STATEMENT OF NEW YORK CITY COMPTROLLER HARRISON J. GOLDIN AT
HEARINGS HELD BY THE U. S. SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS, DIRKSEN SENATE OFFICE BUILDING, WASHINGTON, D.C.,
TUESDAY, JUNE 6, 1978

Senator Proxmire, members of the Senate Banking Committee.

Less than a thousand days ago some of us who are gathered in
this room today faced each other across these same tables. With mutual
objectives and mutual goodwill we worked out a plan which won the
approval of the Congress and the President and which protected the
City of New York from impending bankruptcy.

We are today grateful for the help of the Committee in 1975
and for your willingness to consider the merits of our case as we
return to the subject of New York's survival.

None of us can claim to have had a clear and accurate vision in
1975 of the precise condition of the City in 1978.

In my own testimony before the Committee, given on October 23, 1975,
I hazarded the following view of the future:

"No one can say for certain, but assuming that default will have
been averted, it is reasonable to expect that the City can begin on
a small and gradual basis to issue long-term debt to fund its capital
expenditures.

"It is true," my statement continued, "that investors act on
emotion as well as logic, and the fact of fiscal reform, when accomplished,
combined with avoidance of default, may not promptly re-admit New
York to the capital markets. But we know that the alternative of
default, if it occurs, will seal the markets to New York for an
inevitably longer period, thus prolonging our dependency; will lose
for us, probably forever, entire classes of investors who would never
touch a debt instrument flawed by default; will further erode our
economy as business firms flee the hazards and uncertainties of a
bankrupt city with no hope for recovery; will probably trigger the
default of New York State, and beyond this, will have national and
international consequences which none of us can foresee."

Now, in 1978, we are criticized in some quarters because the
recovery of New York is not yet assured...because we are still unable
to borrow in the capital markets...because we must return here to ask
for the help we need to finish the job.

But surely the men and women who have distinguished this Senate
by their leadership over two hundred years have again and again assumed
the responsibility to deal with the unfinished business of their day.

In February, 1931, the Congress passed a modest bill sponsored
by Senator George Norris to combat the threatened bankruptcy of
thousands of families, businesses and municipalities by construction
of a dam at Muscle Shoals in Alabama. The projected cost was $33 million.
Two years later, the dam had been blocked by action of President Hoover, but widespread bankruptcy in the region was even more imminent. The Congress passed a new bill "to improve the navigability and to provide for the flood control of the Tennessee River" -- a bill which was to create the TVA and to produce a network of 27 dams representing literally billions of dollars in public and private spending.

In April, 1948, Congress passed a bill authorizing $5.3 billion for a European recovery program urged by President Truman and Secretary of State Marshall to combat bankrupt conditions in Western Europe.

Over the next four years, $16 billion was appropriated for the same program. In the following ten years, the amount of foreign aid appropriated by your predecessors in Congress was over $50 billion.

The rural electrification program, the land grant colleges, the Homestead Acts, the subsidization of silver, the long history of legislation to bolster farm income -- was there ever a time when a program to rescue and restore an important and beleaguered sector of American life did not wind up costing the Congress a larger amount the second time around?

The answer, surprisingly, is yes.

The answer is yes because in the monumental effort to save New York City we are here to ask for significantly less help than what we asked for and received in 1975.

In 1975 we asked for and received authorization to borrow up to $5.9 billion in cash over two and one half years, of which amount we actually borrowed and repaid $5.105 billion.

In 1978 we now ask for approximately one-third the help -- a maximum of $2 billion dollars -- to be supplied over a four-year period, not in dollars, but in the kind of loan guarantees which are a fixture in other types of Federal assistance programs.

We offer to protect the Federal Treasury against any possibility of having these guarantees called upon by providing the same kind of irrevocable assignments of transfer payments which have provided absolute protection for the Treasury under the seasonal loan program.

We agree to pay the required one-half-of-one-percent guarantee fee -- just as we have paid the one percent service charge which has returned a net profit to the Treasury during the past two and one-half years of over $30 million.

We agree to use the $2 billion in guarantees as the foundation for a $4.5 billion long-term financing program which will draw support from the financial community, from the State, from the public employee unions through their pension funds, and from the public at large to whatever extent is possible.

We agree to use the time made available to us under this program to meet the absolute requirement of a balanced budget in accordance with generally accepted accounting principles by 1982 -- just as we have achieved other difficult milestones and target dates over the past three years.

