REPORT for the
SECRETARY of the TREASURY

REGARDING INFORMATION
RELATING to the
FINANCING REQUIREMENTS
under the

NEW YORK CITY
SEASONAL FINANCING ACT OF 1975

December 29, 1975

Arthur Andersen & Co.
The Honorable William E. Simon  
Secretary of the Treasury  
15th Street and Pennsylvania Avenue, N.W.  
Washington, D. C. 20220

Dear Mr. Secretary:

On December 12, 1975, we were retained to advise the Department of the Treasury on various financial and accounting matters related to Public Law 94-143, the "New York City Seasonal Financing Act of 1975". This law reflects the findings of the Congress that it is necessary for the City to obtain seasonal financing because the City's revenues and expenditures, even if in balance on an annual basis, are not received and disbursed evenly throughout the year. The Congress also found that the City is or may be unable to obtain such seasonal financing from its customary sources and authorizes through June 30, 1978, loans of up to $2.3 billion for such purposes. Such loans may be made provided that the Secretary "determines that there is a reasonable prospect of repayment of the loan in accordance with its terms and conditions".

The State of New York has enacted the New York State Financial Emergency Act for the City of New York creating the Emergency Financial Control Board. This Act requires that the Board, in conjunction with the City, develop a City Financial Plan for the three years ending June 30, 1978, and that such plan for fiscal 1978 provide for a balanced budget determined in accordance with the accounting principles set forth in the State Comptroller's Uniform System of Accounts for Municipalities, as the same may be modified by the State Comptroller in consultation with the City Comptroller. At this time such accounting principles have not been agreed upon and, therefore, the City Financial Plan on which the present financing is based may require significant and substantial adjustment.

A summary of the City Financial Plan for the three years ending June 30, 1978, together with the City's key assumptions, is presented in Appendix I. This plan with a few modifications was approved by the Emergency Financial Control Board on October 20, 1975.
Since the City's financial reporting system does not presently provide adequate information for the Department of the Treasury to monitor the City's compliance with the Financial Plan, we have prepared a financial reporting package which could be used for such a purpose. This reporting package is included herein as Appendix 2, and was included as a part of the Credit Agreement.

Our comments on the City Financial Plan set forth in this report are based upon financial and other information furnished to us by various City officials. We have not made an audit of the information included in this report, and we are not giving an opinion as to the completeness or the accuracy of the historical information or the forecasted information.

With respect to our comments, four general areas of concern are paramount.

First, the City's crisis is cash flow, and therefore, although a balanced operating budget is important, the availability of funds to meet the combined total of all cash requirements is essential. To the extent that total cash flow requirements are understated, additional permanent financing might be necessary to repay the seasonal financing. Thus, certain basic assumptions in the three year plan become critical to the determination of whether the seasonal financing can be repaid. Some of these are listed below:

No contingency plan has been developed to obtain funds that may be required in excess of those projected in the plan. This may be of immediate importance since the City staff has already developed staff papers reflecting potential revenue reductions totaling $571 million over the three year period. In addition, to meet the cash requirements for fiscal 1976, the City must find additional sources of over $400 million.

Budgeted expenditures were to be reduced by $110 million in fiscal 1976, but only about $12 million of projected savings have been achieved to date. Additional reductions are planned for fiscal 1977 and 1978. Such reductions must accumulate to over $800 million annually by 1978 and are planned to aggregate $1.5 billion during the three year period. The need to specifically identify these savings immediately is critical unless contingency sources for long-term funds are available.
The $800 million of State aid to be prepaid in the spring of 1976 and each year thereafter, when considered in conjunction with the seasonal financial requirement, makes that amount, in effect, permanent. The fact that State funds to meet this commitment, as we understand it, may require new financing by the State should also be noted.

These and other concerns regarding the assumptions used in developing the City Financial Plan are set forth in Part I.

Second, we have been informed by various City officials that 'the City's financial systems and controls were and continue to be inadequate to provide complete and reliable financial data. We agree with these observations. Indicative of this condition are the facts that follow:

No report is yet available, as requested by the Emergency Financial Control Board, from which the deficit since July 1, 1975, can be determined and compared to the City Financial Plan. Significant deviations could have occurred already without having been identified.

Summary balance sheet information republished for June 30, 1975, and issued by the City Comptroller as recently as December 26, 1975, is known to require adjustments of at least $1 billion for write-offs of certain uncollectible assets included in the balance sheet at that date. The use of financial data without adequate control over its completeness and reliability creates concern that other data furnished may not have the degree of credibility required considering the crisis situation which now exists.

Adequate discipline over the accounting system has been lacking. This lack of discipline includes (1) inadequate controls over vouchers entering the disbursement system, (2) control weaknesses over the timing of overtime payroll charges, and (3) inadequate controls over the distribution of charges to budget line items.

These and other concerns with regard to the credibility and reliability of the data are summarized in Part II. We must caution that any analysis of the City Financial Plan must take into consideration the limitations imposed by such concerns.
Third, plans for a new accounting system are contemplated. This system is being designed to provide adequate financial data in accordance with the prescribed Uniform Accounting System, and the City has agreed that the new system will be implemented by July 1, 1977.

Considering the circumstances of New York City, the need for added systems and financial personnel, and the lack of good accounting and system disciplines, we believe the City's ability to achieve such a deadline is doubtful. However, meeting this deadline may well have an important impact on one of the objectives of Public Law 94-143: to return the City to public financial markets in 1978.

Therefore, with the present crisis, we have recommended that, pending major revision, the City should immediately improve the reliability and timeliness of the present financial records and reports generated therefrom. Without such interim improvements, effective control is impossible. Further, the City's ability to provide reliable financial information to investors is doubtful unless immediate improvements are made.

It should also be noted that even though certain expense items may continue to be charged to the capital funds, or significant underaccruals for pensions continued, the basic economics cannot be altered. Merely changing the classification of an expense or using outdated assumptions in computing pension costs will not eliminate the economic cost of an expenditure or contractual obligations. These two examples alone might require $1 billion to $2 billion in additional costs over the amount provided in the City Financial Plan which is the budget to be "balanced" in 1978, although the additional cash requirements would be less. Under either the "new system" or an interim system to improve the reliability of the financial data, all costs should be included on a sound accounting basis. Further, the City has agreed to an audit to be made by the State Comptroller or, at his election, by an independent certified public
accountant for fiscal 1978. It is our opinion that an independent auditor cannot accept the continuation of the above practices and render an unqualified opinion on the City's financial statements.

Fourth, if the forecasted cash flow and a balanced operating budget are to be achieved, certain issues are critical. We have summarized in Part III these critical issues which must be addressed and monitored.

We are pleased to report that we received complete cooperation from City officials. We are prepared to discuss this report or any other data which we have collected during our review with you or others designated by you.

Very truly yours,

ARTHUR ANDERSEN & CO.
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# PART I

**COMMENTS REGARDING PRINCIPAL CONCERNS ON THE**

**FINANCIAL PLAN OF THE CITY OF NEW YORK**

Our comments regarding the assumptions used in preparing the City Financial Plan are summarized as follows:

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<td>Capital expenditures</td>
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The City Financial Plan, as amended and approved by the Emergency Financial Control Board on October 20, 1975 (see Appendix I), indicates budget deficits of $939 million in fiscal 1976 and $470 million in fiscal 1977, and a surplus of $30 million in fiscal 1978. Certain events occurring subsequent to October 20, 1975, causing changes in debt service requirements, increased tax revenue, etc., would reduce the planned deficit by $29 million in 1976 and $10 million in 1977 and would change the surplus of $30 million to a $20 million deficit in 1978.

Certain of the key assumptions used in preparing the City Financial Plan, and the principal concerns we believe should be considered in evaluating whether or not the Plan can be achieved, are summarized below.

**PLANNED SAVINGS** -- Expenditures of the City are planned to be reduced by $1.5 billion for the three years ending with fiscal 1978. The operating changes planned for 1976 would have an effect of $290 million on an annual basis. Because of the elapsed time until inauguration of the various savings steps, the program was expected to save only $92 million in 1976. On December 29, 1975, the date of this report, savings programs having an annual effect of about $50 million have been identified as 'projected savings,' and we understand only a small portion or less than $12 million of this amount has been achieved.

Expenditure reductions of $110 million, $543 million and $351 million in fiscal 1976, 1977 and 1978, respectively, were included in the City Financial Plan. If these reductions can
be achieved, the net savings to the City would be $92 million, $462 million and $724 million, respectively, since certain reductions are covered by Federal and State aid programs.

To achieve meaningful results in fiscal 1976 will be difficult because of the passage of time; and to achieve $851 million in 1978, when considered with the other assumptions, will require major changes in operations which have not been identified to date.

**REVENUE REDUCTIONS** -- The staff of the City Comptroller identified $571 million of potential revenue reductions which the City may be expected to experience. These revenue losses could prevent achievement of the planned operating results in the City Financial Plan. The effects of the possible changes are:

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<th>Fiscal Year</th>
<th>1976</th>
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<td><strong>Reductions in revenue proposed by the Governor</strong></td>
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<td>From State Revenue Sharing</td>
<td>$52</td>
<td>$86</td>
<td>$125</td>
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<tr>
<td>From State aid to Education</td>
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<td>-</td>
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<td>-</td>
<td>74</td>
<td>(137)</td>
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<tr>
<td><strong>Total revenue losses ($571 million)</strong></td>
<td>$52</td>
<td>$320</td>
<td>$197</td>
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STATE CASH ADVANCES -- The State advanced Education and Public Assistance aid funds to the City in fiscal 1975, and the Plan reflects advances totaling $800 million in April through June of each year during the Plan. Receipt of these funds in advance each year is necessary to meet the objectives of the Plan and is dependent upon the State having the funds available or being able to secure new financing.

SALARY LEVELS -- It is planned that City salary scales will be maintained at the 1975-1976 level during the period of the City Financial Plan. Based on information furnished to us, the enabling legislation establishing the Municipal Assistance Corporation provides for a three year wage freeze, but the contracts between the City and the unions are for one year. If wage increases cannot be stabilized at 1975-1976 levels, significant increases in costs could result since the annual payroll costs are in excess of $4 billion.

We understand that the cost of living adjustment (COLA) for 1975-1976 was $100 million on an annual basis and that it may not be possible to protect against the incurrence of higher levels of cost of living adjustments in fiscal 1977 and 1978. No provision has been made for cost of living adjustments for fiscal 1977 or fiscal 1978.

Certain employee groups have agreed to a one year deferral on implementation of the fiscal 1976 wage increase. Under this agreement, an Employer Deferral Liability Account has
been established to which certain funds generated by productivity increases are to be deposited. The deferred compensation is to be paid if (a) the expense budget of the City for fiscal 1973 is in balance, and if (b) the market for the sale of obligations of the City will enable it to sell obligations under the market conditions then prevailing. The City Financial Plan includes no expense or provision for these possible deferred costs which will apply to the fiscal years 1977 and 1978 if they become payable.

PENSION COSTS -- The pension costs assumed in the City Financial Plan are based upon a continuation of the present actuarial assumptions. Total cost for fiscal 1976 is estimated at $1.3 billion, before reductions applicable to agencies of the City which are budgeted and controlled separately from the City budget comprising the City Financial Plan. It has been concluded by certain civic groups and official State commissions that the costs are significantly understated and that the past service liability of $6.1 billion could be significantly higher. Under these circumstances, pension costs are not being reported and funded at the rate which economic liabilities are being incurred. This results primarily from use of actuarial assumptions which are outdated (dating back to 1914) or which do not reflect the actual experience of the City such as:

- Mortality Assumptions -- the mortality assumptions do not reflect actual experience by as much as 50% in certain cases and if actual experience were used both current and unfunded costs would be significantly increased.
- Salary Increase Assumptions -- most of the City's plans base pension benefits on the final year of income of the employee. Therefore, assumptions as to salary increases are critical. Present assumptions for the major group of employees are that salaries will increase approximately 1% per annum. The costs actually increased an average of 6.2% per annum for the period 1969 to 1973.

- Earnings Assumed on Pension Plan Assets -- the present assumption is that 4% will be earned. For most plans, earnings in excess of such assumptions provide offsets to any realized and unrealized losses on investment portfolio. However, the City has (under laws adopted) used earnings in excess of 4% to reduce current contributions. In excess of $100 million per year of such earnings have been included in the City Financial Plan as reductions of annual pension costs; however, it has been indicated that this practice would be discontinued.

