigrant population. With the Franklin D. Roosevelt in the White House, we have
no WPA Program to absorb their talents. The Humphrey-Hoover bill, which might have
provided today's version of such a program, seems far down on the agenda of Congress.

In the January 30, 1938 issue of The New York Times, we read that Senator
Salmon is preparing a bill to turn over $3.5 million in aid to the truck farmers
for non-plowing crops this year. The purveyors of the tractors obviously has had its
effect. As noted earlier in this statement, BUSINESS WEEK of July 6, 1937 reported
that more than 10 per cent of the farm population in the country, or about 270,000 fam-
cers, produce only two-thirds of our country's crops. These speculative
farmers and their heavily mortgaged properties are in grave difficulties. Govern-
ment warehouses are bulging with their unmarketed production. These farms will
have to be shut down. They need our help.

New York City presently feeds, clothes, shelters and doctors 1,000,000
welfare refugees from the farm mechanization program, at a cost of one billion,
one hundred million dollars a year out of its own tax revenues. This burden is at
the core of the bankruptcy of our city.

If we are now preparing to bail out these 270,000 farmers, and spend a
Humphrey-Hoover sentiment, surely we can do so less for the 7 million New York
City taxpayers.
Mr. Gerald R. Coleman  
Commissioner  
City Planning Commission  
2 Lafayette Street  
New York, N.Y. 10007

Dear Mr. Coleman:

Thank you for your letter of December 1, 1975, requesting a copy of our report concerning the $16 billion tax burden created by the 8 million illegal aliens currently in the United States.

Enclosed is a copy of a press release and a letter explaining the basis for the estimates of the tax burden of illegal aliens. The cost figures are based on findings included in a recent policy analysis done for IAS which indicates that there could be an average tax burden of $2,000 per adult illegal alien per year. Assuming that 80 percent of the estimated 8 million illegal aliens are adults, the annual tax burden associated with illegal aliens is projected to be $13 billion. Included in this figure are public benefits which are given to illegal aliens and infrastructure costs of this additional population which is not adequately supported by net tax revenues for which illegal aliens are responsible.

Additional costs of illegal aliens which are not included in the tax burden figures include income tax evasion and money sent out of the country. These adverse effects of illegal aliens are estimated to be in the range of $3 billion to $10 billion per year.

While figures on the tax burden created by illegal aliens have not been compiled for New York City, our District Director in New York City estimates that there are some 1 million illegal aliens residing within New York City. This would indicate that the tax burden created by illegal aliens in New York City could be estimated at $3 billion each year.

Although current figures on illegal aliens are our best projections, we will be undertaking a major study of the illegal alien population during 1976 to determine more accurately the true nature and extent of the problem. At the conclusion of all facets of the study we will be
able to deal more effectively with the illegal alien problem and to allocate better our resources.

I appreciate your interest in the illegal alien problem. We have discussed the problem with members of your staff and will continue to work with them on this major problem. If I can be of further assistance, please let me know.

Sincerely,

Edward Jon Guss
Associate Deputy Commissioner
for Planning and Evaluation
But New Ways to Build Are Proving Too Costly

By GERALD W. COLEMAN Member, City Planning Commission

Are we to believe that in a free market, using the latest advances in building technology and land that costs less than $300 a dwelling unit, we cannot build a two-bedroom apartment that will rent for less than $600 a month?

That is the shocking conclusion one must draw from an examination of a group of projects approved by the City Planning Commission on June 15. The five projects, in Manhattan and the Bronx, are to be among the first in the city to use "industrialized" building techniques; their components are to be manufactured in plants, then hauled to building sites and assembled.

One of the main purposes of such advanced techniques is a reduction in costs, but that does not seem to have happened here. In this case, we are taking a magnificent tool—industrialized housing—and all but destroying it.

The city will give each of the projects a real estate tax exemption; for the five developments, this subsidy averages $2,700 a year for each unit.

The Federal Government, using funds set aside for "Operation Breakthrough," a program to encourage factory-built housing, will reduce the mortgage interest rates from 7 percent to 1 percent, a subsidy that amounts to about $2,500 a year for each apartment.

The Federal Government will also allow the investors who provide the seed money for this construction to use accelerated depreciation, thus providing them with an annual tax break of about $2,000 for each apartment.

Taken together, the three subsidies mean that the public sector is underwriting these apartments to the tune of about $7,200 a year, or $600 a month.

In a typical project, Land's End, a 268-unit development on the Lower East Side, efficiency apartments will rent for $125 a month; one-bedroom units will go for $157.50; two-bedroom apartments for $202.50; three-bedroom units for $255, and four-bedroom apartments for $315 a month.

If the subsidies were removed, one must conclude, the monthly rents for these apartments would range from
treatment because it is a nonprofit institution. The difference between the two types of investment — that of a nonprofit institution and that of a high-bracket investor seeking a tax shelter — can thus be said in this case to represent a cost difference of $12,000 per unit.

The landlord, who has traditionally paid costs to protect his investment, has been replaced by the packager, whose interest in construction costs is secondary to his interest in selling participation in the equity.

According to the testimony at the planning commission's public hearing on these five Breakthrough projects, the developer or packager usually sells equity participations that total about 10 per cent of the face amount of the mortgage.

The face amount of the mortgages for these five projects is $74-million, so the developers can be expected to sell about $7.4-million in equity participation. But only $3.5-million in equity is required. The difference — $3.9-million — is the developer's profit.

But the developers are also entitled to a fee in this type of project. For the five Breakthrough jobs, it totals about $2.4-million. The developers' fees plus the extra equity sold totals $5.9-million, enough to provide a handsome profit on the day the mortgage closes.

I hasten to say that everything I have complained about in these projects is a matter of long-standing practice and is perfectly legal. No attempt has been made to hide any of it. The tragedy is that there is no one in the development process as it stands who is hurt when costs go up — except the ultimate tenant. Clearly, these are not structures designed to provide middle-class and poor families with shelter from the elements. They are essentially structures designed to provide wealthy investors with shelter from the grasp of the Internal Revenue Service.

Until we come to grips with the situation that encourages this sort of financial legerdemain, we are not going to be able to meet the housing needs of the people.

The preceding article was adapted from the dissenting opinion delivered by Commissioner Coleman on June 16, when the City Planning Commission approved the five industrialized housing projects. His was the only negative vote.
STATEMENT

of

GERALD R. COLEMAN
Vice-President

United Hatters, Cap and Millinery Workers International Union

Before the Interagency Trade Policy Staff Committee

17th St. bet. Pennsylvania Ave. and H Street, N. W.

Washington, D. C.

August 7, 1975
My name is Gerald R. Coleman. I am a vice president of the United Hatters, Cap and Millinery Workers International Union, located at 245 Fifth Avenue, New York, N.Y. For the past five years I have been a member of the New York City Planning Commission, concerning myself primarily with the economic and social planning problems of our city. I speak as an official representative of my Union and as an individual member of the City Planning Commission.

The United States International Trade Commission, the advisory body charged, under the Trade Act of 1974, with reviewing trade conditions, has come to the conclusion that United States import duties are insignificant insofar as they may affect imports of foreign merchandise. In its report to President Ford, the Commission estimated that about 60 per cent of everything the United States imports comes in duty-free or at a tariff of 5 per cent or less. Only 2.7 per cent of imports are subject to duties of 25 per cent or more. The Trade Commission tells us that, in effect, we have over a period of years successively lowered our tariffs to the point where the inflationary trend in the industrial world has completely buried the tariff device as a method of protecting American industry.

Over the next five years, this body will have to begin to consider measures other than embargoes, import duties, raising and lowering the tariff rates, or the granting of "adjustment assistance", the euphemism for "home relief" for workers and industries forced out of business by low-wage imports. One such measure is before you right now in the Trade Act of 1974.

Chapter 2, Section 121 of the Act states:

"(2) The President shall, as soon as practicable, take such action as may be necessary to bring trade agreements heretofore entered into, and the application thereof, into conformity with principles promoting the development of an open, nondiscriminatory, and fair world economic system."
The action and principles referred to in the preceding sentence include, but are not limited to, the following:"

"(4) The adoption of International Fair Labor standards.""

There Is Need for an International Fair Labor Standards Act

There is no question that as you review case after case presented at this hearing, you will discover that in industries such as ours, those which have a high labor content, wages in competing countries are the basic reason why manufacturers turn into importers and workers turn into job hunters. Inescapably, you must reach the conclusion that to have "an open nondiscriminatory and fair world economic system" (as set forth in Chapter 2, Section 121 (a) above) it will become necessary for our country to establish an International Fair Labor Standards Act.

In our own industry, we admittedly suffer from hostilities. However, in 1974 we did produce 50 million pieces of headwear. During the same year, 40 million pieces of headwear were imported into this country. Eight years ago, one of our Local Unions in New York City had a membership of 11,000; today there are 1,900 workers in the remaining shops and there are 3,000 retirees.

The Government's Pension Guarantee Corporation has before it an application on our behalf to take over the Retirement Fund of this Local Union. Under recently enacted Federal law, this agency has the responsibility of guaranteeing pensions in situations as that cited above.

Our present millinery manufacturers pay an unemployment insurance tax of 5 per cent, the highest rate allowable under the New York State Unemployment Insurance Law. As the manufacturers describe the situation, American factories constantly generate new styles in ladies' and men's headwear. No sooner do such new styles begin to catch on and a manufacturer might, under reasonable conditions, look forward to volume production, then, in no time at all, the very same
that styles begin coming in from Taiwan, Hong Kong, or South Korea. Tax rates under the Unemployment Insurance Law are geared to give most favored treatment to manufacturers who supply 50 weeks work. Our manufacturers, in this high labor content industry, cannot nearly begin to compete with the low-wage products from the afore-mentioned countries. Thus, the higher unemployment tax that they pay, as a direct result of this unfair competition, adds to the competitive advantage had by the low wage countries.