We agree to conduct our fiscal affairs in full compliance with the requirements of an Emergency Financial Control Board whose life has just been extended by the State of New York.

We agree to provide to the greatest possible extent for our own seasonal financing needs by relying on local, private and State sources and by restructuring the flow of cash through all possible means.

(MORE)
Mr. Harrison J. Goldin
Comptroller, City of New York
530 Municipal Building
New York, New York 10007

Dear Mr. Goldin:

I am disturbed about various aspects of your letter of March 15, 1978, with attached press release and report.

My main concern involves the question you raise about the likelihood of the City's pension and sinking funds making scheduled purchases of some $700 million in City bonds, as anticipated in the current Financial Plan, no later than May or June. You quote from your testimony before the House Banking Subcommittee, where you stated that "although the trustees of these funds have committed themselves under the present Financial Plan to make these purchases, there is every reason to doubt whether they can proceed without knowing that Federal mechanisms will be established to ensure protection of their investments after the expiration of this fiscal year on June 30."

My understanding, and the understanding of other Members of Congress when we passed the New York City Seasonal Financing Act in December 1975, was that the Federal loans were contingent on signed commitments already obtained from certain parties, including banks and pension and sinking funds, to provide other necessary parts of the City's financing needs over the life of the loan program, that is, through June 30, 1978. Obviously these signed commitments (contained in the Amended and Restated Agreement of November 26, 1975), which were printed in the Congressional Record at the time of the debate on the seasonal loan legislation, were in no way contingent on subsequent passage of Federal financial aid legislation for the period following June 30, 1978. Indeed, at that time in 1975, New York City and State officials were insisting that there would be no need for any further Federal involvement in the City's financing.

Therefore, I can only conclude that you are now, in your capacity as a trustee of these funds, suggesting non-compliance with a binding legal commitment of vital importance to the City's welfare, for the
The purpose of putting pressure on Congress to act with undue expediency on a complicated issue of great national concern. If this is the case, then I believe it is inappropriate behavior for New York City's chief fiscal officer. Furthermore, if Members of Congress perceive that the City's chief fiscal officer and other local parties involved take a financing commitment of this magnitude so lightly, then they may seriously question the advisability of the Federal government's making a commitment to provide $2 billion in long-term guarantees to New York City after June 30, 1978.

I am also concerned about the political blackmail implied in your listing of New York City's contractual commitments, on which you state that $418 million is currently due. If these amounts are in fact presently due to the companies listed, then the payments should be made promptly out of funds budgeted for this purpose and not held hostage to the passage of Federal legislation. While I can understand your desire to point up the financial stake which other parts of the country have in New York City's continued solvency, warnings of possible non-payment due to refusal of local parties to meet their investment commitments are not, in my view, the best way either to improve the prospects for passage of Federal legislation or to restore market confidence.

The decision on whether to extend further financial aid to New York City involves a number of broad policy concerns, ranging far beyond the question of the impact of default on City contractors, most of whom must have had ample knowledge of the City's financial problems when they entered into or continued their contracts. Congress will have to weigh with care the questions involved in providing long-term Federal guarantees to New York City and the potential impact of such a precedent on the fiscal practices of other cities across the country.

I have stated publicly on a number of occasions that the Committee on Banking, Housing and Urban Affairs will hold hearings and give full consideration to proposals for additional financial aid to New York City at an appropriate time, after certain matters such as the City's labor contract negotiations have been resolved. However, the Committee is unanimously on record as urging New York City and New York State to obtain firm commitments from local parties to meet the City's future financing needs. Thus, in my view, the Committee is unlikely to be
persuaded to act expeditiously if confronted with either the threat or the actuality of the City's pension and sinking funds refusing even to meet their present financing commitments.

Sincerely,

[Signature]

William Proxmire
Chairman
I am pleased to respond to the Subcommittee's invitation to deal with the issue surrounding the needs of the City of New York following June 30 of this year.

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

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

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

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

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

The questions are now raised: Do we need the full package as submitted . . . and can we obtain the financing we need after June 30 without a Federal involvement? Finally, what would be the likely consequences of a complete termination of Federal financing help on June 30?

These are fair and proper questions.