If the assumptions were updated, current pension costs would increase for current service and, also, the current cost would increase by the amount of the amortization of the cumulative cost of the failure to have kept the assumptions on a current basis historically. In other words, the understatement of costs in the past must be made up by added cost recognition in the future. The amortization would best be over a 20 year period, in accordance with the accounting guideline for such changes. With the magnitude of the cost and the potential that the cost could be understated by hundreds of millions of dollars, the credibility of the City Financial Plan could be in jeopardy. Therefore, the additional cost of such assumptions should be quantified on a reliable basis as soon as possible and, at the latest, prior to the beginning of fiscal 1977.
REAL ESTATE TAXES -- Real estate taxes included in the City Financial Plan are based on an increase in rate from $7.35 in 1975 to $8.73 in 1978; increased full valuation from $80 billion in 1975 to $90 billion in 1978; and an equalization factor of 50% in 1975 and 44% in 1978. Assessed valuation remains steady at approximately $40 billion between 1975 and 1978.

For fiscal 1976, real estate tax revenue is assumed to be the net levy, but $192 million of this levy was collected by the City in fiscal 1975. Hence, unless a propayment of equal amount is assumed to continue, the cash requirements in fiscal 1976 will be greater by this amount.

The rate of collection was 94% in fiscal 1973 and 90% in fiscal 1975 and is assumed to remain steady at 90% in each of the three years of the Plan. Each 1% variation would affect revenue by $32 million in fiscal 1976, $35 million in fiscal 1977, and $35 million in fiscal 1978.

Included in real estate tax revenue are collections of prior uncollected taxes which have averaged about $30 million per year. The Plan provides for collection of $55 million in 1976, $60 million in 1977 and $65 million in 1978.

GENERAL SOURCES REVENUE -- These revenues are primarily sales, personal income and earnings, corporate, financial, stock transfer, commercial rent and utilities taxes, water charges,
New York State income tax per capita allocation and Federal revenue sharing. Growth factors used in the City Financial Plan for taxes other than commercial rent were based on econometric models and regression formulas using statistical data obtained primarily from the New York State and U.S. Departments of Commerce and Labor. The assumed aggregate growth rates (excluding tax rate changes) of 5%, 7%, and 7% for fiscal 1976, 1977 and 1978, respectively, indicate annual incremental revenues for these taxes of $77 million in 1976, $142 million in 1977 and $171 million in 1978.

In addition, the City has assumed growth rates of 7% in 1976, 3% in 1977 and 9% in 1978 for purposes of estimating its share of the New York State income tax per capita allocation. The projected annual incremental revenue in the City Financial Plan is $29 million in 1976, $35 million in 1977 and $42 million in 1978.

Revenue sharing changes at the State and Federal levels could adversely affect the City Financial Plan. The most immediate issue to be resolved is the expiration of Federal revenue sharing in December, 1976. Should the expiration be final and a comparable program not be initiated, total estimated revenue for fiscal 1977 would be reduced by $131 million and revenue for fiscal 1978 would be reduced by $261 million.

SUPPLEMENTARY REVENUES, PRINCIPALLY FEDERAL AND STATE AID -- These programs were assumed to remain constant for the
period covered by the Plan. This will be difficult to achieve because the City has only limited control over these programs. Also, the City is faced with substantial cost disallowances, thereby reducing revenues in some areas of these programs, because of a high incidence of ineligible payments and failure to meet Federal standards. Provisions of $150 million per year have been included in the City Financial Plan to cover such cost disallowances, and $285 million has been provided for the disallowance of costs incurred prior to fiscal 1976. These reserves are large in absolute dollars; however, it should be recognized that the reserves for current year disallowances are less than 3% of the annual supplementary revenue.

Approximately 50% of supplementary revenue is derived from the State under either a matching or formula concept. The State is also experiencing financial difficulties and there is no assurance that the State will not cut back on its reimbursement to the City or that it will not change ratios so as to have the City bear more of the financial risk. This point has already been exhibited with respect to planned cutbacks in State Medicaid reimbursements. Adjustments of this nature also affect Federal reimbursement to the extent it is under a matching concept. If the City is unable to reduce costs in direct proportion to any planned reimbursement reductions, it may be forced to bear the risk of any shortfall. The effect on the City Financial Plan of these two points cannot presently be determined.
CAPITAL EXPENDITURES -- The City has assumed that it will discontinue projects in process and/or make other budget decreases in order to conform to the expenditure limits included in the City Financial Plan. Capital budget estimates prepared by City personnel in December, 1975 indicate that projected expenditures for fiscal 1977 and 1978 exceed the Plan amounts by $96 million and $77 million, respectively.

We also understand that the City does not have formal or regular procedures for estimating the costs to complete projects except on an annual basis for budgetary purposes. While "judgments and claims" reserves in the amounts of $50 million in 1976, $80 million in 1977 and $80 million in 1978 have been included for problems with discontinuing projects in process, it is not possible to determine whether these reserves are sufficient.

Under the Private Housing Finance Law, the City planned to issue long-term bonds to finance construction and the holding of long-term mortgages on homes built by limited profit housing companies. However, beginning in 1962 the City started issuing bond anticipation notes. The City intends to phase these programs out by limiting additional mortgages to $154 million for which $126 million and $28 million have been included in the Plan for 1976 and 1977, respectively. We understand that the latest available estimates reflect that approximately $220 million will be needed to complete these projects. This
results in an understatement of capital expenditures and cash requirements in the City Financial Plan of $66 million.

As of June 30, 1975, the total outstanding debt related to these programs was $1.398 billion and the City held mortgages and advances in anticipation of mortgages of $1.216 billion. The annual interest expense on debt outstanding was approximately $111 million and cash receipts (principal and interest) from mortgages approximated only $52 million per year.

OPERATING EXPENSES IN THE CAPITAL BUDGET -- In the past, the City has included certain operating expenses in the capital budget. This enabled increased long-term debt and increased real estate taxes to cover the debt service charges. The City Financial Plan was compiled in accordance with an agreement with the Municipal Assistance Corporation that the practice would be discontinued, but only at a decreasing rate over the next ten years. Exclusion of already agreed upon expenses from current operating costs does not change the nature of the costs or provide cash flow to pay such expenses. The operating expenses in the capital budget shown in the City Financial Plan were $697 million, $647 million and $597 million for the three fiscal years. These were reduced to $677 million, $607 million and $557 million as explained in the Assumptions in Appendix 1 herein.

This type of accounting for operating expenses tends to mislead investors, legislators, government administrators and
taxpayers alike. If New York City is to have access to the capital markets again, its accounting records must be maintained on a sound financial reporting basis. Such a major departure from sound accounting and public reporting involving hundreds of millions of dollars of operating costs is something we believe will not be tolerated by the investing public in the future.

INFLATION -- During the last several years, one of the major financial problems that the City and all other entities have had to cope with is inflation. As always, it is uncertain as to what rate of inflation will prevail during the next three years. The City Financial Plan includes a cost of living adjustment for fiscal 1976 only. The other than personal services costs have been estimated on the assumption that savings will offset price increases. With continuing inflation being expected, this assumption might be difficult to achieve.

LITIGATION -- The City is involved in litigating construction contract terminations, sale of debt and transfers of funds from the Municipal Assistance Corporation (MAC), the moratorium on short-term debt, investment of State pension funds in MAC securities, certain labor contracts and other matters. The costs of defending the lawsuits and the outcome of the suits are not presently determinable, and the short and long range
effects of the litigation on the City's cash planning are not predictable. The planned cash position of the City is such that any significant legal reversal could seriously impair its financial program for the next few years.

**PENSION FUND INVESTMENTS** -- Investments by the pension funds in new City securities during the period of the City Financial Plan are expected to total $2.5 billion. These funds are critical to the Plan.

Investing this magnitude of dollars in the City raises a question as to the degree to which the pension funds should invest in a single entity. It also raises a question of how far the pension funds might go in providing capital and what, if any, liquidity losses might be suffered to meet the City's critical time requirements for more cash. Based on the securities of the City held by the funds as of October 31, 1975, and the $2.5 billion additional securities to be purchased under the Plan, the funds would have approximately 50% of their net assets invested in City securities.

In this connection, it would be well to consider the impact if the standards established by the Employees Retirement Income Security Act were applied to the public sector pension plans.

**FUNDS REQUIRED TO MEET POSSIBLE DEFICITS IN EXCESS OF FINANCIAL PLAN** -- If in any of the next three fiscal years the actual deficits exceed the projected deficits for departments of
the City for which all costs are a part of the Plan, a source of financing will have to be obtained. Also, for those agencies which are not on the formal budgeting and accounting systems of the City and therefore in the Plan, funds are provided as an operating subsidy. To the degree that these agencies experience losses in excess of the planned deficits the City will need additional financing.

Exhibit 2, Appendix 1 indicates that over $400 million will be required in additional funds for 1976. This results partially from recognition of the $192 million of taxes collected prior to June 30, 1975, which were applicable to fiscal 1976, and therefore will not be a source of funds in 1976. The staff of the City indicates that they plan to delay settlement of possible cost disallowances for aid reimbursements to cover a substantial part of the $400 million requirement. This is merely delaying the problem of securing additional funds, as each subsequent year end will require similar deferral.

POST 1978 POTENTIAL EXPENSE IMPACTS -- The objective of the New York City Seasonal Financing Act of 1975 is to assure seasonal financing of essential government services until the City has had time to develop a complete and continuously balanced budget that will enable it to return to normal financial markets. This basic objective makes it necessary to also consider the effects of the substantial concerns and implications of the City
Financial Plan described herein on the years following the Plan. A few of the more significant issues are:

- "Catch up" with the effects of inflation on labor costs having a $4 billion annual base.
- Deferred maintenance and capital costs not presently measurable.
- New capital to redeem the debt which will be due when the moratorium expires in November, 1978, and to redeem the other debt on schedule.
- Full recognition of pension costs in the operating expenses of each fiscal period.

Although these issues become critical after the expiration of Public Law 94-143, they should be given serious consideration now because they are factors which might preclude the end of Federal financing for the City in 1978.

**WORKSHEET ON POTENTIAL ADDITIONAL CASH REQUIREMENTS**

The City's present crisis is cash flow and, although a balanced operating budget may be important in reestablishing the City's ability to obtain funds in the regular financial markets, the availability of funds to meet the total of all cash requirements each year until the City is again self-sufficient is essential. Without such cash availability further crises may occur.

Appropriate government officials must form the judgments as to whether the assumptions used to project the elimination of deficits are reasonable and the funds required are sufficient. To facilitate such an evaluation, we have summarized the issues on the following worksheet in the sequence discussed in this section of the report.
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NEW YORK CITY

STATUS OF CONTRACTS (NON-CAPITAL) AND OTHER EXPENSES RELATING TO PRIOR YEAR

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<td>EXPENDITURES – MONTH</td>
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</tr>
<tr>
<td>7</td>
<td>– YEAR-TO-DATE</td>
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# NEW YORK CITY

**PERSONNEL CONTROL EXCEPTION REPORT**

<table>
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<th>REPORT REFERENCE</th>
<th>RESPONSIBILITY AREA</th>
<th>CURRENT MONTH HEADCOUNT</th>
<th>PAYROLL COST</th>
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<td>BETTER/WORSE</td>
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- EDUCATION
- POLICE
- SOCIAL SERVICES
- HIGHER EDUCATION
- ENVIRONMENTAL PROTECTION
- FIRE
- OTHER (Exceptions only)
- ALL OTHER

_1 TOTAL_
<table>
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<tr>
<th>DEBT SERVICE BY MONTH</th>
<th>DEBT SERVICE DUE DATES (12 MONTH ROLLING FORWARD)</th>
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<td>OTHER</td>
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NEW YORK CITY
CAPITAL BUDGET AND EXPENDITURES REPORT

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<th>CAPITAL PROJECT NO.</th>
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<th>BUDGET</th>
<th>EXPENDITURES TO DATE</th>
<th>PROJECTED EXPENDITURES</th>
<th>ESTIMATED TOTAL COST</th>
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<td>ORIGINAL</td>
<td>CURRENT MONTH</td>
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<td>NEXT YEAR</td>
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<td>REVISED</td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

LIST SEPARATELY EACH PROJECT OVER $5 MILLION AND EACH PROJECT WITH A PROJECTED VARIANCE OVER $200,000.
LIST OTHER PROJECTS IN TOTAL BY FISCAL YEAR APPROVED

GRAND TOTAL

REPORT NO. 1
PAGE ___ OF _____
MONTH ___ FISCAL YEAR _____
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<td>NO. WEEKS EXPENDITURES</td>
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<tr>
<td></td>
<td>ADDED RECEIVABLES</td>
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<td>EXPENDITURES RELATED TO ADVANCES</td>
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<td>REIMBURSEMENTS RECEIVED</td>
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<td>BALANCE – ENDING $</td>
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PART II

COMMENTS REGARDING PRINCIPAL CONCERNS

IN THE FINANCIAL DATA AND SYSTEMS CONTROLS

One very major concern is the reliability of the financial data of New York City. Can it be relied upon to assist City officials to achieve the City Financial Plan and its projected savings? Can the financial data be relied upon by New York State and Federal officials to monitor the overall financial results during the next three years?

