Senator Proxmire, Senator Garn, Distinguished Members of the Senate Banking Committee, Senator Javits, Senator Moynihan.

It is a pleasure to return here again, particularly since I am able to report on some good news about New York City's fiscal condition.

I refer, of course, to the recently concluded public sale of New York City notes.

The city's re-entry into the credit markets after an absence of nearly four years was well received, both by the financial community and by the public.

In fact, the entire offering sold at an interest rate well below what we had expected.

That is a...
That is a clear sign that the life support system which you in Washington helped us piece together is functioning.

The patient is indeed convalescing.

Yet we should recognize that this is no time to pull the plug; the city's return to full financial health is still a long way off.

With the New York City Loan Guarantee Act of 1978 as a cornerstone, the Municipal Assistance Corporation and the City of New York have developed and put into place a program which provides financing for the City during its next four fiscal years.

George Gould, Chairman of the Municipal Assistance Corporation, will describe this program to you later.

This program will enable the City to take the steps determined by both this Committee and the marketplace to be necessary to restore full investor confidence in the City.

Neither this Committee...
Neither this Committee nor we at the State and local levels should forget that these steps remain necessary to achieve our mutual goal for the City—market access to meet all of its credit needs.

The note sale indicates that the City is perceived as having made substantial progress toward that goal.

With the financing program firmly in place, it should continue to do so.

The progress made so far has required the best efforts of an unprecedented coalition of business, labor and government.

It has required real sacrifice on the part of all involved.

The City has reduced its payrolls by an estimated 60,000 positions, or over 20 per cent of its work force.

It has imposed...
It has imposed tuition at City University in the face of a long tradition of free tuition.

It has increased bus and subway fares by 40 per cent.

City workers have accepted wage settlements that lag behind the current rate of inflation and their pension funds have been tapped to provide much of the financing required for the City's survival.

Those are not token sacrifices.

The private sector too has assisted, with short-term and long-term financing, and has lent some of its key management people to help guide us through these difficult periods.

The State established the Municipal Assistance Corporation to provide financing for the city, and a financial control board to monitor the city's fiscal affairs and make sure it lived within its means.

The State and...
The State provided almost $4 billion in loans and advances to help the city meet its cash flow needs.

And even as the State sought to stabilize its own difficult financial condition, it provided the city, along with other local governments, with increasing amounts of budgetary assistance.

Last week I submitted to the State Legislature my Executive Budget for the 1979-80 fiscal year that begins April 1.

It is a prudent budget, a humane budget, a budget that continues our pattern of increasing aid to all local governments, yet also recognizes the special needs of our urban areas.

As our Constitution requires, it is also a balanced budget.

My budget calls for expenditures totalling $12.7 billion.

To put that...
To put that in perspective for you, I might point out that the entire budget amounts to only about two per cent of the federal budget.

To put it another way, our state budget totals only about 40 per cent of the projected federal deficit for the coming year.

My budget is built on the following principles:

1. The State of New York has the responsibility to meet the legitimate needs of all its citizens, including both the eight million who reside in the City and the ten million who live in other parts of the State.

    More than 60 cents of every state budget dollar goes back to communities in the form of local assistance.

    New York City gets approximately 43 per cent of that local aid.

    2. In addition to...
2. In addition to the City fiscal problem, the budget must address other critical issues that confront our State.

We have to revitalize the State’s economy, we need to move toward greater equity in our financing of the public schools.

And we need to lighten the tax burdens that weigh upon New Yorkers, the nation’s most heavily taxed citizens.

3. The budget must be part of a multi-year plan which insures long-term budget balance for the State.

It plans prudently not only for today but for tomorrow as well.

My budget calls for:
-- Tax reductions for business and individuals phased in over the next four years;

-- A revised elementary...
-- A revised elementary and secondary education aid formula to meet the standard of equity as specified by the Levittown court decision and which will allow annual increases in the State share of public education costs;

-- Continued State assumption of local courts and the local share of the Supplemental Security Income program;

-- Intensified cost-containment efforts in Welfare and Medicaid which should allow savings to all levels of government;

-- Creation of a local government expenditure review board to provide guidelines for limiting expenditure growth at the local level.