In the past few years, we have discovered that a new talent has developed in the millinery and cap industries in New York. Certain individuals earn a very good living by carefully keeping track of these new styles which show up in the market place. Almost immediately, upon discovery, they arrange for sweatshops in Taiwan, Hong Kong or South Korea to make mass production replicas of the styles generated in New York. They take advantage of 60 hour work weeks, child labor in profusion, minimal social benefits, lax or no occupational safety legislation and wages that average out to about 25¢ an hour.

On June 30, 1975, our International Union received a letter (a copy of which is attached hereto) from the International Textile, Garment & Leather Workers Federation, which reads in part as follows:

"We have just received requested details of a fire that destroyed two buildings of the Gelmart firm in the Philippines on 3rd April, 1975. Sixteen workers were killed and sixty-two injured in the fire.

"Gelmart is the biggest manufacturer in the Philippines of embroideries, adults' and children's wear, underwear and gloves, etc. The firm is based in New York.

"We have received an appeal from our affiliate, the National Union of Cordage, Garment and Textile Workers (COEX), for financial assistance for the survivors and for the families of those who were killed."

Are the workers in the Philippines covered by Workmen's Compensation? What sort of occupational safety factory legislation covers their place of work? It is quite apparent that the wave of factory
reform legislation, sparked by the Triangle Shirtwaist fires in 1911, still has not reached the Philippines.

The apparel unions in this country will make a contribution, as requested by the International Textile, Garment & Leather Workers Federation. There is no question about that! The question is: how does the Executive Branch of the Government take note of the mandate in the Trade Act of 1974 that fair labor standards be achieved? Should not the Ambassador require that regulations be established by the Interdepartmental Staff to make certain that American companies, at the very least, operating factories in foreign lands, be held accountable at home for the quality and character of the labor standards they maintain abroad? What standards can be achieved on a global basis for those firms, regardless of place of citizenship or ownership of the exporters who voluntarily enter into competition to sell their goods in the American market place?

Can Increased Tariffs Really Help Our Working People?

For a moment, let us assume that the Executive Branch of the Government, after reviewing the findings of the International Trade Commission, decides to make upward changes in tariff rates. Suppose you decide to allow a generous "adjustment assistance" grant.

Doubling or tripling the tariff on the product of a Lao (L.K.) cap manufacturer in Hanoi or a Hong Kong factory in Hong Kong will not help our workers one whit. Fifty-two weeks re-training for a new job is not a viable solution. By the very nature of the retrained's background, his new job will be subject to the same attack from low wage countries as that which deprived him of a job in the first place.

a Average Hourly Earnings as contrasted with Minimum Wage Standards
To what industry shall we refer headwear workers who lose jobs or continue to stay unemployed as a result of the 48,000,000 pieces of headwear imported into the United States in 1974? Predominantly, these workers in our industry are immigrants who fled from low wage countries to our country, or who came from other sections of our country and other occupations where lower wages forced them to seek employment in our cities.

Who Are Our Immigrants? Where Are They From? What Are Their Skills?

You will recall that in 1965, very properly, Congress extended the priorities for immigration into the United States from Western Europe to the entire Eastern hemisphere. We changed the composition of the immigrant population from highly industrialized and comparatively well-educated Western Europe to poorly-educated and minimally industrialized developing countries. Indians, Pakistanis and Filipinas flock to our city; along with them are people from Taiwan, Hong Kong and Red China. They come here to make a living. These are the people in our New York City shops. They are joined by thousands from South America, Central America and the West Indies, as well as from our own South. This last category, the formerly indentured labor from our Southern states "freed" by the mechanization of the farms in that portion of the country, are as much an emerging population as people anywhere in the world. These, then, are the workers presently constituting the labor force in New York’s needle trades industries.

There Are Forty Million Workers in United States Who Are Not Equipped for Other Than Labor Work.

Several years ago, Harvard University found that fifty per cent of adults in the United States are functionally illiterate. Of the present eighty million work force, forty million cannot read an automobile driver’s manual or fill out a job application form. In the City of New York this type of worker cannot fill the white collar and
professional jobs available in the home offices of great international
corporations. They customarily transfer to high labor industries such
as the apparel trades.

If we gave up all labor-intensive operations in the United States, it
would not begin to meet the needs of the developing world.

The work force in the apparel and textile industries in the
United States represents a grand total of one million people. When
you ponder on the billions of people in the developing world and think
about the mobility of the Singer sewing machine (now made in Japan),
you must recognize that these industries, if completely transplanted,
would hardly become a meaningful developmental resource for any
emerging nation. India, with a current work force of about one
hundred and eighty million, might serve as an example of the drop-in-the-bucket contribution to the prosperity of the hundreds of millions
who live in undeveloped lands.

What has been the Role of the Multinationals?

In passing, it is worth noting that the great international corpo-
rations got that way in the first place because of their efforts
to penetrate trade barriers erected by other countries. To survive,
they had to export capital, plants and jobs. The fact that their
efforts were seasoned with cheap labor did not harm their appetites
one bit.

In our own industry, the John B. Staton Company, manufacturers
of the Staton hat, employed in 1936 2,000 workers in its Philadelphia,
Pa., factory. Today, the John B. Staton Company employs a vice-presi-
dent and one stenographer in its New York office. In Philadelphia, it
employs six men who maintain the real estate now rented to other firms.
Its earnings come from licensing fees in some 50 countries around the
world and from rental of its real estate holdings. Its last annual
report, when the firm’s manufacturing operation was still in Philadel-
phia, reads as follows: ‘‘We find great difficulty in competing in..."
today's world of currency manipulation, hidden and openly subsidized exports, tariff barriers, quotas against foreign products, licensing agreements and cartel arrangements." By now, this company, not by choice, has joined the ranks of the multinationals. Current examples of the type of unfair restrictions against American handwear complained about by the John B. Stetson Company are attached hereto as Exhibit A.

The State Department, whose representative is present today, is the operating agency most vitally concerned with the long range economic and political goals of our country's foreign policy. There is no doubt that your department is following very closely the findings of the Securities and Exchange Commission with respect to the blackmail, bribery, and other forms of economic pressure placed upon our multinational corporations as they seek to penetrate with manufacturing operations or with the products of our factories the economy of countries around the world. The image of American multinational corporations which emerges is certainly not good for American foreign policy. The shabby foundation of our manufacturing investments abroad is pointed up most dramatically by the recent admission by the Exxon Corporation that among the millions of dollars in bribes and "contributions" it made in Italy was a contribution of $86,000 to the Italian Communist Party. The contribution was most certainly not prompted by love and affection:

Aleksandr Solzhenitsyn has made an important contribution to our process of political analysis. In examining the transfer of our manufacturing operations to places all over the world, he compares us to a chess player who exposes his pawns, his bishops, his knights and his rooks to be picked off by the well organized opponents. Many of our leading and respected economists have already given up the struggle; they would transfer our economy from a manufacturing one to a service economy. They apparently do not perceive the danger inherent in the practice of transferring our industrial base to places all over the
world, particularly those vulnerable to Communist take-over. As a Union officer, I am immediately concerned with the impact on our opportunity to provide work for our people. As an American, I am dreadfully concerned about the ultimate impact on our country's ability to survive economically and politically.

Isn't it true that our nation began to think of the honor of its trade policies on working people around the world? How do we arrange our purchasing policies so that the benefits of the work provided by our gigantic consumer market can discernibly benefit working people in South Korea, Taiwan, Hong Kong, the Philippines, etc.? These are the places where our political arm is struggling with Communists for the hearts and minds of working people. We think an International Wage and Hour Law, modeled after the Walsh-Healey Act of 1936, might provide such a vehicle.

Who Benefits From Cheap Labor Abroad?

By now we have learned that as nations emerge from colonialism, competition among the developing nations becomes ever fiercer. Workers employed in developing countries most certainly have not benefited from the new trade. The consumers in America have hardly benefited; the greatest beneficiaries of our present policy are the free-wheeling, sharpshooting American and foreign entrepreneurs who move from one jurisdiction to another, ever searching for lower wages.

I have with me a hat purchased at Macy's Department Store in New York. You will note that the price tag is still attached, in the amount of $2.99. We checked this hat with a number of importers of the merchandise and found that it is brought in from Taiwan (274 A.N.I.) tariff added, at a price of $7.20 per dozen, unblocked. The blocking is done in a U.S. millinery factory. This adds about $2 per dozen to the over-all cost of the hat. It is then sold to the retailer at about $12 a dozen. If this hat were made in Japan or in an American union shop, it would be sold to a retailer such as Macy's at a price of approximately $10 a dozen. The $2.99 retail price would remain the same.
However, by purchasing a hat sewn in Taiwan, the retailer nets a 200% mark-up on the item as against a normal 100% mark-up, had it been made in an American factory. The consumer benefits not one penny from this change in the work place.

The impact on our cities.

There is another aspect to this problem: the social and economic impact on our cities. I can speak from my experience as a member of the New York City Planning Commission. We have discovered that our major problem is to find meaningful work opportunities for the several millions of immigrants, legal and illegal, and in-migrants who come to our city in a never ending stream. The Statue of Liberty is the beacon. Kennedy Airport and the Hudson tunnels are their points of entry. Historically, the garment industry has been a major vertebral industry which for previous generations provided work opportunities for these immigrants. The garment industry is no longer able to provide that opportunity. It cannot take the competition from sweatshop labor from emerging countries throughout the world. In 1974, the apparel industry in New York City lost 20,000 jobs. So far in 1975, the industry has lost 15,000 jobs.