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

If the full need for long-term financing is securely provided for, the short-term financing problem will become more manageable, first, because there will be a lesser amount to be borrowed, and, second, because the City's credit will be improved with the lifting of uncertainty over the source of long-term capital.
I believe, in short, there will be things the City can do on its own and with the assistance of others to hold down its seasonal financing needs if its long-term financing and budgetary problems are provided for. We can move up the payment dates for real estate taxes and seek earlier transfer of State aid. But we have already learned, I believe, that an assured source of short-term money, even in the form of Federal seasonal loans, does not provide assurance of re-entry into the public credit market, nor does the significant fiscal reform accomplished by the City in accordance with the 1975 credit agreement.

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

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

The Plan we submitted does call, as you know, for a majority of the long-term funding to be provided by non-Federal sources. But since fiduciaries are involved in the provision of much of this money, there needs to be a financing package with positive budgetary consequences sufficiently comprehensive and dependable that a fiduciary can legally and responsibly commit trust funds to such an undertaking.
Surely the very least that a fiduciary must require, in the view of his attorneys, is assurance that the entity to which he is lending will be creditworthy to the investing public as of a predictable date. Yet if the financing package is chopped back to $3.5 billion, or some other sharply diminished amount, it can no longer achieve the positive budgetary consequences which make it (1) capable of restoring public credit and (2) therefore appropriate for investment by fiduciaries.

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

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

What will happen, the Subcommittee asks, if the City has no credit after June 30?

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

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

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

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

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

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

We ask for a 90 per cent guarantee of a limited amount of bonds, to apply only to securities purchased and not resold by the tax-exempt pension funds of the City and State.
Obviously the substantial amounts of Federal aid which flow to the City could be assigned as security against the remote possibility that the guarantees would ever require an outlay of Federal cash.

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

The question which confronts the Congress is whether there is more risk in action or inaction.

Our confidence -- our future -- is in your judgment.
STATEMENT

BY

HARRISON J. GOLDS

COMPTROLLER OF THE CITY OF NEW YORK

U.S. SENATE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS

2 P.M.
THURSDAY
OCTOBER 23, 1975
Mr. Chairman and distinguished Members of the Committee:

My name is Harrison J. Goldin. I am the Comptroller of the City of New York. I have served in this capacity since January 1, 1974. I also serve as a member of the State Emergency Financial Control Board for New York City.

For the Committee's information, the New York City Comptroller is an elected official with a variety of fiscal responsibilities under the City Charter, including auditing and accounting but not including budget management or tax collection, which are performed by agencies responsible to the Mayor.

The Comptroller is also one among a number of trustees of the City's five pension systems, and his Office is the designated agent of the trustees in managing the investment of most City pension funds. Key policy decisions concerning investments are made by vote of the trustees with the advice of professional investment managers. The Comptroller is the sole trustee of the City's Sinking Funds.

For many years, Mayors have delegated to Comptrollers the authority to do the City's borrowing, and the Comptroller has been responsible for anticipating the City's cash needs and for insuring that sufficient funds are on hand to meet obligations.

As required under the City Charter, I have on a number of occasions during my 22 months in office issued advisory reports on
various aspects of the City's fiscal affairs. These reports have invariably warned of the rising burden of debt.

I also commissioned verifications by independent Certified Public Accounting firms of certain City accounts. When publicly released in the summer of 1974, these verifications disclosed deficiencies in the City's bookkeeping and records, and noted that such deficiencies made it difficult if not impossible to effect reconciliations and generate reliable data.

I review these events to offer a partial explanation for the difficulty which the City has sometimes encountered in providing certain detailed data which might be thought to be readily available. Although improvements have been made and continue to be made, there has not been sufficient time, especially in the face of budgetary pressures, to remedy all the problems of which we became aware.

I understand that the Committee wishes to obtain at this time the most complete and most recent information available on: (1) the City's cash needs for the remainder of the current fiscal year and for future fiscal years; (2) the implications of a possible default on one City's cash flow and essential service needs; and (3) the balances and assets in funds and accounts maintained by the City and by its authorities and public benefit corporations.
I will summarize this information and will supply additional data on request.

The City's need for cash over and above its ordinary revenues is caused by four principal factors:

1) the obligation to redeem maturing notes at a time when refinancing in the public credit markets is not possible;
2) the obligation to pay for construction, maintenance and other costs incurred under the capital budget at a time when the ordinary capital funding process, the issuance of bonds, cannot be accomplished;
3) the existence of a deficit in the current-year budget which, although scheduled to be eliminated by 1977-1978, will still create a cash gap of diminishing size until fully eliminated;
4) the seasonal imbalances in cash flow which are ordinarily evened out by borrowing against current-year receivables.