Furthermore, this budget contains the resources necessary to honor my commitment to aid the City of New York. All told, State aid to New York City amounts to more than $3 billion.

This budget provides elementary and secondary education aid of $971 million, an increase of $71 million.

It contains $80 million...
It contains $30 million to reflect full state assumption of the SSI program.

It provides $65 million to reflect state takeover of 75 per cent of New York City court costs and $4 million for the City's cost of local drug abuse treatment programs.

In addition, this budget will support welfare and Medicaid cost containment and revenue enhancement programs designed to provide the City with $85 million.

Other State actions will provide another $60 million for the City in fiscal 1980.

These include review of reimbursement methodologies, assumption of the City share of certain program costs and implementation of cost-avoidance mechanisms.

We have already...
We have already begun a dialogue with City officials to determine how these varied resources can be used most effectively to balance the City's budget.

These discussions, which will extend over the coming weeks, will continue in the same spirit of cooperation which marked our efforts last year.

We must also conduct a similar dialogue with the Legislature concerning my budget recommendations.

I know that the legislative leadership is equally concerned that the fiscal stability of New York be secure. As in the past, the effort will be bipartisan.

I am confident that within the framework of the budget I have presented and the resources available to us, we can fulfill our commitment to aid the City in closing its budget gap.

I assure you that within the discretion available to me as the Chief Executive of this State, I will do all in my power to see that this commitment is met.

Frankly, Mr. Chairman, ...
Frankly, Mr. Chairman, the actions we have taken and will take to aid New York City are in our own self interest.

The future of New York City and New York State are inextricably bound together.

And it is in this same spirit of self interest— not only ours but yours— that we ask for your support for a continued partnership with the Federal Government.

With past Federal assistance, we have been able to achieve a measure of financial stability that has allowed us to reduce the growth of government spending in New York State.

This in turn has enabled us to relieve the tax burden of State residents and business.

Both of these actions were necessary to revitalize the State’s economy.

A stronger State economy...
A stronger State economy and lower State taxes result in substantial additional revenues for the Federal Government.

For example, the State's tax reduction program, when fully implemented, will provide up to $400 million in additional Federal tax receipts annually.

Further, Welfare and Medicaid cost-containment programs are providing millions in recurring Federal savings.

In a real sense, New York is self-financing the aid it seeks from Washington.

I know that as you consider President Carter's proposed Federal budget you will want to respond to a growing national concern over inflation and the level of government spending.

We in New York share that concern.

Because of our...
Because of our experience in New York, I appreciate the need for federal action to slow the growth of government spending and get a grip on inflation.

We have done those things in New York.

But I must point out that while state actions in lowering taxes and containing costs have helped the federal government, the federal actions now proposed would hurt New York City and indeed, impair its prospects for sharing in the future growth of the national economy.

Let me remind this distinguished committee that the plan, and every similar proposal presented to Congress during the deliberations on the loan guarantee legislation, was premised upon separate but interrelated federal actions.

First was the...
First was the enactment of the Loan Guarantee legislation.

That has been done.

But the second premise, provision of an equitable amount of federal aid to help close the city's budget gap, has not been achieved.

Back in 1972, welfare reform was considered a top priority item along with federal revenue sharing, but where is welfare reform today?

Increased federal assumption of state and local welfare and Medicaid costs would make a major contribution to the financial health of New York and indeed, throughout the nation.

Federal countercyclical funds became an important part of city budgets across the land, but where is that program now?

New York State has...
New York State has met its commitments to New York City and will keep on doing so.

But the state lacks the resources to take on federal obligations as well.

Let no one be misled by the fact that we have cut taxes in New York State.

Those cuts represented a critically important investment in the private sector economy whose strength is the ultimate loan guarantee.