As a framework for our discussions, we consider the following indicative of good management control over finances:

1. An effective, well structured and disciplined budget system.

2. An adequate and timely flow of information, in well structured report format, to management, the Emergency Financial Control Board and to the Secretary of the Treasury to assure that the operating agencies and affiliated organizations of the City are performing in accordance with the City Financial Plan.

3. Effective management supervision and timely action to reverse past trends and assure accomplishment of the City Financial Plan.

4. Adequate discipline and control over the data collection and processing to assure that the information presented is accurate and reliable.

5. The ability to forecast into the future the probable consequences of deviations from the City Financial Plan and their ultimate impact on the financial position of the City.
In this section of our report we identify a number of areas which cause us concern regarding the ability of the City to meet the above criteria.

**EFFECTIVENESS OF MANAGEMENT INFORMATION AND CONTROL** -- Our overall assessment of the effectiveness of executive management control over City operations is influenced by the state of the systems and controls that we observed in reviewing the budgeting, accounting, data processing and financial reporting procedures. In general, the lack of controls and inadequacies in the overall accounting systems and procedures raise questions about the City's ability to exercise control over the collection of revenues, the expenditures of money and the preparation of financial reports. For example, the City has had difficulty in developing a report on the actual revenues and expenditures versus the City Financial Plan for the first five months of this fiscal year. This information was requested by the Emergency Financial Control Board so that they could compare actual results to the City Financial Plan, and the report was not delivered as of December 29, 1975.

As we understand it, the Board requested that the City Financial Plan be translated into the budget structure of the City at the program/activity level (sub-department). The City indicated to the Board that the request was not feasible and that controls at that level would be difficult to maintain. The delay in the reporting of actual results appears to relate to incorporating the expenditures in the City Financial Plan into the budgets at the
Department level. Presently, therefore, the budget detail in the Comptroller's accounting system is based on the original fiscal year budget, as modified, but not the City Financial Plan.

Also, the Emergency Financial Control Board has requested that the City identify expense reductions necessary to achieve a "balanced budget" in fiscal year 1978 on a programmed management basis under which each program requires "milestone" definition of significant events and reporting thereon. Under the present budget accounting system, we believe it will not be possible to relate program accomplishment to expense reduction as reflected in the budget control system. Furthermore, the program structure has not provided, as we understand it, for the assignment of definitive accountability for accomplishment to specific individuals or agency heads.

Since it is crucial to the accomplishment of a balanced budget in the fiscal year 1978 that expense reductions phasing up to a cumulative annual reduction of $851 million in 1977-78 be achieved, it is our view that a more aggressive effort is necessary to program and monitor the projected savings.

Our basic concern is whether adequate financial control information and City management action can pinpoint and effect corrective action on a timely basis to meet the objectives of the City Financial Plan. It should be noted, however, that the requirements set forth by the Board, as indicated above, and other guidelines promulgated for monitoring City affairs reflect an
aggressive and objective posture by the Special Deputy State
Comptroller for New York City acting on behalf of the Board.

PLANS FOR REVISION OF ACCOUNTING AND FINANCIAL CONTROL
SYSTEMS -- In recognition of accounting and control inadequacies
the Comptroller initiated a program to revise the City's accounting
and financial control systems. This program, jointly sponsored by
the Mayor and Comptroller, has as its objective the development of
a uniform accounting system approved by the New York State
Comptroller to be implemented effective July 1, 1977.

To meet these requirements, the City has retained outside
professionals who are developing an integrated financial data base
systems concept with improved controls and reporting. In our
judgment, while the concept as explained to us represents a sound
design approach, the timetable for its implementation appears to
be extremely optimistic. Considering the present circumstances of
the City, including the capabilities of present personnel, the lack
of good accounting and systems disciplines inherent in the agencies
and data processing centers, and the absence of a capable internal
systems staff, we believe a systems change of the magnitude
envisioned might take substantially longer to implement than the
present schedule of 18 months. It is also our conclusion that
the present circumstances demand immediate improvement.

We are told that in developing the new integrated
financial systems during the next 18 months, an effort will be
made to improve reporting and controls where deemed feasible with
presently envisioned resources. A written work program reflecting this objective has not yet been developed and made available to us.

Our concern is that immediate steps should be taken to identify the personnel and resources required to strengthen controls on an interim basis. In our opinion, an interim systems improvement effort should be accomplished as rapidly as possible to (1) improve the quality of information for monitoring City finances currently and (2) provide improved credibility over financial information, thus facilitating an earlier return to capital markets.

ACCOUNTING POLICIES AND STRUCTURE -- The accounting policies and chart of account structure used by New York City have evolved over a number of years and been modified from classical municipal accounting to meet the expediency of fiscal crises. While the City maintains a fund accounting structure, it is not useful for control of revenues, expenditures and fund balances. Similarly the program budgeting and accounting procedures are cumbersome and uncontrolled, which diminishes the management control value of program budgeting.

The basic policy is to account for expenditures on a cash basis and revenue on an accrual basis, whether earned or not. This approach can be very distortive of financial position and has probably contributed to the present fiscal crisis. The accruing of unearned or unbillable revenue is not an acceptable accounting practice and could be manipulated to reflect a better financial
picture than actually exists. It seems particularly anomalous when combined with cash basis expense accounting, where liabilities are understated.

For example, at June 30, 1975, various aid reimbursements were accrued as revenue; however, an amount estimated at $250 million assumed to be applicable to fiscal 1975 was considered uncollectible. In addition, based upon the real estate tax levy, the City accrues the entire estimated annual tax receipts on July 1. At the end of fiscal 1975, the City's books reflected real estate taxes receivable for fiscal 1975 and prior years aggregating $502 million. In auditing these balances the State Comptroller determined that $282.6 million should be written off and that a reserve of $125.7 million should be provided for a total adjustment of $408.3 million, including $130 million applicable to fiscal 1975. Based upon the State Comptroller's review in 1975 of reimbursement receivables for seven city agencies, $358 million of such receivables were identified as invalid. In summary, based upon the aggregation of the above items, the City had overstated accounts receivable at June 30, 1975 by more than $1 billion. The City did not have an explicit accounting policy statement regarding when a billing or accrual should be reflected in the accounts under acceptable accounting practices.

Expenses should be recognized when incurred. The accounting presently recognizes expenses only when vouchers are processed for payment. Instances of significant delay in agency
processing of vouchers have been cited so that there is not accounting of incurred expenses on a timely basis.

While the Comptroller has a system for encumbering outside contracts, expense is still not recognized until vouchers are processed. Also, year-end payrolls have not been accrued.

The inherent controls in municipal fund accounting have been vitiated by allowing transfers of monies between funds. Accordingly, there is no systematic reduction in expenditures within a fund when there is a reduction in expected revenue. In addition, we are told that two funds for special and miscellaneous revenues are not under the normal budgetary control system.

Our concern is that the reliability of financial information is questionable unless inconsistent accounting policies are eliminated and fund, program and budgeting procedures properly defined and adhered to. There should be a proper basis of accrual accounting for both revenue and expense (see note).

NOTE:
It should be noted that the Comptroller of the State of New York had issued as of December 10, 1975, three "Accounting Systems Directives" for New York City dealing with improvements in accounting and budgeting practices. The subject matter was as follows:

Directive one deals with the proper budgeting and accounting for revenues, the timing of revenue recognition and establishment of receivables.

Directive two deals with proper recording of real property tax revenues and adequacy of collection reserves.
Directive three deals with General Fund accounts and requires elimination of two special and miscellaneous funds.

These "Accounting Systems Directives", when implemented will improve accounting controls and are part of the ultimate codification of the Uniform System of Accounts, as modified for New York City.

**SYSTEMS AND PROCEDURES** -- Our concern in the systems and procedures area is that the accounting and financial data processing systems have a number of significant weaknesses and are not well controlled. During our review we noted that such systems are inadequately integrated, redundant, inconsistent and unreconciled.

The lack of systems integration is illustrated in the central Payroll System which processes payrolls for all New York City employees except those employed by independent agencies. These payrolls approximate $330 million per month. This system is not integrated with the Comptroller's Fund Accounting Information System (FAIS) which accounts for expenses against appropriated amounts by line item. Payroll expense distribution to FAIS is accomplished manually by the various agencies after the payroll is prepared. Thus while the centralized Payroll System provides a central processing capability, control over labor expense accounting entries rests with many agencies.

Duplication of system functions in a number of key areas can be illustrated by examples such as the following: (1) budget information is maintained on a line item basis by the
Comptroller, Bureau of the Budget and for certain expenditures by the Municipal Services Administration; (2) detailed employee and payroll data are maintained by both the Comptroller and the Bureau of the Budget; (3) detailed expense data by line item are maintained by both the Comptroller and the Bureau of the Budget.

Detailed line item budgets are developed under the auspices of the Bureau of the Budget and forwarded to the Office of the Comptroller. Line item coding is modified and, for some items, amounts are summarized by the Comptroller before processing. This practice results in inconsistencies in line item budgets between the two organizations. Also we understand that budget modifications are held for monthly processing by the Comptroller. This procedure causes further inconsistencies between the data. No detailed reconciliation of line item budget data appears to be performed.

The Comptroller reported that in fiscal 1975, the City reconciled its bank balances and established a difference of $8.6 million. This followed a period of years when no reconciliations were performed. The Comptroller has now established a unit to reconcile bank accounts on a continuing basis. Further, we understand that both the Comptroller and the Director of Finance maintain information on cash balances and that they differed as to the correct amount by about $26 million at June 30, 1975. This situation gives us concern.
The following examples illustrate a number of additional areas which appear to us to lack proper system controls: (1) inadequate controls over data entering the disbursement processing system, rejected vouchers and the timing of disbursement requests, result in inaccurate reporting, and understatement of liabilities; (2) there is a lack of control over the timing of payroll changes in excess of budgeted amounts; therefore it is possible to delay submitting overtime charges until funds are made available and this would have the effect of understating payroll liability; (3) distribution of charges to budgeting line items and reimbursable projects is done outside the central Payroll System. Accuracy of these charges cannot be controlled within the Office of the Comptroller because of the City's existing organizational structure. This diminishes the reliability of information for overall budgetary control and reimbursement.

The City asserts that these weaknesses are being addressed in their long range system development program.

**FORWARD PLANNING AND FORECASTING** -- Because of the emergency nature of the City's financial crises the attention of the City Government appears to be heavily focused on immediate concerns. It is also apparent, however, that the solutions to City problems must consider possible long range developments both within and beyond the City's control. These would include such issues as impact of the wage freeze on union demands for pay adjustments at the end of the City Financial Plan. Other examples would
include forward planning with regard to trends in population, real estate abandonments, employment levels and aid reimbursement from the State and Federal Governments. Each of these issues and others would have to be addressed and forward planning projections made concerning their potential impact on the City's financial position.

While some limited use is made of computer modeling techniques for projecting general fund revenues in the office of the City Finance Administrator, there is no overall systematic approach to forecasting all revenues and expenses of the City under various alternative conditions.

In our discussions with City representatives regarding completion of our recommended report package, concern was expressed about who would forecast the effect of emerging trends on fiscal year-end results.

We have the impression that an organized forward planning group could contribute to important analyses of potential problems in accomplishing the City Financial Plan and maintaining a balanced budget after fiscal 1978. A group of that type might address such issues as what effect a required reduction in New York State expenditures of significant proportions might have on aid reimbursements to the City and what strategies the City would then propose to cut its costs. Other examples of major areas whose impact could be assessed by a forward planning group are: (1) changes in Federal aid programs; (2) changes in formula
programs based on population trends; (3) proposed legislative changes; (4) changes in real estate tax levy.