There has been some misunderstanding of the City's cash needs arising from a failure to comprehend all four elements.

Capital spending, for example, is additional to the spending provided for in the City's expense, or operating budget. Now that capital spending cannot be funded through bonds (because of the closing of the credit markets), the City must pay capital costs already incurred, or necessary to be incurred, out of whatever
revenues are in hand, despite the fact that such revenues were never calculated or designed to cover capital spending.

Significant, in this connection, are the expense-type items which now comprise approximately half (in dollar volume) of all the items for which the City was scheduled to borrow under its capital budget. Although these items are now required to be phased out of the capital budget under State law, they will continue, until the phase-out is completed, to require payment out of general revenue sources as long as the public credit markets are closed to the City.

Similarly, the concentration of attention on the kind of short-term borrowing which had the effect of papering over deficits has obscured the fact that a certain amount of borrowing is necessary and unavoidable for the simple and legitimate purpose of evening out cash flow.

To state the obvious as an illustration, a budget balanced on an aggregate 12-month basis would not in itself prevent default if in a particular month or a particular quarter the fixed obligations greatly exceeded the cash receipts for the same period.

With this as background, projections of the City's cash needs for the period of October 1, 1975 to June 30, 1976 are as follows.
Operating expenses, reduced in accordance with the latest plan developed by the Mayor and approved with modifications by the State Emergency Financial Control Board, are $7.387 billion.

Capital budget spending is projected at $1.147 billion and the combination of debt service and short-term rollovers at $4.6 billion. The $4.6 billion includes nearly three billion in short-term debt maturities together with $1.7 billion in interest, redemption, and the MAC takeout from what would otherwise be City revenues.

The total of these expenditure requirements is $13.1 billion.

Revenues for this period are projected at $8.4 billion, resulting in a cash need of $4.6 billion. The obligation to pay this year a note held by the State of New York brings the total cash need to $4.8 billion.

The fact that the total cash need for the nine-month period roughly approximates the debt service for the period has understandably led to some speculation that the City's fiscal crisis would not exist if there were a moratorium on all debt service.

But this overlooks the serious seasonal cash flow imbalances which I discussed earlier.
The next projections represent the cash condition of the City if no debt service at all were to be paid. The month of December, 1975, alone, would see a shortfall, or cash need, of $389 million. The month of January would produce a shortfall, or cash need, of $329 million. In February, the City would be short $122 million; and in March, $380 million.

I repeat that these shortfalls would exist even if not a penny of debt-service - interest or principal - were to be paid.

In these four months, the City would be short a total of $1.2 billion dollars. Assuming that the City were in default on its debt service, it becomes impossible to conceive of a source for such a sum.

Lacking a means to meet the cash need in December, the City would have to cut the budget sufficiently to effect a $389 million savings in December alone, which would offset a cash shortfall of that amount in December and offset shortfalls in the following three months if continued in force. On an annualized basis, the cuts would constitute a $4.7 billion slash in combined capital and expense spending.

Since a moratorium, or default, on debt service is unprecedented in New York City, it is impossible to predict the full range of consequences. One consequence, perhaps not heretofore brought to the attention of the Committee, would be a sharp reduction in the amount of real estate taxes that the City could constitutionally levy.
This is because the City's real estate taxing authority under the State Constitution derives partly from the use of real estate taxes to pay long-term debt service. Once the City failed to use its real estate taxes for this purpose, approximately 43 per cent of its tax levy - or some $1.4 billion a year - could no longer be imposed or collected.

Even if through some turn of events a court should allow the City to tax real estate at current rates, following default, the fact of the default and the consequent inability of the City to issue capital debt would reduce real estate revenues in the next fiscal year by approximately $400 million.

To recapitulate, the City needs $4.8 billion for the full period between October and June, of which $1.1 billion is being provided by MAC. This leaves $3.9 billion to be raised for the period December to June, in order to avoid default.

If default takes place on debt service alone, the City still needs to raise $1.6 billion from October through March - or $1.2 billion from December through March - in order to pay remaining expenses. The period following March is clouded by the uncertainty of real estate tax collections if default occurs.