We have shown that there need be no conflict between sound fiscal policy and meeting the essential needs of our citizens.

As you well know, Mr. Chairman, expenditures can be reduced through the elimination of waste and inefficiency.

Governmental revenues can...
Governmental revenues can be increased from a strengthened economy instead of higher taxes.

And from the savings and revenues thus generated, the Federal government can, as New York State is doing, meet its obligations.

I suggest that it is to our mutual benefit to strengthen the partnership we have forged.

I urge greater Federal recognition of the problems of our urban core areas, through restoration of a program of countercyclical aid, improved targeting of CETA funds, increased Federal responsibility for the costs of Welfare and Medicaid and a national response to the problems posed by the growing numbers of illegal aliens.

Working together, we in government, labor and business have overcome every obstacle, met every challenge, and done whatever was necessary to bring the city back from the edge of bankruptcy.

Let us continue...
Let us continue to work together in the interest of a full recovery for New York and toward the strengthened economy it needs to maintain its place as the nation's greatest city.
Chairman Moorhead, Members of the Committee, I am happy to be here again. I want to address the plan set forth by the Administration to give financial help to New York City, and to press the case before the Congress for Federal participation in a resolution of the City's dilemma.

I am pleased by the President's proposal for long-term Federal participation in a financial solution for the City. Long-term guarantees will add useful leverage to the City's attempts to get back into the financial markets. This is a major step forward toward a secure financial future for the City.

I can support the President's program, as recommended by the Secretary of the Treasury to this Committee, with certain additions or extensions which the State feels are necessary.

The Administration's plan was not developed in isolation from the realities that face New York. The Secretary and other Federal officials have made repeated trips to New York City and Albany for consultation with City and State officials.

The Administration has been persuaded by the considerable evidence it has gathered of City and State actions. I am especially pleased that the Administration feels the State has done its fair share in helping the City.

The Administration's proposal verifies what State and City officials have said: New York City has come a long way toward financial stability since 1975, but some further efforts must be made with continued Federal participation.

The Administration's willingness to propose long-term guarantees is clear recognition of the great progress that the City and State have made together since 1975. In that light, I want to give the highlights of our progress, because this Committee and the Congress must look at the record of the recent past, for the most accurate guide to the near future.

Perhaps I can provide a fresh perspective if I review again the situation in the City in 1975, when the crisis peaked. The causes of the crisis go back many years before that. They include inadequate budgeting procedures, very high State and local taxes, the high costs of providing essential services in a big city, a large population of poor people, and an old and rapidly deteriorating physical plant—roads, bridges, sewers, and public buildings.

(more)
Three years ago, on March 1, 1975, New York City newspapers reported the cancellation of a $260 million offering of City Tax Anticipation Notes. In the public mind, this marked the beginning of the City's crisis.

In only a few months of intense public and private discussion in 1975, it was clear that the City was rapidly approaching a moment when it would not have the money to pay its bills, meet its payroll, and pay the interest on its swollen debts. About $6 billion of debt was due within a year. The City came very close to bankruptcy, which would have precipitated a true crisis on a scale unprecedented in our history of public finance and local government.

The scenario for the bankruptcy of New York City was much discussed at the time, and has been repeated lately. I want to add to the discussion, not out of any taste for the subject, but for the sake of emphasis.

No court of any kind has ever administered any enterprise in bankruptcy, or in any other condition, that even remotely approaches the size and complexity of the City of New York. It takes a dangerously naive faith in the capacity of the judicial branch of the Federal government, to assume that any judge or group of judges, could by themselves assume the total responsibility for the daily administration of the City, not to mention the monumental task of resolving the endless litigation consequent on formal bankruptcy. The court system might well have been tested beyond its limits.

And then what? It is just as well we never found out. There is no fourth or fifth branch of government to pick up the pieces.

New York City is one of the largest purchasers of goods and services in the nation. Surely it is in the national interest to act decisively to stabilize the financial condition of such an important economic activity.