Our concern is that the absence of a strong long-range planning capability will diminish the defined options available to City management in responding to future economic and political events that will affect the City's financial position.
COMMENTS REGARDING CERTAIN CRITICAL ISSUES

The objective of this section is to analyze certain of the critical issues relating to the City's ability to reduce expenditures or raise revenues to satisfy the requirements of the three year City Financial Plan. We do not present answers to the issues raised since they often involve economic or political issues. However, these critical issues are those which Government officials will have to face in the next few years.

EXPENDITURE REDUCTION CONSIDERATIONS -- The City plans to expend about $13 billion during fiscal 1976. A graphical analysis of these total expenditures is provided on Figure 1.

A useful way to analyze the City's planned expenditures is to categorize them in terms of City vs. State and Federal funding percentages. Within these categories, a less quantifiable, but potentially important segregation can be made between "controllable" and "noncontrollable". Noncontrollable areas have been defined as those expenditures mandated by the State and Federal Governments, and debt service. The pension cost area has been included in "controllable" on the premise that future costs are subject to negotiation and should relate to salaries. It should be noted, however, that past pension service costs may not be reducible, and since the current City contribution to the pension funds is based on prior actual payroll lagged two years, there is no real opportunity for near term reductions.
NEW YORK CITY
ANALYSIS OF FISCAL 1976 FINANCIAL PLAN EXPENDITURES
(Including Expenses in Capital Budget, Excluding MAC Debt Service)

Billions of Dollars

TOTAL N.Y.C. EXPENDITURES: $12.869 Billions

- N.Y.C. Position
- State, Federal funding
Fiscal 1976 Expenditures (in billions)

Category I -- 96% City Funded on the Average:
Controllable-
  Police, Fire, Environmental Protection,
  Pension, General Government, Justice,
  Parks, Misc. $ 3.926

Noncontrollable-
  Debt Service

$ 1.784

-------

Category II -- 50% City Funded on the Average:
Controllable-
  Education*, Health Services, Higher Education

$ 3.624

Category III -- 30% City Funded on the Average:
Controllable-
  Social Services, Charitable Contributions, Human
  Resources Administration, Youth Services
  Administration

$ 1.289

Noncontrollable-
  Welfare payments

2.246

-------

Total

$3.535

Differences due to annualizing assumptions on
  cost reductions and other miscellaneous .302

Expenses as shown on Exhibit 1

$13.171

-------

The implications of this categorization are that any
City effort toward expenditure reductions for areas in Category I
would result in an almost one-to-one "bottom line" impact.
Programs for expenditure reduction of Category II items would
produce about a 50% saving for the City with the exception of
primary and secondary education, and Category III areas have more
impact at the State and Federal level than at the City level.

* Aid revenue not based on matching funds but
  related to student days in attendance.
We have also related the total planned expenditures, by area within category, with the per cent New York City share to highlight the way the City spends "its" money. This is shown below and graphically in Figures 2 and 3.

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<th>Expense area</th>
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<th>NYC Share</th>
<th>NYC Expense (in billions)</th>
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<td>.201</td>
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<td>$2.454</td>
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<td>$12.869</td>
<td>65</td>
<td>$8.423*</td>
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* Includes NYC expenditures of revenue sharing funds.
NEW YORK CITY
FISCAL 1976 FINANCIAL PLAN
TOTAL EXPENDITURES OF N.Y.C. FUNDS
(Including Expenses funded by Capital Budget, Excluding MAC Debt Services)

Billions of Dollars

CATEGORY I $5.544

$1.782

PENSION

15%

$1.229

PUBLIC SAFETY

12%

$1.014

$1.056

DEBT SERVICE

21%

$1.056

WELFARE

13%

$1.013

$1.056

HEALTH SERVICES

6%

$2.016

EDUCATION

12%

$2.063

$2.916

HIGHER EDUCATION

3%

$2.94

$516

CATEGORY III $1.056

$598

GOV'T CRIM. JUS.

3%

$122

PARKS REC

2%

$335

EPA

4%

$598

MISC.

7%

$1.823

CATEGORY II $1.823

$263

3%

$263

1.056

30%

30%

30%

30%

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30%

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NEW YORK CITY
FISCAL 1976 FINANCIAL PLAN
"CONTROLLABLE" EXPENDITURES OF N.Y.C. FUNDS
(Excluding Debt Service, and Expenses Mandated by State and Federal Governments)

Billions of Dollars

CATEGORY I
$3.762

96% AVERAGE N.Y.C. FUNDED

CATEGORY II
$1.823

50% AVERAGE N.Y.C. FUNDED

CATEGORY III
$.384

30% AVERAGE N.Y.C. FUNDED

TOTAL "CONTROLLABLE" EXPENDITURES OF N.Y.C. FUNDS
$5.969 BILLIONS
REVENUE CONSIDERATIONS -- The three year City Financial Plan indicates that revenue will be derived as follows:

<table>
<thead>
<tr>
<th>Fiscal 1976</th>
<th>(in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City Sources</td>
<td>$7.618</td>
</tr>
<tr>
<td>Federal and State Sources</td>
<td></td>
</tr>
<tr>
<td>(including Federal and State</td>
<td>5.262</td>
</tr>
<tr>
<td>Revenue sharing usually</td>
<td></td>
</tr>
<tr>
<td>reported in General Fund)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$12.880</td>
</tr>
<tr>
<td></td>
<td>===</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Capital Funds, other offsets,</td>
<td>1.033</td>
</tr>
<tr>
<td>and rounding</td>
<td></td>
</tr>
<tr>
<td>MAC take out</td>
<td>.386</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues as shown on Exhibit I</td>
<td>$11.461</td>
</tr>
<tr>
<td></td>
<td>====</td>
</tr>
</tbody>
</table>

The revenue derived from City sources is made up of real estate taxes (38%), sales tax (11%), revenue from capital funds (9%), personal income tax (8%) and other smaller sources as shown in Figure 4.

The State and Federal sources are made up primarily of grants for welfare, education, health services and revenue sharing.
WAGES -- GENERAL -- Salaries and wages relating to all City personnel covered by the three year plan aggregate about $4 billion, or 35% of total City expenditures. The wage "freeze" at 1975-6 levels is meant to insure that over the life of the City Financial Plan, wage increases will not be critical to the accomplishment of a balanced budget by July 1, 1978. Critical issues are:

- Whether the unions will demand substantial wage increases as of July 1, 1978 to make up for prior years. This could result in an unbalanced budget in fiscal 1979.

- Whether the wage freeze will cause a shift of competent City personnel to the private sector, thus making the accomplishment of the City's objective even more difficult.

- Whether there is reasonable comparability of salary levels (as adjusted for New York City cost of living) with municipal employees in other major cities, and the comparability of City salary levels with the private sector by occupation classifications.

- Whether the optimum productivity and level of service is being obtained. If service levels can be reduced and/or productivity increased, then total wages can be reduced.

- Whether present civil service regulations impair management's ability to employ personnel effectively to achieve skill and productivity requirements.
PENSION COST -- The City plans to spend $1.229 billion of its own funds (including amounts applicable to the Transit Authority and Bridge and Tunnel Authority funds, etc.) on pension contributions in fiscal 1976. The pension area is almost entirely funded by the City. Therefore, policies and actions in this area are critical to City finances. Critical issues are:

- The unfunded liability of $6.1 billion in the City maintained actuarial pension systems and an estimated $1.2 billion unfunded liability in nonactuarial and supplemental pension funds. If the City acts to correct this under-funding (as required by statute), it would have an unfavorable effect on its performance against the three year plan.

- The provisions within the contracts themselves, that in some cases give City workers benefits that are generous by most standards and possibly facilitate abuses by allowing excessive overtime cost to be included in the determination of benefits to be paid.

- The administrative and management control over overtime and accrued payments related to pension plans that determine benefits on earnings in the final year of service.

- The reasonableness of the actuarial assumptions used, including mortality rates, turnover and salary progression.

- Control over early retirement for disabilities.
PUBLIC SAFETY EXPENDITURES (POLICE AND FIRE) -- A major portion of the City's "controllable" expenditures are spent on this important area of City service ($1.014 billion of $8.423 billion) with almost no State or Federal funding. Certain critical issues are:

- Whether the optimum balance of productivity and service levels have been achieved. With dollar for dollar savings to the City, improved scheduling, utilization of manpower and facilities and the elimination of nonessential services becomes critical. Some action has been taken in this regard.

- Whether there is potential for neighborhood voluntary support programs that could enhance service levels without increasing cost to the City.

HEALTH SERVICES COSTS -- The bulk of the health service costs ($1.098 billion) of New York City are related to the Health and Hospital Corporation ($ .851 billion), a quasi-public corporation which the City funds 48%. The City's portion of expenditures for health services aggregates about $500 million. Certain critical issues are:

- Whether the City requires eighteen hospitals that compete with the voluntary and proprietary hospitals in the City. At the present time most of the same services are offered at the neighboring non-City hospitals. The City has already closed one hospital in 1975 and other closings are being considered.

- Whether additional State and Federal funding for the ambulatory care services the City hospitals provide (not well covered by medical plans including Medicare) is available.

-42-
- Whether the private sector hospitals can absorb additional patient loads.

- Whether the control over Medicaid claims is adequate.

- Whether productivity and staffing in City hospitals can be improved.

**EDUCATION** — The City plans to expend $2.057 billion for elementary and high school education in fiscal 1976. This is funded 49% with City money. Certain critical issues are:

- The fact that since aid grants are not based on the matching fund concept, any cost reductions benefit the City on a 100% basis.

- Whether there is potential for voluntary support programs to provide selected nonprofessional services, i.e., monitors, security guards, attendance takers.

- Whether the City will review nonessential programs in an effort to identify possible elimination, or outside funding.

**HIGHER EDUCATION COSTS** — New York City is rather unique in that it has, since 1970 with open admissions, given all City high school graduates the right to a free college education. This program has increased enrollment over 50% (to more than 200,000 students) at a cost of about $500 million per year. The City bears 63% of this cost. Certain critical issues are:

- The enrollment and tuition policies as they now stand (recent minimum standards of admission were established by the Board of Higher Education effective for the fall 1976 semester). Whether this new policy will effectively eliminate the unqualified students and hence save on the cost of remedial training. The current situation requires remedial training in the basics, such as reading, by relatively high
paid professors (rather than high school teachers). The second issue is whether tuition charges similar to the State University policies are warranted.

- Whether the City can effectively consolidate schedules, close schools and consolidate administration to reflect lower admission.

- Whether New York City needs a City University system separate from the State University system. New York State could conceivably take over City University facilities and satisfy the requirement of providing higher education to qualified City residents.

- Whether there is reasonable comparability of faculty salary and tenure standards with State and private colleges and universities.

- Whether there is a potential for alumni support through contributions.

WELFARE — The total expenditures planned in New York City Welfare in fiscal 1976 aggregate $3.535 billion. This includes the Department of Social Services ($2.753 billion), contribution to charitable organizations ($ .579 billion), Human Resources Administration and Youth Services Administration ($ .203 billion). The City's share averages 30%. Critical issues are:

- The Federal Government's stand on eligibility. If, as announced, the Federal Government ceases to reimburse the City for social services payments to ineligible clients in excess of the 3% proposed limitation, the financial impact on the City could be very large. Present estimates of New York ineligibility run as high as 10%. The present reserve for uncollectibles may not cover this potential disallowance.

- The effectiveness of any City programs to reduce nonreimbursed payments — those discretionary benefits which are in excess of the minimum prescribed by the State and Federal Governments.
- The trend of increased caseload. The three year City Financial Plan assumes that the caseload of public assistance will remain stable for the next three years. The number of persons receiving assistance rose from over 943,000 in June of 1974 to over 993,000 in June 1975. If this trend continued it would have an unfavorable impact on the City's performance against the Financial Plan.

- The administrative management of claims for reimbursement to assure receipt of all Federal and State aid to which the City is entitled.

- The impact of City policies versus other cities in terms of whether New York is attracting more and more welfare cases.

**DEBT SERVICE.** -- The City plans to expend $1.784 billion on debt service during fiscal 1976. Substantially all of it will come from City funds. Certain critical issues are:

- Whether the City will be able to withstand challenges to the moratorium on short-term debt repayments. If the City is forced to pay during fiscal 1976, another source of funds will be required. The dollar impact is about $2 billion.