The members of this body are by this time aware that New York City has financial problems. Let me spell out some of the components of these problems as they relate to agreements which Ambassador Dent is charged with negotiating during the next several years. The NEW YORK TIMES, in a recent series of articles, pointed out that there has been a major exchange of population in the city. Two million white middle-class persons moved out and were replaced by an equal number of people from all over the globe. In addition to this major population shift, the Director of the U. S. Immigration and Naturalization Service recently reported there are 700,000 illegal immigrants in our city. With no garment industry as a resource, and a similar decline in many other high labor content industries, the burden on the municipality of New York has been overwhelming.
The expense budget of New York City for the forthcoming year is twelve billion, five hundred million dollars. Of this sum, approximately 60 per cent, or seven and a half billion dollars, will be used for health, welfare and educational purposes. Of this latter sum, two billion, seven hundred and forty million come from the city’s own tax levy funds. The one million relief recipients in the city are largely the unemployed members of our immigrant and In-migrant population. Seventy per cent of the children in our schools come from this population. The budgetary figures make it self-evident that municipal tax revenues are no longer able to assume the share that they have been carrying for the absorption of this population. The city borrows from tomorrow’s tax receipts $146,000,000 each year to pay the salaries of the teachers who work in our vocational high schools. They are busily engaged in training work skills which are being wiped out by the competition from sweatshop labor.

There Is Another Solution At Hand

Most suggestions before this body are designed to keep out of the American economy products from low-wage countries. Understandably, our own runaway multinational corporations and importers who cloak their wage gambits under the Adam Smith mantle express their unhappiness as such barriers to "free trade." The overseas native entrepreneurs and their governments who are pursuing a policy of industrialization by sweating labor in much the same fashion that Russia did agriculture in the '20's and '30's, are able to keep control of their own public opinion so long as our policy is limited to erecting these barriers to imports.

Up to this point our presentation has concerned itself with the problems we face. Our International Union believes that a top priority facing the Interdepartmental Committee must be to bring reality to the piecemeal hope so far expressed in the Trade Bill that International trade accords should include fair labor standards.
We believe that such objectives could be achieved by a comparatively simple amendment to the Fair Labor Standards Act presently being enforced by the U.S. Department of Labor. There follows the case for such amendment.

We Could Amend Section 13(f) of the Fair Labor Standards Act.

We would call for the elimination by amendment of that portion of the provision of Section 13(f) of our Fair Labor Standards Act, which reads:

"(f) The provisions of Sections 6, 7, 11 and 12 shall not apply with respect to any employee whose services during the work week are performed in a work place within a foreign country."

Presumably, with such an amendment, all goods produced for commerce within the United States, no matter where the work place, would be subject to the minimum wage, overtime and child labor provisions of the Fair Labor Standards Act. We fully recognize that we could not expect 90 an hour labor in Singapore, 190 (A.M.E.) labor in Korea, and 150 (A.M.E.) labor in Pakistan to rise immediately to the $2.10 an hour required under the present minimum. In the cases of such developing countries, we could provide machinery similar to that set forth under the Fair Labor Standards Act for Puerto Rico.

We Could Apply The Puerto Rico Provisions of F.L.S.A.

The Commonwealth of Puerto Rico is subject to a special exemption from the Minimum Wage provision of the Fair Labor Standards Act. The workers in that Commonwealth are subject to a sub-minimum wage which is revised every three years. The machinery of revision is carried through by a tripartite Minimum Wage Committee. The nine members of this Committee consist of three public members, three labor members, and three management representatives. Both mainland and Commonwealth persons are represented in equal numbers on the Commission. On May 1st of this year, workers in the cap industry in Puerto Rico achieved a minimum wage rate of $2.10 an hour, the same minimum achieved on the
mainland on January 1, 1970. Since 1936, the minimum for the cap
industry in Puerto Rico has gone from 220 an hour to the present
mainland minimum.

Our suggestion would provide for a similar escalator procedure.
It would gradually raise the wages of workers who are employed in
foreign factories desiring to ship merchandise to the United States.
It would eventually raise them to the prevailing minimum wage in the
United States. In arguing for this position, we would answer those
who might protest that we are invading the sovereignty of every country
involved by setting such minimum wage standards. By pointing out that
this is not a law which applies to all industry in any one country,
but applies only to those firms which voluntarily enter into competi-
tion to taste of the fruits of the American market place.

Supreme Court Decisions in Walsh-Healey Cases, Below The Sky.

At this point, take note that when the Walsh-Healey Public Con-
tracts Act was passed in 1936, it was immediately tested and the
United States Supreme Court said in United States Corp. v. Perkins
(1943) 6 L C (61, 149, 317 U. S. 91): "The Walsh-Healey Act is
not an act of general applicability to industry. It applies only to
contractors who voluntarily enter into competition to obtain govern-
ment business on terms of which they are fairly forewarned by inclusion
in the contract. Its purpose is to use the leverage of the Government's
immense purchasing power to raise labor standards." The Court also
stated in Perkins v. Lukens Steel Co. (1960): "The Act does not re-
represent an exercise by Congress of regulatory power over private busi-
ness or employment. In this legislation, Congress did no more than
instruct its agents who were selected and granted final authority to
fix the terms and conditions under which the Government will permit
goods to be sold to it."
Is There A Precedent For This Type Of International Activity?

Last, but not least, one might ask: How could this law be enforced? The Customs Bureau has agents stationed in every country of the world, among whose duties is checking the books of manufacturers who would sell goods to the United States at a price lower than that for which the same product is sold on the home market. The customs inspectors visit these manufacturers and evoke voluntary compliance for such inspection. The manufacturer knows that if he does not comply, the inspector's report of the non-cooperation might very well evoke countervailing duties or other import restrictions. We could cloak United States Labor Department inspectors with similar responsibilities and authority and use the existing tariff and trade laws - and most certainly in the case of American multinational corporations the Internal Revenue code - as weapons in the enforcement arsenal.

We recall that when the Walsh-Healey Act was in its early years of enforcement, manufacturers were permitted to set up separate government work departments where Walsh-Healey rates and conditions prevailed. The manufacturer did not have to maintain the same minimum wage standards in the rest of the shop. We see no reason why this device, if necessary, could not be used in an introductory fashion with foreign manufacturers who would sell their goods in this country.

Above all, we believe this type of legislation would present to trade unionists and working people all over the world an instrument under American law whereby they could achieve benefits for themselves, their friends and neighbors.

In the case of our own industry (hosiery), we can think of nothing more gratifying than knowing that purchase orders for hat bodies produced by the Czechoslovakian government monopoly would one day require adherence to United States minimum wage standards.

In the NEW YORK TIMES of December 1, 1971, Secretary of Commerce Stans, on the occasion of the announcement that a group of United States companies had signed contracts with the Soviet Union worth a
total of $135,000,000, "called an American businessman ... to adjust
their style to the practices of the Soviet Union’s government-run
economy to significantly expand trade between the two countries."

We believe this is a very sound bit of advice to American busi-
nessmen. On the other hand, we also believe that the quid pro quo
would be to ask the Soviet bloc nations and other foreign manufacturers
to, at the very least, adjust their style of paying wages to the
practices prevailing in the United States, if they want to send the
products of their factories into this country.

Inevitably, debate will take place in the foreign trade community
as we build the climate for such an amendment. We can suspect to
countries like Germany, Great Britain, France, Canada and Japan that
they, too, might join our country by invoking similar legislation
covering imports to their countries. When we think of the political,
implications, would it not be useful for Great Britain to take note
of the possibilities of this type of legislation as it might apply to
Hong Kong?

In yesterday’s (Wednesday, August 6, 1975) WALL STREET JOURNAL,
the following front-page news brief appeared:

“Lech Kaczyński, Poland’s new premier, said the government, which
substituted the Council of Mutual Economic Assistance (CMEA) for
the Organization for Economic Cooperation and Development
in 1990, would seek closer economic ties with the West. He
announced plans to liberalize Poland’s foreign trade and
investment laws, and said the government would consider
 inviting foreign companies to invest in Poland.”

As we struggle with our Communist adversaries for the hearts and
minds of working people throughout the world, the picture we get of
American business ethics overseas must be of genuine concern to State
Department officials both at home and abroad. How much better an
approach is the one we advocate. If our program were adopted, the
worker processing goods destined for the United States would know that
he is subject to a substantially higher minimum wage than generally
prevails in his homeland, that he is entitled to time and a half for
overtime and his safety and health are protected by American health
and safety standards. What better advertisement is there for the
"American way of life?"
American manufacturers of fur felt hats are classified in the tariff schedules as 2852.703400, the industry title is Headwear, fur, not on the skin, other persons over $30.00 a dozen. The tariff rate is $2.75 a dozen plus four per cent. The problem actually is a two-fold one. The absolute as against the percentage tariff of $2.75 no longer represents a challenge to foreign competition either at home or abroad. Rabbit skins are now being used in great quantity in the manufacture of clothing generally to the extent that the price of rabbit fur, not on the skin, has gone from $3.00 a pound to $15.00 a pound. Hence, the selling price of a fur felt fedora to the retail trade between $90.00 and $140.00 a dozen, depending on the quality of the hat. Using the $50.00 price as a key, it becomes apparent that $2.75 plus four per cent represents a tariff add-on in the United States of about seven and one-quarter per cent.

Listed below are some of the countries where our manufacturers attempt to sell merchandise, together with the comparative difference in tariff rates, country by country. Fur felt hats come under a variety of tariff schedules. In those areas the International Trade Commission might demand equal treatment for our exports.

**Austria:** 30 per cent plus O.T.R. $3.50 a dozen is the rate charge to American manufacturers. From the United Kingdom or other Commonwealth countries, the rate is 17 per cent plus O.T.R. $1.86. In addition, there is an exchange control, set in absolute terms for the amount of United States dollars available for such imports.

**Denmark:** The tariff on fur felt hats from the United States is 12.3 per cent as contrasted to a tariff of 6 per cent from the Common Market countries, and no tariff from the outer seven countries.