New York City is the nation's foremost international City, one of the world's great centers for commerce, communications, and finance. It is not in the national interest to put this City in danger of a bankruptcy that would symbolize a failure of the national will.

And it is worth special emphasis to say that a major urban bankruptcy would add to the powerful international strains on the dollar, at a time when this should be unthinkable.

For all these reasons and many more, the President and the Secretary of the Treasury have said it is in the national interest to protect the solvency of the City.

The City did not reach bankruptcy in 1975, because the State--my Administration and the State Legislature--took effective measures to aid the City. The City's survival, and its steps to recover, rested on an unprecedented coalition uniting the public and private sectors, labor leaders, the financial community, business leaders, and political leaders and public officials at every level of government--Federal, State, and local.

This coalition saved the City and strengthened the State. It is this same coalition we are now exhorting to work for a full and speedy recovery of the City.

(more)
In 1975, when I took office, we discovered that the State itself faced a serious crisis. The bipartisan action the State then took to save the City must be seen in the context of real risk and consequence for the State.

In 1975, the State Budget was projected to be seriously out of balance. Municipalities throughout the State were in serious credit and fiscal difficulties. Not only was the public finance of the State in difficulty, but the private economy was badly deteriorated.

The State's private economy could not generate the tax revenues to feed the ballooning public sector. The credit markets were closing for New York City, for Yonkers, for Buffalo, for school districts, and for major public authorities. The State itself was threatened.

It is surely clear that the potential existed for a fiscal earthquake whose shockwaves would have traveled into every corner of the national economy, and into every city and village touched by the financial markets, and into every major financial institution.

None of this happened. The State of New York met its full obligations to act in crisis. The City took drastic steps, working with the State, to bring City expenditures into line with actual revenues. And in a crucial move that put the keystone of the arch in place, the Congress enacted the Federal seasonal loan program. This Committee's work was instrumental in that solution.

The Federal seasonal loan program, due to expire at the end of June, just four months from now, made demands on the City and State. Every demand has been met, and every scheduled repayment has been made, on time and with interest. New York City and New York State have met their full obligations to the national community that helped us in 1975.

I hope the Congress understands that it has had a good experience with New York. And I hope that each and every one of your constituents understands that helping New York City in 1975 cost them nothing.

We are not asking now for handouts from the people of the United States. The people of New York pay their own way, and I believe that the people of the other 49 states understand that very well.

Since 1975, much has been done. Uncertainty and confusion have been replaced by clear certainty and public accountability.

In 1975, the budget and accounting system of the City was fragmented and incomplete. Now, a new integrated accounting system is in place and fully operational, and Federal, State and City officials can agree on acceptable figures for the City's fiscal condition.

The Municipal Assistance Corporation was created by the State, and has financed some $5.8 million of City debt in an orderly and controlled fashion. The Emergency Financial Control Board—which I chair—was created to develop and monitor a credible financial plan leading toward a balanced budget.

(more)
True financial planning is now made possible by accurate accounting, and made enforceable by the control mechanism. The capacity for real planning simply did not exist before 1975, and it exists now. It exists because we in New York State and New York City made it exist. No one any longer has to guess at the financial condition of New York City. This certainty has itself put us at a great distance from 1975.

To maintain this effective oversight mechanism, I am prepared to offer State legislation to extend the Control Board for a time period at least as long as Federal bond guarantees exist.

Let me repeat a few points I made in my December testimony before this Committee, by way of emphasis. We are well into the process of restructuring the way government works in New York State. Our Budget is balanced for the second year. For the second year, we are offering serious and effective tax cuts to our citizens and businesses, who have been the most heavily taxed citizens in the country. The growth in State spending has been kept below the rate of inflation for the period from 1975-76 through 1978-79. We have saved $1.5 billion in welfare and Medicaid costs through better management since 1976-77. That means we have saved Federal dollars, as well as State and local dollars.