- Whether the City will be able to gain access to the capital markets after November, 1978 (when the moratorium expires) in order to repay the short-term debt.

- Whether the pension fund trustees will continue to be willing to lend to the City if default appears inevitable. We understand that the trustees have been absolved from any liability for allowing the pension funds to lend to the City. The constitutionality of this action has been questioned.
CRITICAL ISSUES RELATING TO REVENUE

GENERAL FUND REVENUES -- General fund revenues include all taxes levied by the City except the real estate tax. State and Federal revenue sharing is also included in general fund revenues. These revenues aggregate $4.041 billion in fiscal 1976 or 34% of total revenue. Critical issues are:

- Whether the relative sensitivity of the revenues to the following factors has been adequately reflected in the Plan:
  1. population changes
  2. unemployment level
  3. economic conditions
  4. policy changes

- Whether the City can and will effect decreases in expenditures consistent with any decreases in revenues. A correlation of the sensitive factors affecting each of the revenue sources that have projected growth of approximately 5% to 7% over the three years indicates that each of the factors could adversely affect the amount of actual revenue received for such areas as sales tax, personal income tax, corporate income tax, etc.

- That policy changes at the State and Federal levels could adversely affect revenue sharing amounts. The most immediate issue to be resolved is the expiration of Federal revenue sharing in December, 1976. Should the expiration be final and a comparable program not be initiated, total estimated revenue for Fiscal 1977 would be reduced by $131 million and Fiscal 1978 would be reduced by $261 million. In absence of effecting cost savings above the planned amounts, the total deficit could be increased by $392 million.

-45-
REAL ESTATE TAXES -- Real estate taxes provide the primary source of City tax revenues. The estimated collections included in the initial City Financial Plan are:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>$2.967</td>
</tr>
<tr>
<td>1976-77</td>
<td>3.193</td>
</tr>
<tr>
<td>1977-78</td>
<td>3.281</td>
</tr>
</tbody>
</table>

The basis for the estimates are a relatively constant level of assessed valuations and an increasing tax rate.

Certain critical issues relating to this area are:

- The negative impact of continuing rent controls on the economic viability of property ownership and effect on tax rolls.
- The reasonableness of an assumption of a level value of assessed property in a trend of changing population patterns and economic uncertainty.
- The negative impact of rate increase on owners of residences.
- The negative impact of rate increase being passed on to commercial tenants.
- The negative impact of subsidizing new housing exempt from real estate tax.
- The general lack of economic incentives to encourage private investment in housing that would increase assessed value.
- The increased demand for rent sheltered units caused by rise in unemployment level.
- The potential for the relocation of major industries from the City and the effect on taxes.
REVENUE FROM STATE SOURCES — The City plans to receive about $2.3 billion in grants from the State in fiscal 1976 (19% of its total revenue). In addition, there is an assumption that the State will advance the City $800 million this spring. Certain critical issues are:

- Whether the State will be in a position to provide these funds in light of its projected budget deficit of $600-$700 million. Press releases have indicated consideration of reducing State manpower by some 7,000 persons. This could result in saving in the order of $100 million. The other reductions might have to come from grants to cities and revenue sharing.

- Whether, in fact, the State will be able to acquire funds to be used to provide the $800 million advance to New York City. We have been told that the advance is contingent upon access to the capital market by the State before June, 1976.

- Whether any reductions in State support will be accompanied by reductions in associated mandated spending levels.
APPENDIX I

FINANCIAL PLAN OF THE CITY OF NEW YORK

FINANCIAL STATEMENTS AND KEY ASSUMPTIONS
<table>
<thead>
<tr>
<th>Month</th>
<th>Total</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td></td>
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<tr>
<td>Feb</td>
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<td>Mar</td>
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<td>Apr</td>
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<td>May</td>
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<td>Jun</td>
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<td>Jul</td>
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<td>Sep</td>
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<td>Oct</td>
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<td>Nov</td>
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<td></td>
</tr>
<tr>
<td>Dec</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Note:** The table above shows the financial data for the City of New York for the fiscal year ending December 31, 1977.
FINANCIAL PLAN OF THE CITY OF NEW YORK

CONSOLIDATED STATEMENT OF OPERATING REVENUES AND EXPENDITURES

FOR THE FOUR YEARS ENDING JUNE 30, 1978

NOTES:

(1) The principal assumptions by which the City which were the basis for preparation of the financial plan are stated on the pages which follow.

(2) The data which is herein are unaudited and because of insufficient accounting and financial control may not be complete or reliable.

(3) The data shown herein for the year ended June 30, 1978, differs from the surplus reported in the Controller's Report for 1977-1978 (pages 24 and 25) as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>(In millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus, as reported in Controller's Report</td>
<td>$43</td>
</tr>
<tr>
<td>Uncollected portion of fiscal 1975 real estate tax levy, net of prior-year collections</td>
<td>(247)</td>
</tr>
<tr>
<td>Provision for possible cost disallowances against fiscal 1975 supplementary revenues, based on the State Controller's audit of receivables for State and Federal aid</td>
<td>(230)</td>
</tr>
<tr>
<td>Net borrowings and transfers which are not revenues on a consolidated basis</td>
<td>(542)</td>
</tr>
<tr>
<td>Deficit, as reported herein</td>
<td>($996)</td>
</tr>
</tbody>
</table>

(4) Since October 20, 1979, the date of the last official amendments to the City Financial Plan, subsequent events have occurred which will have to be incorporated officially in the plan. The effects of such subsequent events that are presently known have been estimated by City staff personnel and are shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase (Decrease) in Operating Surplus for Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>(835)</td>
</tr>
<tr>
<td>1977</td>
<td>(114)</td>
</tr>
<tr>
<td>1978</td>
<td>817</td>
</tr>
</tbody>
</table>

Changes in assumptions for debt service cost:

- Reduction in repayments of initial MAC borrowings to reflect the exchanges for MAC securities with lower interest rates and/or later maturity dates and/or lower interest rates.

- Increase in MAC debt service as a result of exchanging short-term debt for long-term MAC obligations.

- Reduction of short-term interest resulting from moratorium on repayment and exchange for MAC obligations.

- Elimination of service costs related to previous assumptions for City financing.

- Interest and maturities on debt issued to the City pension funds (maturities to be refinanced).

- Interest on Federal seasonal loan.

- Interest on State aid advance.

- Increase in offsetting revenues for interest earnings on temporary investments, rental and other income.

- Total changes in debt service.

Increased tax revenue as a result of legislation passed in November, 1975, by the New York State Legislature.

Changes in assumptions for pension expense:

- Discontinue offsetting "excess pension interest" against contribution.

- Increase in contributions by certain covered employees.

Total:

- $85

- $200

- $200

- $10

- $130

- $42

Total:

- $85

- $339

- $310
FINANCIAL PLAN OF THE CITY OF NEW YORK

CONSOLIDATED STATEMENT OF CASH REQUIREMENTS AND SOURCES

FOR THE THREE YEARS ENDING JUNE 30, 1978

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating deficit (surplus) as approved by the Emergency Financial Control Board on October 20, 1975</td>
<td>Exh. 1</td>
<td>$939</td>
<td>$470</td>
<td>$(30)</td>
</tr>
<tr>
<td>Real estate taxes for fiscal 1976 collected in fiscal 1975 and reported in Cash Sources below</td>
<td></td>
<td>192</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flow impact of operating deficit (surplus)</td>
<td></td>
<td>1,181</td>
<td>470</td>
<td>$(30)</td>
</tr>
<tr>
<td>Effect on operating budget of events occurring subsequent to October 20, 1975</td>
<td>Exh. 1, Note 4</td>
<td>(29)</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Capital expenditure program, as amended on October 20, 1975 by Emergency Financial Control Board</td>
<td>Pg. 72</td>
<td>1,608</td>
<td>1,100</td>
<td>930</td>
</tr>
<tr>
<td>Redemption of short-term debt, not included in debt service cost</td>
<td></td>
<td>1,987</td>
<td>260</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL CASH REQUIREMENTS</td>
<td></td>
<td>$4,747</td>
<td>$1,810</td>
<td>$950</td>
</tr>
</tbody>
</table>

| CASH SOURCES: | | | | |
| Cash balance at July 1, 1977, including the effects of $785 million of State aid and $192 million of real estate taxes received in advance | Pg. 76 | $518 | $ - | $( -) |
| Proceeds from sale of Municipal Assistance Corporation bonds (received prior to December 31, 1975) | | 3,079 | - | - |
| Issuance of short-term debt | | 317 | - | - |
| Serial bonds to be issued by City and purchased by its pension funds, including $345 million issued in December, 1975 | Pg. 75 | 425 | 1,625 | 420 |
| Reinvestment by pension funds of proceeds from maturing serial bonds, payment of which is included in "effect on operating budget of events occurring subsequent to October 20, 1975" in Cash Requirements above | | - | 205 | 472 |
| Sources to be identified (see note) | 408 | (20) | 28 |
| TOTAL CASH SOURCES | | $4,747 | $1,810 | $950 |

NOTE: According to discussions with City staff personnel, the additional cash sources for 1976 will result from earlier receipt of funds for certain State and Federal aid programs and from deferral of the settlement for cost disallowances until the following years. Such reductions and deferrals must continue through 1978 to avoid cash shortages in those years.
## EXHIBIT 3 -- GENERAL SOURCES REVENUE

### FINANCIAL PLAN OF THE CITY OF NEW YORK

#### SUMMARY OF GENERAL SOURCES REVENUE

FOR THE FOUR YEARS ENDING JUNE 30, 1978

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>City sales tax</td>
<td>$791</td>
<td>$373</td>
<td>$930</td>
<td>$993</td>
</tr>
<tr>
<td>Personal income and earnings tax</td>
<td>599</td>
<td>567</td>
<td>695</td>
<td>636</td>
</tr>
<tr>
<td>Corporate tax</td>
<td>239</td>
<td>471</td>
<td>472</td>
<td>510</td>
</tr>
<tr>
<td>Stock transfer tax</td>
<td>135</td>
<td>250</td>
<td>263</td>
<td>276</td>
</tr>
<tr>
<td>Commercial rent tax</td>
<td>191</td>
<td>207</td>
<td>218</td>
<td>223</td>
</tr>
<tr>
<td>Water charges</td>
<td>191</td>
<td>180</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td>Financial tax</td>
<td>116</td>
<td>178</td>
<td>165</td>
<td>168</td>
</tr>
<tr>
<td>Utilities tax</td>
<td>91</td>
<td>102</td>
<td>107</td>
<td>116</td>
</tr>
<tr>
<td>Other city sources</td>
<td>609</td>
<td>651</td>
<td>664</td>
<td>674</td>
</tr>
<tr>
<td>Less- Refunds</td>
<td>(132)</td>
<td>(134)</td>
<td>(127)</td>
<td>(128)</td>
</tr>
<tr>
<td>City sources, net</td>
<td>2,896</td>
<td>3,344</td>
<td>3,467</td>
<td>3,650</td>
</tr>
</tbody>
</table>

**NEW YORK STATE INCOME TAX PER CAPITA ALLOCATION**

<table>
<thead>
<tr>
<th></th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal revenue sharing</td>
<td>405</td>
<td>474</td>
<td>469</td>
</tr>
<tr>
<td>Total</td>
<td>257</td>
<td>263</td>
<td>262</td>
</tr>
<tr>
<td>Total</td>
<td>3,598</td>
<td>4,041</td>
<td>4,198</td>
</tr>
<tr>
<td>Year</td>
<td>Real Estate Taxes</td>
<td>For the Year Ending June 30, 1979</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------------</td>
<td>----------------------------------</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>$2,674,707</td>
<td>For the Year Ending June 30, 1979</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>$2,722,311</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>$2,769,963</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>$2,817,639</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>$2,865,375</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>$2,913,111</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>$2,960,847</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>$3,008,583</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>$3,056,320</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Summary of Real Estate Taxes**