On fabric hats, the tariff is 11.7 per cent from the United States, 6 per cent from Common Market countries, and none from the outer seven.
HOLLAND: On felt hats the tariff is 10-1/2 per cent plus a 16 per cent added value tax, a tax on top of the tariff. A person importing a $100.00 a dozen item into Holland would pay 16 per cent on the new $110.00 purchase. Fabric hats have a 6½ per cent tariff plus the 16 per cent added value tax.

Imports by Holland from Common Market countries have no duty at all, but do pay the 16 per cent added value tax.

ENGLAND, SWITZERLAND, FRANCE, AND BELGIUM: On fur felt hats the duty is 4.5 per cent plus the 16 per cent added value. In the case of fabric hats imported from England, Switzerland, Austria and Sweden, the tariff is 4.5 per cent plus the 15 per cent added value tax. If England remains in the Common Market, there will be a further 20 per cent reduction in tariffs on both fabric hats and fur felt hats.

NOway: On fur felt hats from the United States the tariff is 13 per cent and on fabric hats 16 per cent.

SWEDEN: No duty at all.

SOUTH AFRICA: On both fur felt and fabric hats 26 per cent of a minimum of eight rand per dozen, whichever is higher. Imports are closely limited by a requirement that all imports must be licensed. The amounts licensed are not by a quota system based on foreign currency allocation. Finally, hats are classified as a non-essential item.

SPAIN: On both fur felt hats and fabric hats the tariff is 30.6 per cent. Common market countries, as of January 1, 1970, are charged a tariff of 21.656 per cent. In addition, Spain requires import license and has strict exchange controls.

MEXICO AND COSTA RICA: Have an exchange on imports of hats. In the case of Mexico, we are told that if a Mexican national enters into Texas and returns with a new hat, the hat is confiscated.

SWEDEN: Imports from the United States are charged a flat 25 per cent tariff.
The Hon. Robert Garcia, M.C.
245 Grand Concourse
Bronx, New York 10451

Dear Congressman Garcia:

In-depth studies we have made of the impact of rent control on the economy of New York City are, we believe, vitally important to the total testimony being taken by your House Banking Subcommittee.

Deterioration in the housing stock, which hurts the poor most of all, is directly attributable to rent controls and stabilization. Controls simply dry up all incentives for refurbishing the aging housing stock. Rent control is government-imposed "red-lining" on the entire stock of rent-regulated units:

The City's housing stock is in serious decline. It is just barely larger than it was 15 years ago, and probably smaller than two or three years ago. It is not being renewed -- the lost units exceed the new ones -- so the stock as a whole is deteriorating. The majority of New Yorkers live in housing which was built during the time of their parents or grandparents, and it is simply old and shabby.

If the housing stock is to be renewed and the decline reversed, infusions of new money for rehabilitation and updating must be found. The Government housing programs, such as Mitchell-Lama, rehab loans, UDC or FHA, cannot do it. Financing must come from private trusted capital. To replace 460,000 old units (any, half of 460,000 old and new-law tenements) at $50,000 each would cost the City $20 billion, and since few people can pay rates of $500 to $600 per month to support them, we have to save existing stock. This means that the interests of the low-income residents are best served by removing rent controls.

This requires a change in government policy. It requires a signal from the political front that the restrictions and
March 31, 1970

The New, Robert Orton, M.A.

The chances are small. The market has not to be harnessed to build and rehabilitate housing and not diverted, as it is presently. It is too late for much of the stock, but for some of it there may still be hope.

As a result of extensive research on rent control over ten years which culminated in the report (enclosed) by George Sternlieb of the Watts Center for Urban Policy Research, several policy changes are essential and feasible:

1. A State agency should administer a system which places controlled units and stabilized units together. Their maximum annual rent increase would be equal to the Bureau of Labor Statistics' operating cost index increase or 7% whichever is higher.

2. All controls should be removed upon vacancy, and all present units renting for $500 or more should be decontrolled.

3. All requirements to correct code violations or meet building standards prior to rent hikes should be waived. Fulfilling these laws is a matter for the courts, not for the rent-control mechanism.

4. The City should move vigorously against tax delinquencies, and encourage conversion to condominiums and other methods of upgrading. It should help the needy through Federal Section 8 subsidies, welfare rent payments, or explicit appropriations (not hidden subsidies).

The rationale for these recommendations is to expand the housing supply, which will allow rents to stabilize or rise more slowly than otherwise.

From the supply point of view, the most striking feature is that growth has stopped. Housing units have grown by less than 2% in 12 years, and all the growth is in owner-occupied or subsidized housing. The number of rental units citywide has actually declined by 89,000 units, or 4% in 10 years. We are losing to demolition, conversion to ownership, etc.

The median rent of tenements ranges from $125 to $252 per month. Two thirds of the controlled units rent for under $150 per month.

From the owners' point of view, this rent level is simply not enough to keep them going.

Turning to the demand side -- the striking feature is the low income of the tenants. Despite some under-reporting of income in the census data, some four out of 10 renter households earn less than $6,000 a year. Only 1% earn $15,000 or more. The median income of center households is $9,500; it is $7,000 for controlled and $6,000 for public-housing households. Rents will not go up if tenants cannot pay; the landlord will not "vacate" his house through above-market rents.

With this low-income range, it is not surprising that renters pay a high percentage of income as rent. Roughly half of all renters pay more than 25% of income in rent. One third pay more than 35%. This is true of both the controlled stock and the entire rental stock.

The controlled tenancy typically has the following characteristics:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>71%</td>
</tr>
<tr>
<td>One person</td>
<td>72%</td>
</tr>
<tr>
<td>Female-headed</td>
<td>49%</td>
</tr>
<tr>
<td>Aged households</td>
<td>35% are 65 or over</td>
</tr>
<tr>
<td>Low income</td>
<td>43% (less than $6,000)</td>
</tr>
</tbody>
</table>

So what do we have? A declining, aging housing stock with a tenancy that is far from well off.

But this is only the average -- the typical. Obviously, there is a range of conditions and tenants -- from the poor tenant in the "non-avaiable" house to the relatively well-to-do in the new house. There are some tenants in controlled units who should and could pay more: some 74,000 controlled households earn over $15,000 per year, and some 176,000 families pay less than 20% of income as rent! Their rents should go up!

These are the areas where a higher cash flow is possible, and indeed necessary, to save the stock. But many other controlled units are already at market rents, and decontrol is not likely to raise the rent.

Despite all of these numbers, which lend themselves to different interpretations about many points, there is one clear truth: the housing stock is and large is shrinking in quantity and in quality. The landlords must be able to tap a greater cash flow in order to upgrade or even prevent further decline. This will help the poor by increasing the supply of good housing, which will allow rents to remain stable, or even to fall.
The policy changes we recommend would move in the right direction. They are not a panacea, but they are the only way to make any substantial contributions to reviving the stock and halting the decline.

And perhaps more than any dollars and cents impact, rent control reform represents a symbolic gesture -- surpassing all political rhetoric -- that New York is at last moving to correct the slide.

Historically, business has been a strong supporter of affordable housing for everyone. Good housing is a part of the economic climate that is considered in office-or-plant-location decisions. We are convinced that better housing can be achieved by letting market forces work, with subsidies reserved for explicit rent supplements to eligible families. If the demand is boosted with family rent supplements, the stock of private-market, quality housing will expand. It is when the market is thwarted by unrealistic rents that the housing stock deteriorates, hurting the poor the most. The best way to bring prices down is not through transfer payments, but through releasing free market forces which generate a build-up of supply and hence a reduction in price. Witness the price reduction brought about by excess inventory in the office-space market.

The humanitarian thing to do is to remove rent controls and provide some incentives to improve the quality and quantity of housing.

Sincerely,

Paul Buoss
President
Statement of Morton Bahr, Vice President
Communications Workers of America, AFL-CIO
District 1 - 80 Pine Street, New York, N.Y.
Submitted to Sub-committee on Economic Stabilization
House Banking Committee
February 23, 1978

My name is Morton Bahr. I am an International Vice President
of the Communications Workers of America, AFL-CIO, charged with the
administration of the Union in New York, New Jersey and New England.
CWA represents workers in both the public and private sectors.
Some 40,000 members of our Union are employed in New York City and
its suburbs. Of these, about 6,000 are employed by the City of
New York. Clearly, we have a direct and immediate interest in the
fiscal, economic and political stability of New York City, both as
workers whose jobs depend upon it and as citizens who live in the
City and the metropolitan area surrounding it.

New York City continues to need the help of the federal govern-
ment and it deserves that help. As the members of this subcommittee
are well aware, the City's problems developed largely from its
response to an in-migration of people caused by national policies
and a loss of industry due to plant obsolescence and trade policies
sending our labor intensive industries overseas.

I do not absolve the management of the City of New York, although
I sincerely believe that it sought to act in good faith. There is
no question that in its anxiety to meet the problems resulting from
the flight from the City of the middle classes, the loss of tax base,
the rising costs of goods and services and the demand for more services,
municipal management resorted to budgetary aight-of-hand and less
than responsible budget balancing.
Our City, its employees and its citizens have paid dearly for any past impropriety. Over 60,000 municipal employees have paid with their jobs. The remaining City employees have paid by sacrificing much needed pay increases in the face of today's unrelenting inflation. City services have been cut to the bone. The physical plant of our City has been permitted to deteriorate too far for comfort. During the recent blizzard, the City was unable to send out its streets to clear snow 40 percent of sanitation trucks because they would not run. Some of these vehicles are two and three decades old.

City employees have more than done their part. We have demonstrated our faith in our City by pledging our pension funds for municipal and MAC bonds. We have bought those bonds in good faith because we feel that our City has a real future—one inextricably bound up with the future of the entire nation—if only given a further helping hand.