We brought the size and costs of State government under control. We took effective steps to revitalize the State's economy so we could provide jobs for our people. And we took extra steps to help the City.

In the last three State fiscal years, we financed over $3.3 billion of special advances to the City, without which the City would have been unable to pay it's employee's salaries, and meet its other obligations.

We provided other aid to the City, such as greatly increased aid to the City University and to mass transit. We accelerated reimbursements to the City. We assumed the costs of City functions, such as certain court costs.

New York takes care of itself and pays its own way. We do not want handouts. We want jobs for our people, and we want help in finding a permanent solution for the financial problems of our largest City.

Our commitment to help New York City is a continuing one that the people of the City can rely on. My Executive Budget for State Fiscal Year 1978-79 will continue the special $800 million advance to the City. It also provides an overall increase in State aid to the City of about $339 million.

Not all these funds can be used by the City to close the projected deficit, since some of these monies are derived from expenditure-driven formulas, such as public assistance and Medicaid costs.

However, the State has agreed to provide the City with $200 million to reduce the projected $457 million deficit in FY 1979. This amount of $200 million has been endorsed by the leadership—both Republican and Democratic—of the State Legislature.

(more)
This amount together with proposed City actions totalling $174 million will cover more than 80% of the budget gap projected by the City for FY 1979. I understand assurances have been given by Federal officials to City officials that additional Federal aid can be counted on to close the remaining gap.

In considering how much New York State is able to do to help balance the City's budget, it should be emphasized that, unlike most states, the bulk of our State budget consists of aid to local governments. In the next fiscal year some $7.1 billion or 60% of our total budget of $12 billion is for local assistance. Only $3.2 billion or 27% supports State operations, with the remaining 13% supporting capital construction, debt service and other fixed charges.

New York City receives a large share of per capita State aid and categorical aid. The only way significantly more aid can be channeled to the City is through improved economic growth resulting in total revenue growth, and through continued austerity in State operations--policies which we have set in motion during the past three years and which we intend to continue.

The general assumption has been that the City and State governments must have demonstrated conclusively that they are doing all they can to fulfill their responsibilities before we can call on the Federal government to assist us. We fully recognize and agree that since all powers of local government flow from the State, the State has a major responsibility for ensuring and supporting the fiscal health of cities within the State. Moreover, we are acutely aware that the stability of New York City is essential to the continued economic well-being of the State.

Thus we gave credit assistance to the City in its crisis; we substantially increased our budget aid to the City; and we have established fiscal control and reform in the City.

We have worked for three full years to get New York City on its feet again, precisely so it will not need outside help. We have not only put the necessary mechanisms for reform and oversight in place, but we have made them work. In the process we have seen an extraordinary shift in both local and national public opinion--from despair and deep cynicism to full confidence.

So why are we in Washington again, asking for Federal participation in a long-term solution?

We came here three years ago in the belief that what we proposed then--a combination of long-term and short-term measures--would be sufficient for full recovery. The experience of three years of good-faith effort on our part has shown us that the solution of 1975--which was a short-term solution--was enough to give us strong recovery, but not full fiscal health.

An important component is lacking, and that is the ability of the City government to enter the financial markets. Among other things, M
c must be enabled to refinance its high-interest obligations, to lower the burden such a heavy debt puts on the City's taxpayers. We believed it would be possible last fall, but the private financial community demanded more experience before it would commit itself.

(more)
Secretary Blumenthal pointed out that the City cannot re-enter the market now, due to continued City budget deficits. He also emphasized, and I agree, that investor confidence lags behind true progress. We have made true progress, and we must not falter now.

There must be a willingness on the part of the State, the financial community, the municipal unions, and the Federal government to join the City to complete the task we began three years ago.

It requires a major effort by all three levels of government—City, State, and Federal—to reduce City expenditures, increase revenues and eliminate the remaining budget gap. I can promise you that the State will do its part. I expect that the normal growth in State aid programs for municipalities will, over the following three years, result in very substantial increases in such budget-balancing aid to the City.