Financed Plan of the City of New York

Exhibit 4
<table>
<thead>
<tr>
<th>AGENCY:</th>
<th>Actual Year Ended June 30, 1975</th>
<th>City Financial Plan for the Year Ending June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Social Services</td>
<td>$1,996</td>
<td>$2,011</td>
</tr>
<tr>
<td>Board of Education</td>
<td>1,322</td>
<td>1,544</td>
</tr>
<tr>
<td>Health agencies, including Health &amp; Hospital Corp.</td>
<td>459</td>
<td>965 Details not available</td>
</tr>
<tr>
<td>Charitable Institutions</td>
<td>349</td>
<td>390 Current Year</td>
</tr>
<tr>
<td>Higher Education</td>
<td>257</td>
<td>173 Available</td>
</tr>
<tr>
<td>Human Resources Administration</td>
<td>121</td>
<td>106</td>
</tr>
<tr>
<td>Other agencies</td>
<td>248</td>
<td>276</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,551</td>
<td>$4,565</td>
</tr>
</tbody>
</table>

**SOURCES:**

Federal sources: 47.8% $2,174; 49.2% $2,246

State sources: 52.2% $2,377; 50.8% $2,319

---

**EXHIBIT 3 — SUPPLEMENTARY REVENUES**

**FINANCIAL PLAN OF THE CITY OF NEW YORK**

**SUMMARY OF SUPPLEMENTARY REVENUES**

**FOR THE FOUR YEARS ENDING JUNE 30, 1978**
## Statement of Outstanding Debt and Annual Service Charges

(Including effect of amendments and subsequent events — See Exhibit 1, Note 4)

### Outstanding Debt

<table>
<thead>
<tr>
<th>Description</th>
<th>June 30, 1975</th>
<th>June 30, 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>SERIAL BONDS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maturing in 1976</td>
<td>$ 962</td>
<td>$ -</td>
</tr>
<tr>
<td>Maturing in 1977</td>
<td>357</td>
<td>-</td>
</tr>
<tr>
<td>Maturing in 1978</td>
<td>641</td>
<td>-</td>
</tr>
<tr>
<td>Maturing in 1979</td>
<td>479</td>
<td>-</td>
</tr>
<tr>
<td>Maturing in 1980</td>
<td>347</td>
<td>-</td>
</tr>
<tr>
<td>Maturing 1981-1985</td>
<td>1,267</td>
<td>1,267</td>
</tr>
<tr>
<td>Maturing 1986-1990</td>
<td>750</td>
<td>750</td>
</tr>
<tr>
<td>Maturing after 1990</td>
<td>1,599</td>
<td>-</td>
</tr>
<tr>
<td>Interest payments, including interest on sinking fund debt</td>
<td>-</td>
<td>422</td>
</tr>
<tr>
<td>******************************************</td>
<td>1,249</td>
<td></td>
</tr>
<tr>
<td>DEBT REDEEMABLE FROM SINKING FUNDS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross amount</td>
<td></td>
<td>913</td>
</tr>
<tr>
<td>Less: assets of sinking funds</td>
<td></td>
<td>(750)</td>
</tr>
<tr>
<td>******************************************</td>
<td>1,348</td>
<td></td>
</tr>
<tr>
<td>MUNICIPAL ASSISTANCE CORPORATION:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial issuance</td>
<td>2,120</td>
<td>1,200</td>
</tr>
<tr>
<td>Issued in exchange offer</td>
<td>242</td>
<td>85</td>
</tr>
<tr>
<td>Interest on temporary notes</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>******************************************</td>
<td>4,362</td>
<td>1,385</td>
</tr>
<tr>
<td>SERIAL BONDS ISSUED TO CITY PENSION FUNDS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal outstanding</td>
<td>4,540</td>
<td>1,959</td>
</tr>
<tr>
<td>Interest</td>
<td>357</td>
<td>142</td>
</tr>
<tr>
<td>******************************************</td>
<td>4,957</td>
<td>1,908</td>
</tr>
<tr>
<td>SHORT-TERM DEBT:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loan from U. S. Government</td>
<td>26</td>
<td>103</td>
</tr>
<tr>
<td>Interest on State aid advance</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>(62)</td>
<td>(103)</td>
<td>(104)</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td>25</td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEBT SERVICE PER EXHIBITS HEREFIN:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt service cost -- Exhibit 1</td>
<td>$1,734</td>
<td>$1,628</td>
</tr>
<tr>
<td>MAC debt service -- Exhibit 1</td>
<td>386</td>
<td>684</td>
</tr>
<tr>
<td>Amendments affecting debt service -- Exhibit 1</td>
<td>-</td>
<td>(122)</td>
</tr>
<tr>
<td>Subsequent events affecting debt service -- Exhibit 1, Note 4</td>
<td>56</td>
<td>87</td>
</tr>
<tr>
<td>Total as shown above</td>
<td>$2,176</td>
<td>$2,277</td>
</tr>
</tbody>
</table>

### Annual Principal and Interest Payments in Fiscal Year (in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>SERIAL BONDS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maturing in 1976</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Maturing in 1977</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maturing in 1978</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maturing in 1979</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maturing in 1980</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maturing 1981-1985</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maturing 1986-1990</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maturing after 1990</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest payments, including interest on sinking fund debt</td>
<td>-</td>
<td>422</td>
<td>256</td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEBT REDEEMABLE FROM SINKING FUNDS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: assets of sinking funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MUNICIPAL ASSISTANCE CORPORATION:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial issuance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued in exchange offer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on temporary notes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SERIAL BONDS ISSUED TO CITY PENSION FUNDS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal outstanding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SHORT-TERM DEBT:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal outstanding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>******************************************</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEBT SERVICE PER EXHIBITS HEREFIN:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt service cost -- Exhibit 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amendments affecting debt service -- Exhibit 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsequent events affecting debt service -- Exhibit 1, Note 4</td>
<td>56</td>
<td>87</td>
<td></td>
</tr>
<tr>
<td>Total as shown above</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Outstanding principal balances at June 30, 1978, on MAC debt were estimated using averaging interest computations. For purposes of presentation, it has been assumed that $200 million of serial bonds to be issued in 1976 will mature after 1990 and that sinking Fund maturities are evenly spread throughout each year.
ASSUMPTIONS TO THE

FINANCIAL PLAN OF THE CITY OF NEW YORK

The City Financial Plan shown on the preceding Exhibits was based on assumptions provided to us by various City officials. Because the data is unaudited and because of lack of accounting and financial control, the data may not be complete or reliable; hence, we take no responsibility for the reasonableness of the assumptions or the data to which they are applied.

GENERAL SOURCES REVENUE (EXHIBIT 3)

A. All data are on the cash basis except for Federal revenue sharing, which is accrued for one month at year-end.

B. Projections in major tax areas are based on the use of an econometric model and formulas. Other projections are based on historical collection experience.

C. City sales tax:

1. Fiscal 1976 assumes $42 million from additions to the tax base and the first full year's effect of increasing the tax rate from 3% to 4%. The balance of the increase results from assuming growth in taxable sales of 4.7%.

2. Increases for fiscal 1977 and 1978 represent assumed growth of items covered by the tax; no significant growth in the tax base is anticipated.

D. Personal income and earnings tax:

1. Fiscal 1976 increase assumes a 0.3% growth rate plus effects of instituting withholding for Federal employees and the
results from audit of delinquent tax returns for Federal employees.

2. Fiscal 1977 and 1978 increases assume a rise in personal income of 7.6% and 8.0%, respectively, plus the tax on additional taxpayers assumed to be added through extension of withholding tax procedures.

E. Corporate tax:

1. Substantial increase in fiscal 1976 revenues assumed to result from 50% rate increase recently enacted and made retroactive to January 1, 1975.

2. Fiscal 1977 shows no increase. This is net effect of elimination of retroactive rate increase offset by a 7% anticipated increase in corporate profit.

3. Fiscal 1978 increase of 8% is due to a forecasted increase in corporate profit.

F. Stock transfer tax:

1. 1976 increase due to 25% surcharge plus assumed 8.2% growth factor.

2. Fiscal 1977 and 1978 increases assumed to result from growth factors.

G. Commercial rent tax increases of 8.2% in fiscal 1976, 5.4% in fiscal 1977 and 3.0% in fiscal 1978, all based on assumed growth due to increased cash collections, changes in fuel price index, real estate taxes and general business activity.

H. Water charges:

1. Fiscal 1976 is assumed to be below fiscal 1975 because $11 million in frontage charges for fiscal 1974 were collected in fiscal 1975.

2. No changes expected in fiscal 1977 or 1978.

I. Financial tax:

1. Fiscal 1976 increase assumed to result from increase in rates of 75% on commercial banks and 50% on savings banks offset by decline in bank profits.
2. No change predicted for fiscal 1977 as it is assumed that banks will have no change in profitability between years.

3. Increase in fiscal 1978 assumed to result from an increase in bank profitability.

J. Utilities tax:

1. Fiscal 1976 increase is the result of an assumed 6.7% growth factor plus an assumed $5 million to result from audit adjustments and fuel price increases.


3. Above based on data received from New York utility companies.

K. Other City sources (approximately thirty different sources) were assumed to increase in 1976 as a result of growth. No substantial changes were reflected for fiscal 1977 or 1978.

L. Refunds are primarily from personal and corporate income taxes. Assumes processing within each year of approximately 90% of all amounts claimed.

M. New York State income tax per capita allocation:

1. Based on City's allocated share of 18% of the total state personal income tax.

2. Assumes no change in estimated percentage of City's portion of total state personal income taxes.

3. Increase between years due to assumed growth in amount of taxes received by state.

N. Federal revenue sharing:

1. Assumes continuation of legislation beyond planned expiration on December 30, 1976.

2. Fiscal 1977 and 1978 decrease due to reduction in absolute and proportional population of the City.
Only minimal growth has been assumed for both fiscal 1976 and 1977 and a decline in revenue assumed for 1978. This is due to the following cost factors (cost/revenue effect for these programs generally run in tandem):

A. City and State departments assume a leveling-off or slight decline in public assistance caseload.

B. Basic public assistance grants and rent ceilings are fixed by State law. No increases are projected.

C. Assumption that City will further reduce ineligibles and overpayments in public assistance programs and will limit special and emergency grants.

D. Assumption that City will reduce Medicaid rate that it sets directly.

E. Assumption that State will take action to limit certain Medicaid expenditures.

F. Assumption that the number of children in institutions and boarding homes, funded in the charitable institution budget, will not exceed the fiscal 1976 level. Also, no increase in rates is projected.

Revenues which are actually realized vary in relation to the funding received from the sources and the types and level of program activity approved. Medicaid revenue is based on projected level of patient days or service rendered. Rates for both Federal and State reimbursement are a function of these factors.

Aid for dependent children and other public assistance programs are based on allocation of allowable cost among Federal, State and City or between State and City. As reimbursement is fixed by law, revenues become a direct function thereof.
State aid to education and pupil transportation assistance are determined by the number of student days taught or students being transported. Revenue amount is primarily based on the projected level of students benefiting from the service.

Federal school assistance, other than for categorical grants, is mostly derived from school lunch programs. This revenue is a direct result of the number and type of "qualified" meals served to children in the system.

CETA and Headstart grants are based on approved budgeted amounts from City/State submissions to the respective Federal agencies. To the extent expenditures fall below estimates, there would be a corresponding reduction in revenues.

OTHER REVENUES (EXHIBIT 1)

This represents the net revenues derived from seventeen separate sources of which the most significant is direct payment for hospital patient care of approximately $90 million each year. Also included in this revenue are the annual collections from the construction fund for fees paid by higher education students of approximately $81 million each year, the amount received for parking meter revenues, net of uncollectibles, of approximately $25 million each year and the amount received from school lunch sales of approximately $15 million annually.
PROVISION FOR POSSIBLE COST DISALLOWANCES (EXHIBIT 1)

The provision for possible cost disallowances is assumed to cover possible disallowances for the following items:

A. $145 million for fiscal 1976 and $140 million for fiscal 1977 from audits of Federal and State aid for periods prior to June 30, 1975, but for which receipts are expected subsequent to June 30, 1975.

B. A $150 million annual provision to cover possible disallowances arising from each year's grants.

C. A provision of $20 million in each year of the plan for possible disallowances from "other revenues" sources.

EFFECT OF NEWLY ENACTED TAXES

(EXHIBIT 1, NOTE 4)

In November, 1975, the State legislature passed a special tax bill to aid New York City. The following is the assumed revenue effect from this bill:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Financial Corporation Tax due to increased rate and elimination of certain deductions</td>
<td>$ 45</td>
</tr>
<tr>
<td>Increased Personal income taxes due to increased rate</td>
<td>75</td>
</tr>
<tr>
<td>Establishment of minimum personal income tax on preference items and minimum general corporation tax</td>
<td>15</td>
</tr>
<tr>
<td>Doubling of cigarette tax rate and elimination of tar and nicotine tax</td>
<td>15</td>
</tr>
<tr>
<td>Extended sales tax coverage</td>
<td>15</td>
</tr>
<tr>
<td>Effect of City surcharge on State estate tax</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$200</strong></td>
</tr>
</tbody>
</table>

-63-
Forecasted collections of these taxes are $85 million in fiscal 1976, $200 million in 1977 and $200 million in 1978. These taxes were legislated subsequent to the preparation of the initial City Financial Plan and have been included in the revisions shown on Exhibit 1, Note 4.