There is, indeed, good reason for that extra push to help New York City get over the hump. Horbert Bloch, M.A. Commissioner for this area, has reported that the private sector is again moving upward and providing more jobs in our town. The increase isn't great, but it is discernible. Now, indeed, is the time to help, not to force bankruptcy and its attendant chaos upon the nation's biggest City.

The burden of bankruptcy in New York City will fall on the shoulders of poor people who depend upon public housing, welfare and other public assistance for their subsistence. It will fall upon
workers in the private sector who will lose jobs as enterprise flee social breakdown. It will fall upon the shoulders of public employees already carrying an undue share of the burden. The costs in added crime and delinquency will be incalculable.

It is doubtful that a bankrupt New York can be governed at all. The taxes collected would first have to go to those who hold the City's debt. Public employees may well be left without paychecks and the city could be left with little or no police and fire protection, no welfare for its poor, no health services.

It would take decades to recover from such chaos. New York City now cannot sell its bonds on the open market. Given bankruptcy or further decline caused by still greater cutbacks in public services and neglect of physical plant, the nation's largest City may not in the foreseeable future be able to sell either short term paper needed to tide it over between tax collection periods or long term paper essential to the revitalization of its physical plant.

The shock wave of New York City bankruptcy—or further decline forced upon it by lack of aid from the federal government—will not end at the Hudson River. It will be felt throughout America and, for that matter, throughout the world. America simply cannot afford to let her biggest City go down. Failure of our City will be reflected all too soon in the decline of the Empire State, our region and, indeed, could precipitate a world-wide economic depression.

New York City has met its obligation to the federal government. It has paid the interest on the seasonal loans made to us. The federal treasury, indeed, has made a profit on those loans.
Our City needs time for full recovery. New York State has helped and our budget is close to balance for the coming year. The need is for $1.2 billion in seasonal loans next year; $800 million in 1980 and $400 million in 1981. Over the next four years, the City needs $5.1 billion for capital loans, to restructure the capital budget and to put the City's debt structure on sound, repayable grounds.

New York City's problems can be solved with a Federal guarantee of some $2.25 billion in bonds which would be co-insured by the State. These bonds could be sold to City and State pension funds which must have such guarantees if the trustees are to meet their fiduciary responsibilities. With the Federal-State co-insurance of the $2.25 billion in bonds, financial institutions would be induced to purchase an additional billion. The City then could go to the money markets to sell the $2 billion more needed to put it on a sound fiscal basis.

As a union officer and former telecommunications worker, I think I understand the kind of burden the people of this City—especially its public employees—have already borne. I find it exceedingly hard to understand the position taken by Senator Proxmire and the Senate Banking Committee. We are talking about human beings and their welfare, not simply abstract dollars. President Carter seems to understand the consequences; he has, at least, made a commitment to "preserve New York City's solvency."

We are trying to help ourselves: we have sacrificed; we have been very patient and cooperative. It is our sincere hope as working people that the Congress will not forsake us by forsaking our City.
Our City employees, like other American workers, now deserve consideration. Like other workers, they must contend with the lash of inflation. Our City must be placed in a position to bargain with them in good faith. I assure you that my Union too will deal in good faith.

Survey after survey has shown that the public employees of our City are not at fault. Their wages are not as high as those of federal employees although our tasks are similar. They are at best comparable with those of some major cities and are lower than in several others.

On behalf of my Union, its members, the public employees of our City and the citizens of New York, I urge your Committee to respond to our needs. Our citizens have paid their share of federal taxes and more. Please do not place in jeopardy their ability to continue to work and to pay.
Kings Bay "Y" Senior Citizen
Brooklyn, New York
March 30, 1971

Dear Sir:

Enclosed is a copy of a petition was upon by our membership, representing over 5000 senior citizens. We are deeply concerned about our city's financial situation. We hope you will take the proper and fair action to keep save New York City. By saving New York you will also be saving the entire country.

Respectfully yours,

Michael Coleman
Chairman, Social Action Committee
Brooklyn, New York

Join Our Building Fund Campaign
An Appeal To Our Congressmen and Senators To Help New York City thru Difficult Times

We are not asking for charity — we pay for everything we get from our government. Since 1975 New York City has met all the important conditions laid down by the Emergency Financial Control Board for financial recovery.

A collapse of New York would be viewed as a failure of the American capitalist system. New York is burdened with huge payments for welfare, medicine, court, N.Y., hospital and university costs not borne by other cities in the country.

We are quick to give away millions and billions for foreign and corrupt countries in the name of national security. Now, we, the people, need your help to have a strong nation. We love New York and we love our country. It is up to you to save both.

Steve Kaye  Michael Coleman  
Chairman  Chairman

Social Action Committee

Committee

Harry Friedmann  VINCENT
Marilyn Solomon  ADVISING COUNCIL
Harry Kizik  New York's
Billy O'Leary  Chair, RNC
Lou Friedmann  Weekly Roving RNC Chairman
Cafeteria, Yellow, Social Action
Alton Goodwin  Social Services
Paul Black  Advisory Committee
Leah Reagan  Local Action

We support our own...
3/31/78

Dear Congressman Brookhart,

Federal Loan to New York City

Audit Committee

Enclosed are certain statements made by me which contain my main objections to the use of an audit committee by the city of New York in conjunction with the EPA audit of its operations.

I believe the quality and integrity of their audit and the credibility of the ultimate findings require the use of an Audit Committee, now widely established as a professional tool.

I believe there are persons in the City government who wish to exercise political control to that extent possible, over the EPA audit, and are not anxious to see the use of an Audit Committee.

I now urge the Congress, which has the leverage, to extend the New York City loan with the condition that an independent Audit Committee will be utilized in conjunction with its ongoing EPA audit.

Thank you very much.

Sincerely,

Charles Friedelbom, CPA
2533 Batchelder St.
Brooklyn, N.Y. 11235
MY NAME IS CHARLES MENDELMAN
I AM A CERTIFIED PUBLIC ACCOUNTANT

I propose the Agreement between the Peat, Marwick, Mitchell & Co., Consortium and the City of New York to audit the City's books until the following amendments and corrections have been made:

1. Provision should be made that the subject CPA report on the Examination of Financial Statements of the City of New York shall be addressed to

   The Citizens of the City of New York,

   as they are the ultimate source of governmental power and to whom final accountability is made. In short, the citizens pay the bill and this report is for, and to, them, and the CPA's are to recognize that.

2. Provision should be made, consistent with New York Stock Exchange and Securities and Exchange Commission policy, for the creation of an Independent Audit Committee, of comparable public stature to the Board of Estimate, to strengthen CPA independence of politically sensitive situations and officials during the course of the work.

   Such a committee should not include any official, elected or appointed, of the City or State of New York. The committee should consist of no more than 5 members, each of whom is completely divorced from the political process. It is suggested that the committee be selected from the following by the Board of Estimate:

   A. Chairman of the Federal Reserve Bank of New York
   B. Chairman of the Ford Foundation
   C. President of Columbia University
   D. Chairman of Metropolitan Life Insurance Co.
E. President of the New York Stock Exchange
F. Chairman of AT&T Corp.
G. Chairman of IBM Corp.

As an alternative, the Board of Estimate may give the Federal Reserve chairman the power to appoint an audit committee.

3. Re Item 11 E of the Agreement:

This clause is a reflection on the ethical requirements of CPA's and should be eliminated. Such a clause would not be used for a doctor or an attorney and CPA's have the same confidentiality responsibilities. Professional ethics are not contracted for performance.

4. Re Item 11F of the Agreement:

A specific statement should be added to the effect that any consortium workpapers, since these relate to the public business, be made available, on demand, to those governmental agencies which have appropriate regulatory or investigatory powers in connection with matters contained in their workpapers.

5. Provision should be made that all evidences of illegality found during the course of the examination shall be

A. referred to the audit committee
B. not excluded from the audit report, if so determined by the audit committee.

Please lay this item over until the Board has had time to critically review these proposals and substantially improve the Agreement. Thank you.

Board of Estimate
Public Hearing
9/14/77
Audit Committees: A Current Perspective

The creation of functioning, independent audit committees for publicly held corporations was first advocated by security regulators almost 40 years ago. Events in recent years, such as shareholder-initiated litigation and revelations of questionable payments, have focused acute attention on directors' responsibilities for accurate financial reporting and ethical corporate behavior. These factors, together with governmental allegations of lack of auditor independence and recent action by the New York Stock Exchange, have accelerated the development of these committees as a punishment and integral part of the organization of public corporations.

Background

Among the first to suggest formation of audit committees was the New York Stock Exchange, which in 1939 recommended the selection of auditors by a special committee of three directors who were not corporate officers. A similar recommendation was contained in Accounting Series Release No. 19 issued in 1940 by the Securities and Exchange Commission. In 1958 a significant impetus for the formation of audit committees was added by the court's decision in Essex v. Rankin Construction Corporation, which underscored the liability of directors for misleading corporate financial statements.

In 1972 the SEC repeated its endorsement of such committees and urged the support of this goal by the business and financial communities and shareholders. "To assist in effecting the greatest possible protection to investors who rely upon financial statements." In 1973 the New York Stock Exchange issued a white paper which strongly recommended the formation of audit committees, citing their numerous advantages and enumerating specific functions that they might undertake. As directors and other stability suits proliferated in the early 1970s, an increasing number of boards formed audit committees.

A 1971 survey by Hendrick and Struggles, Inc. of 1,562 of the largest U.S. corporations reported that 45 percent of some 170 respondents had audit committees. Five years later—following the recommendations of the SEC and the New York Stock Exchange, as well as numerous revelations of questionable payments by corporations—the use of audit committees had more than doubled to 93 percent of those responding. Similar studies by Korn/Ferry International not only confirmed this trend, but reported a substantial increase in the activities of the committees. For instance, in 1976, 42 percent of the respondents having audit committees indicated they had three or more annual meetings with the corporation's independent auditors. Two years earlier only 22 percent had met with such frequency. This survey indicated that these committees have virtually disappeared. It should be noted that both surveys were restricted to larger, presumably exchange-listed corporations. Active audit committees perhaps are still the exception, rather than the norm, with smaller, non-listed corporations.