The problem, however, does not end with the City's current fiscal year.
Looking toward 1976-1977, and assuming further reductions in the expense and capital budgets in accordance with the three-year fiscal plan, the City's total cash needs over and above its revenues can be projected at $5.8 billion.

This total includes $4.2 billion in short-term debt rollovers, $1.100 billion in capital budget spending, and a diminished deficit of $470 million in the Expense Budget after providing for $1.6 billion in interest and redemptions and approximately $600 million for the MAC takeout.

If there were no debt service paid through 1976-1977, the overall cash needs would be $1.4 billion with a peak midyear need even higher because of seasonal cash flow imbalance.

These projections will naturally raise a question as to how New York City can emerge from its cash crisis even if some means is provided to see it through 1976-1977, 1977-1978, and possibly beyond.

The answer may be found by looking behind the numbers at what is already happening, and what will continue to happen, with respect to the City's accumulated prior-year deficits, its current deficit, and its debt position.

As it entered its current fiscal year, the City was confronted with accumulated prior year deficits of $2.6 billion plus a current deficit of $1.0 billion for a total of $3.6 billion.
By December 1, when the financing arranged by the Municipal Assistance Corporation runs out, the City through MAC will have funded $3.2 billion of this enormous deficit.

When it enters the next fiscal year, 1976-1977, it will carry over $500 million of the old deficit plus a current deficit of $400 million for a total of $900 million - a large sum but still less than 30 per cent of the total combined deficit one year earlier.

The following year will see adoption of a budget genuinely balanced on a cash basis.

Well before then, the City will have completed the installation, as required by State law, of a reformed accounting system in conformity with the standards of the State Comptroller and the Municipal Finance Officers Association.

Furthermore, the City will be functioning, as it is today, under a State-imposed ceiling on the amount of short-term debt it may have outstanding.

By the end of 1977-1978 it will have paid off approximately $400 million of the money which has been raised by the Municipal Assistance Corporation this year to fund the accumulated deficits.

No one can say for certain, but given these conditions, and assuming that default will have been avoided, it is reasonable to
expect that the City can begin on a small and gradual basis to issue long-term debt to fund its capital expenditures.

It is true that investors act on emotion as well as logic, and the fact of fiscal reform, when accomplished, combined with avoidance of default, may not promptly re-admit New York to the capital markets. But we know that the alternative of default, if it occurs, will seal the markets to New York for an inevitably longer period, thus prolonging our dependency; will lose for us, probably forever, entire classes of investors who would never touch a debt instrument flawed by default; will further erode our economy as business firms flee the hazards and uncertainties of a bankrupt city with no hope for recovery; will probably trigger the default of New York State; and, beyond this, will have national and international consequences which none of us can clearly foresee.

As a second piece of information, I understand that the Committee wishes a report on the percentages of City spending in certain categories, exclusive of debt service. The City's budget for 1976-1977 will be expended approximately as follows:

<table>
<thead>
<tr>
<th>Expenses</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll - Direct</td>
<td>39.5</td>
</tr>
<tr>
<td>Payroll - Indirect - Payments to independent agencies</td>
<td>3.5</td>
</tr>
<tr>
<td>Public Assistance</td>
<td>12.1</td>
</tr>
</tbody>
</table>
### Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid (including portion paid to Health and Hospitals Corporation*)</td>
<td>14.1</td>
</tr>
<tr>
<td>Other Welfare Grants, Charitable Institutions</td>
<td>8.6</td>
</tr>
<tr>
<td>Pensions, Social Security Fringes</td>
<td>12.2</td>
</tr>
<tr>
<td>Vendors Contractors</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

* 4.6% paid to Health and Hospitals Corporation.

### Capital Spending

<table>
<thead>
<tr>
<th>Description</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>30%</td>
</tr>
<tr>
<td>Vendors, Contractors</td>
<td>70%</td>
</tr>
</tbody>
</table>

A Mayoral Committee on default has drafted a contingency plan calling for an order of priority in seeking to maintain vital services in the event of default. As indicated earlier, even the total omission of debt service payments would require substantial cuts in other categories of expenditure, assuming that the New York State Constitution permitted such abrogation of obligations to holders of our notes and bonds.

Should it be established that the concepts of general obligation and full faith and credit do not mean what generations of investors have believed they mean, the consequences would be far-reaching for municipal borrowers and the nation's credit markets.