SALARIES AND OTHER OPERATING EXPENSES (EXHIBIT 1)

A. Assumptions for expenditures in the category of personal services relate to two different groups of employees:

1. All employees excluding members of the United Federation of Teachers, Council of Supervisory Associations and pedagogical employees of the City University:
   a. wage deferral will not be extended in fiscal 1977 and 1978
   b. wages will be paid at the fiscal 1976 rates
   c. no provision for other wage increases above fiscal 1976 level
   d. increments and cost of living adjustments continue at the fiscal 1976 level
   e. no provision for additional increments or additional cost of living adjustments for fiscal 1977 and 1978
   f. all unions will sign the agreement.

2. All members of the United Federation of Teachers, the Council of Supervisory Associations and pedagogical employees of City University:
   a. normal increments will be paid in fiscal 1976
b. longevity increases for fiscal 1976 will be deferred; however, the deferral will not be extended to fiscal 1977 and 1978

c. wages including increments and longevity will be paid in fiscal 1977 and 1978 at the 1976 rates

d. cost of living adjustments for each of the three years will be paid at the fiscal 1976 rate

e. all unions will sign the agreement.

B. Other assumptions relating to personal services are:

1. net attrition in the mayoral agencies will be 7,200 people for fiscal 1976, with no attrition in subsequent years

2. the wage deferral will be funded through
   - productivity increases
   - other improvements in efficiency and economy
   - value of attrition above the normal level

3. joint cooperation will curb overtime abuses

4. payment of wage deferral dependent on
   - balanced budget in fiscal 1978
   - the city being able to sell its obligations in the market

5. payment limited to amount accrued

6. payroll will continue on a cash basis of accounting.

C. Other operating expenses are projected to remain at the fiscal 1976 level with the assumption that cost increases will be offset by savings.
PUBLIC ASSISTANCE, MEDICAL AND
FOSTER CARE PROGRAMS (EXHIBIT 1)

These expenditure categories are directly related to supplementary revenues for which the assumptions are stated previously herein. Accordingly, the expenditure/revenue assumptions as they pertain to supplementary revenue would similarly apply to these expenditure categories.

CHARITABLE INSTITUTIONS SUPPORTED BY CITY
(EXHIBIT 1)

This expenditure category is also related to the supplementary revenue category and the discussion of assumptions related thereto applies to this expense.

PENSIONS (EXHIBIT 1)

The City has five retirement systems that are maintained on actuarial bases reflecting the following assumptions:

A. The actuarial assumptions are based upon actual cost and funding requirements experienced as early as 1914.

B. Assumes that the aggregate actuarial method would be used to amortize the unfunded liability over the average remaining working period of the active employees as a percentage of payroll costs.

C. Assumes that prior year service costs resulting from benefit improvements inaugurated in 1968 and 1970 are being amortized over a 35-year period.

D. Mortality rates have not been updated to reflect the increasing life span of employees.
E. Employee turnover rates of the Board of Education currently exceed the rates assumed in the actuarial determinations, while actual turnover rates of the Fire Department are currently one-fifth of the rates assumed for actuarial purposes.

F. The disability rates experienced as a result of pension benefit improvements in 1968 exceed the rates assumed.

G. The return earned on assets of the retirement plans in excess of the statutory rate of 4% is being used to reduce current funding requirements without consideration of the realized and unrealized losses on security investments.

H. As a result of the liberalized early retirement provisions inaugurated in 1968, actual retirement experience has increased, with employees retiring with a shorter service life than assumed in current pension calculations. For example, the rates assumed for the Police Department are too low, while the rates assumed for the Fire Department are too high.

I. Salary increases and rates of inflation are not taken into account in the actuarial determinations.

J. Certain supplemental pension benefits are paid to retirees and certain widows and dependents of deceased members on a pay-as-you-go basis.
A. Expenditures for debt service included in the City Financial Plan are:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serial bonds outstanding at June 30, 1975</td>
<td>1,384</td>
<td>1,213</td>
<td>937</td>
</tr>
<tr>
<td>Long-term debt assumed to be issued subsequent to June 30, 1975</td>
<td>22</td>
<td>197</td>
<td>454</td>
</tr>
<tr>
<td>Interest on short-term debt ($4.54 billion outstanding at June 30, 1975)</td>
<td>378</td>
<td>277</td>
<td>321</td>
</tr>
<tr>
<td>Offsetting revenue assumed to be provided primarily by mortgages related to limited profit housing</td>
<td>(50)</td>
<td>(59)</td>
<td>(59)</td>
</tr>
<tr>
<td>Total, per Exhibits 1 and 6</td>
<td>1,734</td>
<td>1,628</td>
<td>1,653</td>
</tr>
</tbody>
</table>

B. Principal and interest payments on serial bonds are assumed to be paid in scheduled amounts when due.

C. It is assumed that no further payments into sinking funds are necessary as the present sinking funds assets are sufficient, with a 4% interest assumption, to repay sinking fund bonds as they mature.

D. It is assumed that outstanding short-term debt will be maintained at levels that will require interest shown above and that the practice of not including principal repayments of short-term debt in debt service cost will be continued.
E. Collection of City sales and use taxes and State stock transfer taxes are assumed to be more than sufficient to meet the debt service requirements of the initial MAC issuance. The debt service cost for the three years on these initial MAC securities as reflected on Exhibit 1 is assumed to be $366 million, $684 million and $615 million, whereas minimum revenues are projected at $795 million per year.

F. The assumptions set forth above cover the Plan as initially submitted by the City. They do not give effect to the moratorium on short-term debt, the swap of short-term debt for new MAC securities, the seasonal loan and other subsequent changes to the plan. The assumptions related to such subsequent changes, and their effects on debt service cost, are covered in Exhibit 1, Note 4 and Exhibit 6.

ADJUSTMENTS TO EXPENDITURES (EXHIBIT 1)

The salaries and other operating expense budget assumptions are explained previously herein. These expenses were reduced to reflect decreases resulting from the wage deferral and, subsequently, certain adjustments were made to the expenses to more properly reflect the effect of the assumptions which were the basis for the estimates provided by the various agencies, as follows:

A. Recognition of a payment of $81 million to be made during fiscal 1976 to the Education Construction Fund.
B. Provision for $25 million in each of the three years to cover the supplemental compensation under the Comprehensive Employment Training Act (CETA).

C. Extension of the fiscal 1976 cost of living adjustment (excluding Education and CUNY employees), recognizing cost of $96.5 million for 1977 and $96.9 million for 1978.

D. Correction of wage deferral in Education and CUNY during fiscal 1976, estimated at $37.1 million.

E. Expenditure increases for Educational and CUNY wage agreements in excess of expenditure base were estimated at $10 million and $26.3 million for fiscal 1977 and 1978, respectively.

F. Recognition of $30.9 million and $61.7 million in fiscal 1977 and 1978, respectively, for portions of the 1976 wage increases not previously included in salary costs.

G. It was assumed that $50 million in fiscal 1977 and $100 million in 1978 will be transferred from the capital budget to the operating budget for operating expenses which have been charged to the capital budget.

H. It was assumed that a general reserve of $100 million for each of the fiscal years 1977 and 1978 will be adequate to cover contingencies.

I. It was assumed that $315 million will be transferred from Other Funds to Tax Levy in fiscal 1976, $310 million in 1977 and $170 million in 1978, to cover potentially disallowable cost recovery claims. These are reflected in provision for possible cost disallowances.

**PROPOSED OPERATING EXPENSE SAVINGS (EXHIBIT 1)**

Proposed savings in operating expenses over the three year period have been assumed to total $1.504 billion. It has been assumed in the City Financial Plan that achievement of the savings, combined with the additional tax revenues explained
herein, will result in elimination of the operating deficit in the fiscal year ending June 30, 1978. The basic assumptions and the sources of the funds from which such expenses are paid are summarized as follows:

A. That the scheduled savings will occur in expenditures otherwise funded by:

<table>
<thead>
<tr>
<th>Sources</th>
<th>Proposed Savings for Fiscal</th>
<th>Total Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1976</td>
<td>1977</td>
</tr>
<tr>
<td>Tax Levies</td>
<td>92.0</td>
<td>200.0</td>
</tr>
<tr>
<td></td>
<td>261.8</td>
<td>261.8</td>
</tr>
<tr>
<td></td>
<td>92.0</td>
<td>461.8</td>
</tr>
<tr>
<td>State and Federal Aid and Other Funds</td>
<td>18.0</td>
<td>35.0</td>
</tr>
<tr>
<td></td>
<td>46.2</td>
<td>46.2</td>
</tr>
<tr>
<td></td>
<td>18.0</td>
<td>31.2</td>
</tr>
<tr>
<td>Total</td>
<td>110.0</td>
<td>343.0</td>
</tr>
</tbody>
</table>

B. That the savings made effective in a given year will be totally sustained in subsequent years.

C. During fiscal 1976, savings will be defined in projects and will be monitored against milestones.

D. Since the cost saving program commenced during the fiscal year, savings of only $92 million (of the $200 million annualized) are expected to be achieved in fiscal 1976.

E. Savings effected in personal services expenditures are assumed to exceed the amount to be accrued for wage deferrals.

F. Savings are assumed not to be effected by terminating or laying off employees covered by the wage deferral agreement except in cases of extreme necessity.
CAPITAL EXPENDITURE PROGRAM (EXHIBIT 2)

Capital expenditure program costs are based on known costs, historical data and standard models. The principal factors in development of the program for the City Financial Plan were:

A. Capital expenditures are projected to decrease over the three years because of the City's cash shortage. All projects in process have been reviewed as to start date, stage of completion (still beneath ground level or above ground level, per cent and cost to finish, phase to complete and phases which may be postponed, etc.), the least costly way to stop the physical work and cash commitments. No major new construction is planned.

B. The City is in the process of phasing out the operating expenses included in the capital budget over a 10-year period. Approximately $50 million in 1977 and $100 million in 1978 have been scheduled as transfers from the capital to operating budgets.
C. Assumed expenditures included in the City Financial Plan:

<table>
<thead>
<tr>
<th>Fiscal</th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenditures included in capital budget</td>
<td>$697</td>
<td>$647</td>
<td>$597</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>1,048</td>
<td>585</td>
<td>419</td>
</tr>
<tr>
<td>Total</td>
<td>$1,745</td>
<td>$1,232</td>
<td>$1,016</td>
</tr>
</tbody>
</table>

Budget data available in December, 1975, assumes the following:

- Operating expenditures in capital budget, as reflected in City Financial Plan: $697 (20), $647 (40), $597 (40)
- Reductions in operating items
- Net operating items: $677 (20), $607 (40), $557 (40)
- Capital items, including savings on operating items: 931, 589, 450
- Total budgeted expenditures: $1,608, $1,196, $1,007

Amounts included in cash requirements, Exhibit 2
- $1,608, $1,100, $930

In preparing its estimates, the City also assumed the following:

A. In fiscal 1977 and 1978, the cash flow estimates are $96 million and $77 million less than the budget estimates, respectively. Cash requirements included in Exhibit 2 are based on amounts, as amended on October 20, 1975, by the Emergency Financial Control Board.

The City has assumed that the cash flow amounts will be achieved by discontinuing projects in process and additional, but not yet identified, budget decreases.
B. Reserves for "judgments and claims" in the amounts of $50 million, $80 million and $80 million were included in fiscal 1976, 1977 and 1978, respectively, to cover potential overruns and other unidentified contingencies.

C. Capital expenditures for the Mitchell-Lama Housing project were estimated at $126 million for fiscal 1976 and $28 million for 1977.

OPERATING EXPENSES CHARGED TO CAPITAL FUNDS (EXHIBIT 1)

Included in the classification of capital expenditures are operating expenses of $697 million for 1976, $647 million for 1977 and $597 million for 1978 (amounts were revised in December, 1975 to $677 million, $607 million and $557 million, respectively). These expenses have been funded out of the capital budget but belong in the operating budget. However, the Financial Plan provides for a ten-year amortization period to remove such expenses from the capital budget in accordance with enabling legislation establishing the Municipal Assistance Corporation.