Recent Events

In January 1977, the New York Stock Exchange adopted a requirement that each domestic corporation with common stock listed on the exchange must establish and maintain an audit committee of its board of directors. For corporations...
already listed, the effective date of this requirement is June 30, 1976.

For corporations applying for hal-
king, the rule provides an interim
The rule allows that audit com-
mittees in the United Kingdom and
the United States. This group,
which represents the professional
accounting organizations of those
countries, conducts comparative
studies of accounting thought and
practice and issues reports to mem-
bers of sponsoring organizations.

The report recommends the estab-
lishment of audit committees by all
public corporations, together with
minimum steps these committees
should undertake.

The Commission on Auditors’
Responsibilities, more commonly
referred to as the Cohen Commiss-
rion, is currently studying the inde-
pedent auditor’s role and expand-
ing the related needs and
expectations of users of financial
information. Its “Report of Tentative
Conclusions” was released for pub-
lic scrutiny and comment on April
1, 1977. The report covers a wide
range of subjects including the role
of the auditor, the effectiveness of
this communications, the problem of
independence, the process of establishing auditing standards and the effectiveness of internal and external regulation of the accounting profession. The report states that an audit committee, composed of external, independent board members, is "potentially the most effective method for monitoring and achieving some balance in the relationship between the independent auditor and management." Specifically, the report recommended that principal responsibility for the selection and appointment of auditors and the setting of fees should be centered in the board of directors or its audit committees. The report cited the need for the board (through, presumably, its audit committee) to "evaluate the relationship between the auditor and management, review and approve all arrangements for the audit, including the fee, scope and timing, and recommend the appointment of independent auditors to shareholders." In March 1977 the Senate Subcommittee on Reports, Accounting and Management (the "Mitchell Subcommittee") released the full text of a staff study entitled "The Accounting Establishment." The subcommittee was charged to study, among other things, the need for the federal government to have a role in establishing accounting practices. The final report of the subcommittee expected in July 1978, will address such issues as who should set accounting standards and the need for federal regulation of the accounting profession. This staff study was sharply critical of the accounting profession and charged an "astounding lack of independence" on the part of the large accounting firms. This criticism specifically pertained to the close relationship between the independent auditor and the management of the corporation being audited.

In answer to this criticism, the accounting profession noted that such a relationship is inherent in the audit process. Almost unanimously, accountants testifying before the subcommittee advocated the establishment of audit committees as an effective means of strengthening the audit function and the independence of auditors. In response to the staff study, the AICPA noted that the audit committees "provide a means by which the auditors can discuss candidly with public directors problems they have discovered in the company, the quality of internal controls, pressures from management, improper conduct they have found and anything else they think may affect the financial statements of the company."

In addressing the question of accountants' independence during testimony before the subcommittee, Harold M. Williams, the current SEC chairman, cited the formation of independent audit committees as "one of the most important approaches to the strengthening of auditor independence." Williams recommended that all public corporations, exchange-listed or not, establish such committees. He also noted that the SEC will itself consider such a rule if it is required does not come from the private sector.

Conclusion
The role of audit committees in strengthening the financial reporting process and in assuring boards of directors in discharging their fiduciary responsibilities has come into sharp focus. Regulatory and other external pressures perhaps will elevate the role and responsibility of these committees to levels not contemplated as recently as five years ago. Perhaps the tempo of the times is that a public corporation should no longer dwell on the question of whether to establish an audit committee but rather should consider how to select and equip its committees to make it most effective.
Statement to the Securities and Exchange Commission

My name is Charles Henderson
I am a Certified Public Accountant

Gentlemen, the recent New York City financial fiasco demands that the Federal government establish procedures to protect both taxpayers, the civic stockholders, and investors from inadequate, as well as fraudulent, financial disclosures by State and Municipal governments. Political accounting decisions can no longer be permitted to supersede professional standards, with deliberate obfuscation of the financial facts.

The Federal government, as the superior power, must assume the responsibility to see that the citizens of States and other political subdivisions also have the equal protection of the securities' laws. Solvent government cannot exist without a financially informed citizenry. The New York experience would seem to indicate that citizen professionals in accounting, law, and finance would not, or could not, discharge their obligations, as experts, to their fellow citizens, the public, as a check on everybody's government. I therefore urge the SEC to recommend to the Congress legislation which would give the SEC regulatory authority over the financial reporting of State and Municipal governments. Such regulatory authority would then include the power

1) to require independent audits by Certified Public Accountants of the financial statements of State and Municipal governments
2) to require the utilization of audit committees, under a controlled selective process, in connection with such independent audits.

A recent experience on the subject of audit committees is basic to my view and perhaps instructive. The New York City government, under new state and city legislation, is required to have an independent audit made annually of the City's books. The City's Board of Estimate, consisting of the Mayor, Comptroller, President of the City Council, and 5 Borough Presidents, is charged with the selection of the CPA's. On September 14, 1977, at a public hearing of the Board of Estimate, a proposed audit contract with a consortium headed by Peat, Marwick, and Mitchell, the largest CPA firm, was approved. I was the only professional, and citizen, who spoke at the hearing, and it was in objection to such approval, based on certain provisions in, and omissions from, the contract. One of the contract omissions related to audit committees. I stated the following to the Board:

"Provision should be made, consistent with New York Stock Exchange and Securities and Exchange Commission policy, for the creation of an independent Audit Committee, of comparable public stature to the Board of Estimate, to strengthen CPA independence of politically sensitive situations and officials during the course of the work.

Such a committee should not include any official, elected or appointed, of the City or State of New York. The committee should consist of no more than 5 members, each of whom is completely divorced from the political pro-
cess. It is suggested that the committee be selected by the Board of Estimate:

A. Chairman of the Federal Reserve Bank of New York.
B. Chairman of the Ford Foundation.
C. President of Columbia University.
D. Chairman of Metropolitan Life Insurance Co.
E. President of the New York Stock Exchange.
F. Chairman of A T & T Corporation.
G. Chairman of IBM Corporation.

As an alternative, the Board of Estimate may give the Federal Reserve chairman the power to appoint an audit committee."

In addition, in relation to Audit Committees, I stated: "Provision should be made that all evidences of illegality found during the course of the examination shall be

A. referred to the audit committee

B. not excluded from the audit report, if so determined by the audit committee."

In response to these particular remarks, the Acting Comptroller, Mr. Goldin's deputy, replied:

"The point that he raised about an independent audit committee is one which the Comptroller has under active consideration.

We are talking with numerous people in the accounting field in New York and throughout the country and we are, at the present time, contemplating this very idea of an independent outside audit committee not composed of City officials but composed of independent people of substan-
tial stature. We are talking to other government agencies in other parts of the country to get their reaction to this and find out what their experiences may be. We are talking to people throughout the accounting profession and it may very well be that we will follow that procedure. At the moment we are not prepared to conclude whether this is or is not something we ought to do but we have had this under discussion for several months and are pursuing it along the lines of continuing to investigate it."

At the conclusion of the Deputy's statements, I was not permitted to reply. But these are my observations: I have a feeling that the words of the Comptroller's assistant are symbolic of typical New York City procrastination, with probable indecision at its tail. Why has the Comptroller taken months to "discuss" the matter, when it is obvious that all steps necessary to reestablish the City's financial credibility are a categorical imperative? Again, why is the comptroller involved, at all? He is the chief financial officer of the city, keeper of the books, internal auditor, preparer of the financial statements subject to independent CPA examination. He, of all people, should be excluded from any role in

1) The determination of whether to have an Audit Committee.

2) The selection of the members of the Audit Committee.

One would expect the Comptroller, especially as an elected official, to understand this, if not the Board of Estimate.

In general, I am not sanguine as to the full independence of Audit Com-
mitees, where their selection is in the hands of Boards of Directors. The world just doesn't work that way. Yet the SEC can do something in this regard. It should be authorized, by appropriate legislation, to appoint one member of Audit Committees, when in its judgment that would be in the public interest. Such an appointee would, of course, be entirely independent in his role from the SEC.

Before concluding, there is one observation I would like to make in another topical area. It relates to the approval of the CPA's by shareholders. In that connection, I would recommend that the SEC require proxy statements to indicate any SEC orders to, or agreements with, the designated CPA within the past 3 years.

Thank you very much,
October 27th 1977

PUBLIC HEARING
N.Y. N.Y.
Rosalia Graubart  
P.O. Box 368  
Putnam Valley, NY 10579

Reg. Murray T. Rangel  
Chairman  
Joint Pension Plan and Economic Stabilization  
Dept. of Labor, City of New York

Dear Sir,

I am a member, retired, a member of the fire and rescue handicapped group. During my 32 1/2 years of service, I was subjected to the maximum, to the N.Y.S. Firemen Retirement Trust. The money that I accumulated in my money for service does not belong to me. It is held in trust, as to the money for service.

I retired, for 7 years, 9 months - my first year, it was 7 months. I worked.

I am disabled again, and no pension as a result of -

I urge you to support the firemen, in their joint effort to keep benefits. Your support is needed, and we will keep on working.

Yours truly,

[Signature]
March 21, 1976

Rep. William S. Moorhead  
Chairman, House Subcommittee  
on Economic Stabilization  
Room 2467  
Rayburn House Office Building  
Washington, D.C. 20510

Dear Sir:

As a member of the New York State Employees' Retirement System, I am writing to let you know of my support for Comptroller Arthur Levitt's position of safeguarding public employee pension monies from unsound investments in New York City securities.