We join the Administration in proposing a Federal guarantee of up to 15 years for long-term City bonds. Without such guarantees, all the budget-balancing actions of the City, the State, the municipal unions and the Federal government itself, past, present, or future, do not matter. Nor does it matter that we have agreed to continuation of an oversight mechanism and other financial controls. If the capital requirements of the City cannot be financed over the next four years, the City will confront insolvency, even though the financial plan is in place and on target.

Three years ago, this Committee recognized the City's real needs, and recommended long-term Federal aid. However, the Ford Administration ultimately supported only seasonal financing for a three-year period, under a plan that included a moratorium on City notes. The impending expiration of the seasonal loan program still leaves the City without direct access to the market and revives the possibility of City bankruptcy. To complete the job we began in 1975, we renew our request to the Congress for long-term Federal assistance, and ask that such assistance be complemented by a continuation of seasonal financing to the extent necessary to assure that the minimum seasonal credit needs of the City are met. I can assure you that the State will work closely with the City to find ways to reduce the City's seasonal credit requirements; and I would expect, therefore, that the use of Federal seasonal lending will be less than half of the needs during the past three years.

As in 1975, we ask for Federal help only because the maximum available State and City resources are insufficient to do the job, and we ask for the minimum amount of help we think we need to do the job right. Guarantees and the authority for short-term loans will have no impact on the Federal Budget, and thus no impact on the taxes of your constituents. All we are asking for is a credit vehicle that recognizes the special needs of the City at this point.

Our recognition of those special needs is reflected in our commitments. We are committed to continued year-by-year monitoring of City revenues and expenditures. We are committed to limitations on City expenditures, with State help. And we want to see careful City management of its labor problems.

(more)
And the City must arrive at agreements with its work force which will not endanger the City's ability to carry out its four-year plan and achieve a truly balanced budget. I assure you that part of the continuing role of the Control Board and its successor will be to monitor labor contracts to ensure their consistency with the financial plan.

There is common interest between myself, the Legislature, and the Mayor in these matters. We have common need in seeking Federal assistance. We renew our request for the long-term guarantees necessary to a full solution to the City's problems, and for continuation of seasonal borrowing authority.

We turn to the Federal government to help us provide the security required to ensure that the City's borrowing needs will be met. The Chairman of MAC, who is with me today, can provide further details, but I can assure the Committee that we want to limit the involvement of the Federal government as much as possible and to limit Federal risk as much as possible.

There is much lower risk in giving New York City full and timely help than in not helping us.

Thank you.

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Appendix A

PROGRESS SINCE 1975

-- The City's Budget for fiscal 1978 is in balance according to the terms of the Federal Seasonal Loan Act.

-- There are in place a financing vehicle--the Municipal Assistance Corporation (MAC)--and an oversight mechanism--the Emergency Financial Control Board (EFCB).

-- The municipal labor force has been reduced by over 60,000 positions.

-- The City has installed a modern management information system (IFMIS).

-- The City is operating under Accounting System Directives prepared by the State Comptroller and its books are prepared under Generally Accepted Accounting Principles (GAAP), as modified by the State Comptroller for specific application to New York City.

-- The City's four-year financial plan proposes a cap on the property tax through fiscal 1982 at $8.75 per $100 of assessed value.

-- The City has been able to eliminate or reduce certain taxes (examples include the stock transfer tax, the bond transfer tax, and the estate tax).

-- The erosion of the City's economic base has slowed noticeably and may be at a turn-around point, according to Herbert Bienstock of the Federal Bureau of Labor Statistics.

-- The City has demonstrated its ability to implement both cost-containment and management-improvement programs.

-- The City has been able to reduce the ineligibility ratio for Public Assistance recipients from approximately 17.3% to 8.6%, based on the most recent data.

-- The City has met or exceeded the schedule set for it in the MAC legislation for phasing out expense items in the Capital Budget.