"OTHER OFFSETS" TO OPERATING EXPENDITURES (EXHIBIT 1)

"Other Offsets" to operating expenditures reflect the following assumptions:

A. That $45 million in fiscal 1976 and $53 million in fiscal 1977 and 1978 will be received for interest and principal payments from Mitchell-Lama projects. These amounts will be used to partially fund the interest to be paid by the City on the indebtedness related to the Mitchell-Lama projects which are estimated at $111 million in each Plan year.
B. That $105 million in fiscal 1976, $135 million in fiscal 1977, and $165 million in fiscal 1978 of interest income earned on pension fund investments over the statutory 4% rate will be used as an offset to the City's pension contribution.

C. That the NYC Transit Authority, NYC Housing Authority, and other "noncovered" agencies which have employees who are participants in the City retirement systems will contribute the agencies' portion of current pension costs. These are recorded as a reduction in the City's expense and are assumed to be $150 million in fiscal 1976 and $165 million in fiscal 1977 and 1978.

LONG-TERM DEBT TO BE PURCHASED BY CITY PENSION FUNDS (EXHIBIT 2)

The City Financial Plan assumes that the City will issue $2.5 billion of additional long-term debt to the various City pension funds during the three years ending June 30, 1978. The present cash flow assumes the funds will be received as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>(in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>$ 425</td>
</tr>
<tr>
<td>1977</td>
<td>1,625</td>
</tr>
<tr>
<td>1978</td>
<td>450</td>
</tr>
<tr>
<td></td>
<td>$2,500</td>
</tr>
<tr>
<td></td>
<td>$2,500</td>
</tr>
</tbody>
</table>

The City has assumed that:

1. The above amounts are sufficient to balance its operating and capital needs.

2. The pension funds have, or will have, sufficient liquid assets to acquire the proposed debt at the time of the City's needs.
The City also assumed that $205 million and $472 million of the above debt matures in fiscal 1977 and 1978, respectively, and that the pension funds will reinvest the proceeds.

THE $800 MILLION ADVANCE FROM THE STATE (EXHIBIT 2)

The State of New York agreed to advance aid funds during fiscal 1976, 1977 and 1978. Assumptions are that:

A. Funds will be received in:

<table>
<thead>
<tr>
<th>Month</th>
<th>(in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>$400</td>
</tr>
<tr>
<td>May</td>
<td>200</td>
</tr>
<tr>
<td>June</td>
<td>200</td>
</tr>
</tbody>
</table>

$800  

B. Aid categories are:

<table>
<thead>
<tr>
<th>Category</th>
<th>(in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$200</td>
</tr>
<tr>
<td>Public assistance</td>
<td>600</td>
</tr>
</tbody>
</table>

$800  

C. The estimated advance is comparable to the amount received in fiscal 1975.

D. The State will have sufficient resources to advance the cash.

E. The "understanding" between the City and State is informal, but binding.

F. The funds will not be restricted.
INFLATION

The effects of inflation on the City Financial Plan have not been considered or assumed on a specific basis. However, projected amounts for revenues and expenditures have been assumed based on changes in growth rates. These growth rates would include amounts for absolute increases or decreases, changes in rates and bases, and inflation itself.

The principal assumptions relating to changes in growth, which include the effects of inflation, are summarized by sources of revenue and expenditures as follows:

General Sources Revenues

Principal general sources of revenues reflect annual aggregate growth rates of approximately 5% in fiscal 1976, 7% in 1977 and 7% in 1978. In addition, New York State per capita income tax allocation assumes growth rates of 7% in fiscal 1976, 8% in 1977 and 9% in 1978. A slight funding reduction was assumed in Federal Revenue Sharing. Also, it was assumed that the program will be continued beyond December 30, 1976.

Supplementary Revenues (Principally Federal and State Aid)

No increases are assumed in the rates for basic public assistance grants and no changes are assumed in rent ceilings. Similarly, the City assumed that there would be no increase in rates for dependent child care. However, the City assumed that it will reduce medicaid rates that it sets directly.
Salaries and Other Operating Expenses

On an overall basis the City assumed that salaries, wage increments and cost of living adjustments would continue at the fiscal 1976 rates. Also, other cost increases, if any, would be offset by savings effected through reductions in personnel.

Pensions

Pension expenditures are assumed based on the continued use of existing actuarial assumptions and formulas which are outdated and do not give effect to salary and wage increases, inflation or other factors.

Capital Expenditures

The assumptions for capital expenditures have been based on known costs, historical data and standard models. Limited effect has been given to the possibility of substantial cost increases due to possible litigation concerning claims and continued escalation of construction costs.
APPENDIX 2

SUMMARY OF FINANCIAL REPORTING PACKAGE

FOR THE SECRETARY OF THE TREASURY
SUMMARY OF FINANCIAL REPORTING PACKAGE
FOR THE SECRETARY OF THE TREASURY

A special package of reports has been designed to provide information to the Secretary of the Treasury of the United States so that he can effectively monitor the financial results of New York City operations in connection with the Federal Government Seasonal Loan Program. The basic objective of the Secretary of the Treasury is to assure himself on a continuing basis that New York City is meeting its commitments within the approved three-year Financial Plan of the City of New York. It is the intention of the reporting package to give indications of problems that might have a significant bearing on the financial condition of the City. These reports were made a part of the Credit Agreement by and among UNITED STATES OF AMERICA and STATE OF NEW YORK, THE CITY OF NEW YORK and NEW YORK STATE EMERGENCY FINANCIAL CONTROL BOARD including undertakings by MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK dated as of December 30, 1975.

The reporting package is built around the concept of monitoring the flows of revenues and expenditures in accordance with a three-year Financial Plan prepared by the City of New York and approved by the Emergency Financial Control Board. Under the covenants of the loan agreement between the United States Government and the City of New York, the Secretary of the
Treasury must be informed of any changes in the Financial Plan and in that case, the new Financial Plan would serve as the benchmark for comparison. In the remainder of this summary we present a brief explanation of the purpose and format of each report.

Report No. 1, the Financial Plan Summary is an overall summary of monthly and year-to-date performance for the current fiscal year and forecasts of performance for the current and next two fiscal years. It compares the revenues received and the expenditures made against the Financial Plan for each period. Current year's information is prepared on a monthly basis and forecasts for the next two fiscal years are updated quarterly. The report also compares the expenditures for operating expenses against their planned rate of disbursement for those expenditures that are included in the City's capital budget. The expenditure comparison shown on the report is at a high level in that it compares personnel costs with the plan and other than personnel costs with the plan. Significant deviations from the plan for either category would result in further investigation. A major feature of this report is the provision of forecast information for each of three fiscal years. This requires City management to analyze the results to date and other economic factors and provide the Secretary with their best judgment on expected results for each line item on the report.
Report No. 2. Analysis of Change in Fiscal Year Forecast, further clarifies the changes that have occurred since the prior month that affect the City's best estimate of total fiscal year surplus/(deficit). This report provides the financial impact of changes in the fiscal year forecast for each major revenue and expenditure item. A comparison of current projected fiscal year surplus/(deficit) to plan is also made. Lastly, on a quarterly basis, projections of next year and following year totals of surplus/(deficit) are made, taking into consideration the economic and other environmental factors known at that time.

Report No. 3, the Overall Cash Flow Statement, provides an analysis of how cash shortages have been met this month and year-to-date and highlights additional revenue sources, advances and debt required to meet projected shortages for this and the next two fiscal years. Supporting this cash flow statement is the Cash Flow Monthly Forecast, Report No. 4. It details the projected additional cash needs, by source, for each month remaining in the fiscal year.

The next four reports directly support the Financial Plan Summary (Report No. 1). Report No. 5, Revenue by Major Area, gives a detailed breakdown of major sources of revenue. These revenues are compared with planned receipts to show the status against plan. Revenue sources other than from the general fund are detailed showing a breakdown of amounts received that are collections of receivables for past services performed or are
current revenues. This breakdown was developed to enable summation of total revenues flowing into the City that represent collections of receivables ascribable to prior periods. This information is further highlighted on Report No. 6, the Accounts Receivable and Advance Summary. Report No. 6 monitors on a monthly basis the balances of receivables and the balances of advance payments which, in essence, represent a liability for future performance on the part of the City.

The Financial Plan Expenditure Analysis, Report No. 7, also supports the Financial Plan Summary. It details expenditures versus the plan in a responsibility structure that lists the major responsibility areas, as covered in the three year plan, (e.g., the Department of Social Services). The expenditures for each area are shown on one line and compared to plan for the current month, year-to-date, and as projected for the fiscal year. Significant deviations would cause further investigation as to whether these deviations represent personnel costs or other than personnel costs and if any corrective action was being taken.

Supporting the Financial Plan Expenditure Analysis are the Personnel Control Exception Report, Report No. 8, and the Status of Non-Capital Contracts and Other Expenses Relating to Prior Year, Report No. 9. The first, which ties to the Financial Plan Summary, provides a comparison of personal services cost, by responsibility area, to plan. It also provides an analysis of
head count, by area, compared to budget. For this report, the primary statistical measurement utilizes a comparison of "full-time equivalent" head count (covering both full-time and part-time employees) to plan, for the appropriate period. In addition, we have included a comparison of actual full-time head count at current month end, to budget, since this can be traced to the City's official reports.

Report No. 9 is intended to provide information to the Secretary with respect to out-of-pocket expenditures on service contracts. This report monitors the amount of funds approved month by month and the rate of expenditures against those funds until those contracts are completed. It also identifies over or under spending with respect to those contracts.

Report No. 10, Programmed Expense Reductions, is a more specific analysis of expense control directed at monitoring the City of New York's progress in reducing expenses as necessary to achieve a balanced budget by the fiscal year 1978. The Emergency Financial Control Board has required the City to program these expense reductions in discrete programs that can be subjected to a monitoring process based on milestone reporting. Because this program is fundamental to achieving a sounder financial condition for the City, Report No. 10 specifically monitors the actual performance, program by program, against the planned reductions.
The proper implementation of these reductions should be reflected in the comparison of expenses against the overall Financial Plan in Report No. 1.

The Capital Budget and Expenditures Report, Report No. 11, is directed at monitoring expenditures against the capital budget for capital projects to indicate to the Secretary that the cash flows in that budget are being disbursed in accordance with the plan. Significant projects in terms of size, that is, those over $5 million or with projected variances over $500,000 are listed separately with all others aggregated.

The Debt/Debt Service Report, Report No. 12, shows the principal amount of all debt outstanding at the end of each month and the associated interest payments which will be required to maturity. The total debt service (principal plus interest) is then time phased to reflect the total amount due for each of the following twelve months and total for all subsequent months. The issue date for each Federal, State and MAC obligation is also indicated to easily identify new obligations. This report would be used to review the overall debt position of the City.

Report No. 13, Expenditures and Revenue Source/Detail by Category, would be used to monitor the relationship of revenues to expenditures of individual agencies or categories. It would be prepared for each major covered organization as requested by the Treasury Department. Actual revenues by source
(tax levy, Federal aid, etc.) would be compared to plan each month and any variances would be indicated. In addition, the total accounts payable balance at the end of each month would be provided for each category to enable monitoring of any buildup of unpaid bills.

In addition to the financial reports in the package, there should be prepared an accompanying narrative which explains deviations from the Financial Plan or departures from what is expected in the flow of funds, such as advances and receivables, in a way that can be clearly understood by the Secretary of the Treasury and gets at the root of potential financial problems in the future. It is important that the narrative be substantive and concise so that the reader of the reports understands the current financial position and the projected flows of funds at the end of any given month. The narrative should also explain the underlying conditions and economic factors that caused a change in the fiscal year forecast of surplus/(deficit).

The Secretary should also be provided with any statistical information which he feels would be beneficial in monitoring the assumptions in the three year plan (e.g., number of persons on the welfare rolls, real estate tax delinquencies over six months). This could provide insights into the City's financial performance against the plan. Lastly, it is important that the Secretary be apprised of any potential opportunities or dangers which appear imminent but which are not yet defined to an
extent that would enable the management of the City to include them in the official forecast of fiscal year surplus/(deficit). To the extent possible, these latter areas should be estimated as to possible financial effect.