Having dedicated my life to public service as part of the public educational system of this state, I depend upon the prudent investment of my pension fund money to guarantee that the money will be there when I retire.

I look to you to exercise leadership on this matter by supporting Comptroller Levitt in his efforts to maintain the security and the integrity of our hard-earned retirement funds.

Sincerely,

Jeanne F. Shannon  
Secretary to Mr. Mahoney
19 Payne Street
Holliston, N.Y. 1347
March 20, 1978

Rep. William D. Moorhead
Chairman, House Subcommittee
on Economic Stabilization
Rm. 24607
Rayburn House Office Bldg.
Washington, D.C. 20510

Dear Sir:

As a retired teacher in the New York City Teachers' Retirement System, I want you to know I support Congressman Arthur Levitt in his stand to safeguard public employees' money from being invested in New York City securities. I consider a very unsound investment.

I think you will support Congressman Levitt in his efforts to maintain the security of funds on which I depend for my income and in which I invested my hard earned money.

Sincerely,

Mary J. Benedict
Rep. William J. Maerlind
Rm 2407
Rayburn House Office Bldg
Washington, D.C. 20515

Dear Rep. Maerlind:

This is a plea to you to
oppose Senator Biaggi in his
stand against saving pension
funds as "bad and money-
for-New-York-City-or-any-other-
city" for the military.

My husband has a combined
interest of 33 years investment
in our pension plan. As far the
plan has been stable. Please help
us keep it that way. Yours truly

Alice van der Meulen
Baldwin Gardens, 22
Baldwin, New York 11510
March 23, 1978

Rep. William C. Moorhead
Chairman, House Subcommittee on Economic Stabilization
Room 2467
Rayburn House Office Bldg.
Washington, D. C. 20510

Dear Rep. Moorhead:

As a member of the New York State Teacher's Retirement System and a recently retired teacher, I am writing to let you know of my support for Comptroller Arthur Levitt's position of safeguarding public employee pension monies from unsound investment in New York City securities.

Having dedicated my life to public service by educating the school children of this state, I depend upon the prudent investment of my pension fund money to guarantee that the money will be there during my continued years of retirement.

I look to you to exercise leadership on this matter by supporting Comptroller Levitt in his efforts to maintain the sanctity and the security of our hard-earned retirement funds.

Sincerely,

Fredericka Albert
February 2, 1979

Citizens of the United States generally pay for their own housing and local taxes. This is not true in New York City, where its residents, mostly tenants, have effectively imposed socialism on an industry that by continuing rent control over since World War II, and a host of other anti-landlord legislation.

This, above all else, is responsible for the city's economic and financial dilemma.

I strongly urge that any further federal aid to New York City be made contingent upon the dismantling of these laws.

Very truly yours,

Mayer Fisch
WE FULLY AGREE WITH SECRETARY BLUMENTHAL AND CONGRESSMAN REUBS THAT SOME TYPE OF CONTINUING FEDERAL ASSISTANCE FOR NEW YORK CITY IS REQUIRED.

THE PEOPLE OF NEW YORK CITY AS WELL AS ITS FINANCIAL AND BUSINESS INSTITUTIONS, LABOR UNIONS, ELECTED OFFICIALS AND THE STATE OF NEW YORK HAVE MADE A MOST SERIOUS CONCERTED EFFORT TO DEAL WITH PROBLEMS WHICH COULD NOT POSSIBLY BE FULLY RESOLVED WITHIN THE RELATIVELY SHORT PERIOD THEY HAVE HAD TO TRY TO MAKE THAT GREAT CITY WHOLE.

WE URGEE SUPPORT FOR CONTINUING AID ON TERMS WHICH ARE BOTH RESPONSIVE AND HUMANE.

CARL WOLMAN, PRESIDENT
NATIONAL URBAN COALITION

11134 EST
MNHCPF NCH
March 3, 1978

Honorable William S. Moorhead, Chairman
Subcommittee on Economic Stabilization
of the Committee on Banking, Finance and Urban Affairs
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Moorhead:

We have given your letter of February 17 careful thought and feel that a New York City bankruptcy or insolvency would have widespread repercussions in all capital markets, with particular impact on the municipal market and to some extent on corporates. In fact, we would not be surprised if municipal and possibly corporate markets closed temporarily to give investors time to assess the extent of the damage. There would, furthermore, be lasting damage not only for New York City and New York State but all public securities would feel the adverse reaction because the marketplace would interpret this as meaning that the contractual obligations of public bodies in the U. S. could not be completely relied upon. Furthermore, it should be pointed out that bankruptcy on the part of a major city in the U. S. could have unexpected side effects in both the political and economic areas.

This atmosphere certainly would not foster confidence in the U. S. dollar and, in the eyes of foreign traders, would be one more compelling reason to view the dollar with distrust.

The bankruptcy of New York City might cause the foreign exchange markets to react severely with substantial selling of the dollar taking place. The credibility of the entire U. S. banking system could be severely strained and foreign banks, for credit reasons, might hesitate to conduct foreign exchange business with American banks, particularly those based in New York. This, of course, would bring into question the whole subject of the extent to which the dollar should be used as an international reserve asset.
Finally, we feel that New York City represents the most serious example of a major urban problem facing this country. Rather than try to sweep the problem under the rug, by evading the fundamental issue through bankruptcy, we suggest that the State and Federal Governments join forces to solve the problem, possibly by convening a special commission which in effect would oversee the City's finances as a "de facto" receivership.

In view of the foregoing, we obviously feel that bankruptcy or insolvency of the City of New York should be avoided at all costs. Admittedly, my remarks may err on the side of "cataclysm" but we are living in very uncertain times and the confidence of investors, lenders and other risk takers in our institutions is fairly low.

Sincerely

Richard D. Hill
Chairman of the Board
APPENDIX III

(Material from a Treasury Department report of May 1976, referred to by Mr. Kelly on page 258)

Source: Department of the Treasury

"Federal Aid to States -- Fiscal Year 1977"

<table>
<thead>
<tr>
<th>State</th>
<th>1972 (Thousand)</th>
<th>1973 (Thousand)</th>
<th>1974 (Thousand)</th>
<th>1975 (Thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>2,940,770</td>
<td>3,036,177</td>
<td>3,133,281</td>
<td>3,233,792</td>
</tr>
<tr>
<td>Alaska</td>
<td>103,031</td>
<td>103,812</td>
<td>104,593</td>
<td>105,374</td>
</tr>
<tr>
<td>Arizona</td>
<td>1,545,383</td>
<td>1,643,358</td>
<td>1,742,338</td>
<td>1,841,318</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1,130,950</td>
<td>1,230,950</td>
<td>1,330,950</td>
<td>1,430,950</td>
</tr>
<tr>
<td>California</td>
<td>1,968,072</td>
<td>2,083,882</td>
<td>2,199,692</td>
<td>2,315,502</td>
</tr>
<tr>
<td>Colorado</td>
<td>475,177</td>
<td>495,177</td>
<td>515,177</td>
<td>535,177</td>
</tr>
<tr>
<td>Connecticut</td>
<td>1,170,604</td>
<td>1,270,604</td>
<td>1,370,604</td>
<td>1,470,604</td>
</tr>
<tr>
<td>Delaware</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
</tr>
<tr>
<td>District of Colombia</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
</tr>
<tr>
<td>Florida</td>
<td>1,735,882</td>
<td>1,835,882</td>
<td>1,935,882</td>
<td>2,035,882</td>
</tr>
<tr>
<td>Georgia</td>
<td>1,170,604</td>
<td>1,270,604</td>
<td>1,370,604</td>
<td>1,470,604</td>
</tr>
<tr>
<td>Hawaii</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
</tr>
<tr>
<td>Idaho</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
</tr>
<tr>
<td>Illinois</td>
<td>1,687,263</td>
<td>1,787,263</td>
<td>1,887,263</td>
<td>1,987,263</td>
</tr>
<tr>
<td>Indiana</td>
<td>1,127,091</td>
<td>1,227,091</td>
<td>1,327,091</td>
<td>1,427,091</td>
</tr>
<tr>
<td>Iowa</td>
<td>787,000</td>
<td>787,000</td>
<td>787,000</td>
<td>787,000</td>
</tr>
<tr>
<td>Kansas</td>
<td>1,057,930</td>
<td>1,157,930</td>
<td>1,257,930</td>
<td>1,357,930</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1,065,330</td>
<td>1,165,330</td>
<td>1,265,330</td>
<td>1,365,330</td>
</tr>
<tr>
<td>Louisiana</td>
<td>1,292,000</td>
<td>1,392,000</td>
<td>1,492,000</td>
<td>1,592,000</td>
</tr>
<tr>
<td>Maine</td>
<td>448,302</td>
<td>448,302</td>
<td>448,302</td>
<td>448,302</td>
</tr>
<tr>
<td>Maryland</td>
<td>1,577,898</td>
<td>1,677,898</td>
<td>1,777,898</td>
<td>1,877,898</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1,244,810</td>
<td>1,344,810</td>
<td>1,444,810</td>
<td>1,544,810</td>
</tr>
<tr>
<td>Michigan</td>
<td>848,200</td>
<td>948,200</td>
<td>1,048,200</td>
<td>1,148,200</td>
</tr>
<tr>
<td>Minnesota</td>
<td>678,200</td>
<td>778,200</td>
<td>878,200</td>
<td>978,200</td>
</tr>
<tr>
<td>Mississippi</td>
<td>498,000</td>
<td>598,000</td>
<td>698,000</td>
<td>798,000</td>
</tr>
<tr>
<td>Missouri</td>
<td>1,285,000</td>
<td>1,385,000</td>
<td>1,485,000</td>
<td>1,585,000</td>
</tr>
<tr>
<td>Montana</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
<td>112,720</td>
</tr>
<tr>
<td>Nebraska</td>
<td>326,200</td>
<td>326,200</td>
<td>326,200</td>
<td>326,200</td>
</tr>
<tr>
<td>Nevada</td>
<td>298,000</td>
<td>298,000</td>
<td>298,000</td>
<td>298,000</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>446,200</td>
<td>446,200</td>
<td>446,200</td>
<td>446,200</td>
</tr>
<tr>
<td>New Jersey</td>
<td>1,820,000</td>
<td>1,920,000</td>
<td>2,020,000</td>
<td>2,120,000</td>
</tr>
<tr>
<td>New Mexico</td>
<td>200,000</td>
<td>200,000</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1,165,000</td>
<td>1,265,000</td>
<td>1,365,000</td>
<td>1,465,000</td>
</tr>
<tr>
<td>Ohio</td>
<td>1,165,000</td>
<td>1,265,000</td>
<td>1,365,000</td>
<td>1,465,000</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>1,065,330</td>
<td>1,165,330</td>
<td>1,265,330</td>
<td>1,365,330</td>
</tr>
<tr>
<td>Oregon</td>
<td>1,292,000</td>
<td>1,392,000</td>
<td>1,492,000</td>
<td>1,592,000</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1,950,400</td>
<td>2,050,400</td>
<td>2,150,400</td>
<td>2,250,400</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>398,400</td>
<td>498,400</td>
<td>598,400</td>
<td>698,400</td>
</tr>
<tr>
<td>South Carolina</td>
<td>1,046,000</td>
<td>1,146,000</td>
<td>1,246,000</td>
<td>1,346,000</td>
</tr>
<tr>
<td>Tennessee</td>
<td>1,057,930</td>
<td>1,157,930</td>
<td>1,257,930</td>
<td>1,357,930</td>
</tr>
<tr>
<td>Texas</td>
<td>2,025,000</td>
<td>2,125,000</td>
<td>2,225,000</td>
<td>2,325,000</td>
</tr>
<tr>
<td>Utah</td>
<td>807,000</td>
<td>907,000</td>
<td>1,007,000</td>
<td>1,107,000</td>
</tr>
<tr>
<td>Vermont</td>
<td>139,100</td>
<td>139,100</td>
<td>139,100</td>
<td>139,100</td>
</tr>
<tr>
<td>Virginia</td>
<td>1,486,200</td>
<td>1,586,200</td>
<td>1,686,200</td>
<td>1,786,200</td>
</tr>
<tr>
<td>Washington</td>
<td>650,000</td>
<td>750,000</td>
<td>850,000</td>
<td>950,000</td>
</tr>
<tr>
<td>West Virginia</td>
<td>358,400</td>
<td>458,400</td>
<td>558,400</td>
<td>658,400</td>
</tr>
<tr>
<td>Wyoming</td>
<td>271,200</td>
<td>371,200</td>
<td>471,200</td>
<td>571,200</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>850,000</td>
<td>950,000</td>
<td>1,050,000</td>
<td>1,150,000</td>
</tr>
<tr>
<td>Total</td>
<td>31,199,900</td>
<td>31,199,900</td>
<td>31,199,900</td>
<td>31,199,900</td>
</tr>
</tbody>
</table>