(more)
STATE ACTIONS TO HELP SAVE NEW YORK CITY

In order to help save New York City from fiscal default, the State of New York took extraordinary action in a number of significant areas:

I. The State used its access to credit markets during the period to finance over $3.3 billion of special advances to the City, without which the City would have been unable to pay its employees' salaries and its other obligations.

-- In its 1975-76 fiscal year, the State made the following special advances on behalf of the City:

- Welfare aid, $720 million
- Education aid, $177 million
- Miscellaneous, $23 million
- Loans, $750 million
- Motor fuel taxes, $15 million

-- In its 1976-77 fiscal year, the State undertook the following additional advances:

- General advances, $800 million; and
- Motor fuel taxes, $15 million.

-- In the current State fiscal year, the following additional advances were provided:

- General advances, $800 million
- Motor fuel taxes, $15 million

II. The State also provided additional aid, accelerated reimbursement to New York City, and assumed the costs of certain functions formerly performed by the City.

-- To assist the City University of New York, the State:

- Advanced $24 million in SFY 1976-77;
- Picked up an additional 25% of Senior College operating expenses ($54.3 million in CFY 77-78);
- Increased its Tuition Assistance Program (TAP) which provides approximately $45 million or one-third of the total tuition received by CUNY in CFY 78; and

(more)
° Proposed to increase its contribution to the City University Construction Fund from the present 50% level to 75% in CFY 1979. This would save the City an estimated $10 million annually.

-- To assist the City in mass transit, the State:

° Advanced the $53.5 million State operating Assistance payment to the Transit Authority in SFY 1975-76 and 1976-77;

° Approved a stretchout of portions of City matching funds;

° Provided a $45 million bridge loan from March 1975 to March 1976; and

° Participated in the "Beame" shuffle by absorbing 45% of approved Transit Authority capital construction costs. Projects totaling $204.5 million have been approved thus far.

-- To assist the City pay its court costs, the State assumed an extra $15 million in the current City Fiscal Year, and will pick up an estimated $40 million in CFY 1978-79.

-- The Executive Budget contains proposed modifications to the State's basic education aid formula. As a result of these modifications, the City could receive an estimated $54 million in additional aid in CFY 1978-79.

-- In Social Services, the State instituted a broad cost containment program in both public assistance and Medicaid which the City included as a significant component of its financial plan.

-- In other areas:

° The State will share 50% of the loss of revenue from a phased reduction of the impact of the State Stock Transfer tax. When the program is complete the State's share could amount to as much as $120 million annually;

° The State assumed the administration of the City's personal income tax saving the City an estimated $10 million;

° The State is passing approximately $54 million of its share of Federal Countercyclical revenue sharing funds through to local governments. During the current State fiscal year, the City will receive approximately $34 million of these monies;

° The State led a nationwide effort to obtain settlements for outstanding claims under the Federal IV-A and XVI programs. Assuming timely Congressional action, the City may receive as much as $51 million in Federal reimbursement because of State efforts;

(more)
• Beginning in July, 1978, the State will begin prefunding 80% of Mental Hygiene claims. This will result in a one-time cash payment of approximately $32 million for old claims in CFY 1979 and lead to an improved cash flow for the City thereafter;

• The City cash flow position will also benefit from the State's takeover of the Medicaid claims processing function in CFY 1979. The takeover is made possible by the State's new Medicaid Management Information System; and

• Legislation is pending to permit the use of certain information related to employee wages. This data will be cross-checked against social security numbers of welfare applicants and recipients. The City estimates such action will produce a savings of $2 million initially in City funds during CFY 1979 and as much as $6 million annually thereafter.
FOR RELEASE:  
ON DELIVERY—EXPECTED 11:00 A.M.  
DECEMBER 14, 1977

TESTIMONY BY GOVERNOR HUGH L. CAREY,  
SENATE COMMITTEE ON BANKING, HOUSING  
AND URBAN AFFAIRS, HEARINGS ON OVER-  
SIGHT OF THE FEDERAL SEASONAL LOAN  
PROGRAM, 5302 DIRKSEN SENATE OFFICE  
BUILDING, WASHINGTON, D.C., WEDNESDAY,  
DECEMBER 14, 1977, 11:00 A.M.