New York State received the most funds even though it trails California in population. The populations of New York and California, according to a July 1, 1977 Census Bureau estimate are:

- California: 21,896,000
- New York: 17,921,000
NEW YORK TIMES

NEW YORK FIRST
in Federal Aid
To States in '77

By EDWARD C. BURNS

WASHINGTON, Jan. 31—New York
State ranked first among the 50 states in Federal
aid received in Fiscal 1977 and each in per capita Federal aid,
according to preliminary figures released by the Treasury
Department.

The state received $1,464,600,000 in total aid—half a billion dollars more than California, ranked second, and twice as much as Pennsylvania, third.

On a per capita basis, the state received $411.78, ranking ninth, behind Alaska, $1,900; Wyoming, $790.31; Vermont, $487.44; Montana, $463.95; and Hawaii, $411.22.

New York received $2.2 billion in total aid in 1977 and ranked first in per capita assistance, with $254.67. Connecticut received $239 million and was 16th place in per capita aid, with $237.38.

Three States Move Up

New York, New Jersey and Connecticut all moved up in the standings for the first time. Connecticut ranked 10th in total aid and 11th in per capita aid, New Jersey 31st and Connecticut 32nd.

New Jersey was only maintained its top ranking in total aid received for the last time. Its ranking in per capita aid, New Jersey 31st and Connecticut 32nd.

About $2 billion of New York's 1977 aid total of $7.6 billion was in the form of welfare and Medicaid funds. It accounts for about $1.7 billion of Medicaid funds. For example, New York got 15.1 percent of the total allotment in the 50 states, according to the Treasury Department's preliminary figures.

Overall, Treasury Department figures for 1977 include any so-called "phantom" funds secretly appropriated by 48 states.

No state has been found guilty of a violation, but the Treasury Department has compiled a list of states whose Federal payments have been returned to the government.

The Treasury Department figures are based on reports from July 1, 1976, to July 1, 1977. Preliminary figures are not final, and the state figures may be subject to correction.

The figures are not final, and the state figures may be subject to correction.

How 8 States Compare

Here's how New York, New Jersey and Connecticut compared to various categories of aid received during Fiscal 1977, figures in millions of dollars:

<table>
<thead>
<tr>
<th>State</th>
<th>Education</th>
<th>Health</th>
<th>Welfare</th>
<th>Medicaid</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>746.1</td>
<td>321.7</td>
<td>2.6</td>
<td>150.1</td>
<td>1,238.5</td>
</tr>
<tr>
<td>New Jersey</td>
<td>207.9</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>399.2</td>
</tr>
<tr>
<td>Connecti...</td>
<td>77.0</td>
<td>51.8</td>
<td>0.6</td>
<td>30.1</td>
<td>162.5</td>
</tr>
</tbody>
</table>

How Other States Compared

Here's how selected other states compared with each other New York's $1,417.50 figure for per capita aid in 1977:

<table>
<thead>
<tr>
<th>State</th>
<th>Education</th>
<th>Health</th>
<th>Welfare</th>
<th>Medicaid</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>1,147.4</td>
<td>321.7</td>
<td>2.6</td>
<td>150.1</td>
<td>1,669.6</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1,050.5</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>1,232.5</td>
</tr>
<tr>
<td>Illinois</td>
<td>934.5</td>
<td>51.8</td>
<td>0.6</td>
<td>30.1</td>
<td>1,017.2</td>
</tr>
<tr>
<td>Michigan</td>
<td>790.3</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>982.6</td>
</tr>
<tr>
<td>Ohio</td>
<td>799.1</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>982.6</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1,017.2</td>
<td>51.8</td>
<td>0.6</td>
<td>30.1</td>
<td>1,119.9</td>
</tr>
<tr>
<td>Iowa</td>
<td>799.1</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>982.6</td>
</tr>
</tbody>
</table>

New York's aid was $1,417.50, with 15.1 percent of national funds. New Jersey received $934.5 million, 11.7 percent; Connecticut $799.1 million, 9.4 percent; Ohio $799.1 million, 9.4 percent; Arkansas $1,017.2 million, 11.7 percent; Iowa $799.1 million, 9.4 percent; and Florida $1,017.2 million, 11.7 percent.

How 8 States Compare

Here's how selected other states compared with each other New York's $1,417.50 figure for per capita aid in 1977:

<table>
<thead>
<tr>
<th>State</th>
<th>Education</th>
<th>Health</th>
<th>Welfare</th>
<th>Medicaid</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>1,147.4</td>
<td>321.7</td>
<td>2.6</td>
<td>150.1</td>
<td>1,669.6</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1,050.5</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>1,232.5</td>
</tr>
<tr>
<td>Illinois</td>
<td>934.5</td>
<td>51.8</td>
<td>0.6</td>
<td>30.1</td>
<td>1,017.2</td>
</tr>
<tr>
<td>Michigan</td>
<td>790.3</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>982.6</td>
</tr>
<tr>
<td>Ohio</td>
<td>799.1</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>982.6</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1,017.2</td>
<td>51.8</td>
<td>0.6</td>
<td>30.1</td>
<td>1,119.9</td>
</tr>
<tr>
<td>Iowa</td>
<td>799.1</td>
<td>110.1</td>
<td>1.3</td>
<td>70.8</td>
<td>982.6</td>
</tr>
</tbody>
</table>

New York's aid was $1,417.50, with 15.1 percent of national funds. New Jersey received $934.5 million, 11.7 percent; Connecticut $799.1 million, 9.4 percent; Ohio $799.1 million, 9.4 percent; Arkansas $1,017.2 million, 11.7 percent; Iowa $799.1 million, 9.4 percent; and Florida $1,017.2 million, 11.7 percent.

Walid El-Samnah, assistant to Gov. Nelson A. Rockefeller in the New Jersey State Department of Health, noted several differences in New Jersey's per capita aid and state tax structure, using the Treasury Department figures.

The figures are not final, and the state figures may be subject to correction.

The figures are not final, and the state figures may be subject to correction.

New York State aid was $1,417.50, with 15.1 percent of national funds. New Jersey received $934.5 million, 11.7 percent; Connecticut $799.1 million, 9.4 percent; Ohio $799.1 million, 9.4 percent; Arkansas $1,017.2 million, 11.7 percent; Iowa $799.1 million, 9.4 percent; and Florida $1,017.2 million, 11.7 percent.

Walid El-Samnah, assistant to Gov. Nelson A. Rockefeller in the New Jersey State Department of Health, noted several differences in New Jersey's per capita aid and state tax structure, using the Treasury Department figures.

The figures are not final, and the state figures may be subject to correction.

The figures are not final, and the state figures may be subject to correction.