Senator Proxmire, Senator Brooke, Distinguished Members of the  
Senate Banking Committee, Senator Javits, Senator Moynihan, these  
hearings have become an important annual opportunity to take stock  
of the joint efforts of the Federal Government, the State of New  
York, and the City of New York, to solve the fiscal problems faced  
by New York City.

If you look back to the time of your first such hearings in  
October 1975, it is clear that we have come a long way together  
from those frantic days when the Congress was the last and best hope  
to save our City from the unthinkable consequences of bankruptcy.

Today, only two short years later, I come here -- and I know  
others come here -- with great pride in our accomplishments for the  
people of New York City.

The people of New York now face the future with guarded  
optimism because we saved the City from bankruptcy and maintained  
essential service while we did it. At the same time, with the help  
of State Comptroller Arthur Levitt, we restored the fiscal credibility  
of a state that had suffered from a decade and a half of fiscal  
sleight-of-hand and mismanagement.

We did this in the turmoil of the worst crisis in the history  
of state and local government in this country, and we did it without  
endangering the essential character of the democratic political  
institutions of our city and state.

We have survived and regained our confidence. Together, we  
must find ways to sustain and nurture that new confidence. The City  
is on the way back to full recovery, on the way back because you here  
in the Congress, joined with us in Albany and in City Hall to save  
the City from bankruptcy.

Mr. Chairman, let me tell the Committee briefly what the State  
of New York has done for the City of New York since January 1975.  
In 1975, before the Federal Government established the seasonal loan  
program, the State -- at great peril and cost to its own credit  
standing -- stepped in and advanced the City $750 million in aid.

In addition, the State created a rolling $800 million state  
advance which has been continued in each succeeding fiscal year.

Since 1975, the State has used its access to credit markets to  
provide about $3.3 billion of advance financing to the City.

These emergency efforts to assist the City with its financing  
were costly to the State and its taxpayers in the short run because  
of increased interest costs on the State's own borrowings.

But we realized that in the longer run, the collapse of the  
City of New York would have been a major economic disaster for the  
State, the Nation, and our leadership in the international economy.

And today, as we witness New York City on the way back to  
recovery, we know we did the right thing.

- more -
The Congress did the right and timely thing when it established the Federal Seasonal Loan Program for New York City.

And the citizens of New York State -- as I have learned in recent visits to cities all over the State -- have a renewed confidence in their State and in themselves, because they have learned that the State of New York will meet its obligations.

They learned that lesson when they supported the efforts of the State to meet its obligations to the City.

We did the right thing.

The credit of the State not only survived but has been strengthened by renewed confidence in the State's finances, and the assurance that the State would not allow its localities to default on their obligations.

We now have a balanced state budget, and our latest state borrowings reflect an interest rate about 2.5 points lower than it was at the height of the city's crisis.

In each fiscal year since 1975, the state has given additional help to the city, even while the state was containing the growth of its own budget.

This year, the state is assuming 75% of the operating cost of the senior colleges of the City University of New York saving the city about $34 million. Through the State's Tuition Assistance Program for Needy Students, we will contribute $45 million in tuition payments to CUNY -- about one-third of CUNY's total tuition.

We will assume 50% of some operating costs of courts in New York City, amounting to about $28 million.

This year, the city will receive $19 million more than last year under the State aid formula for elementary and secondary education.

The State will share 50% of the impact on City revenues of the phase-out of the stock transfer tax, which will eventually amount to about $120 million.

New York State has done its part for New York City, and we will continue to do our part.

But the State has limits on its ability to help.

New York State has recovered more slowly than other states from the severe national recession of 1974-75.

Even here, however, the State has reversed major trends of the past.

New York is a national leader in the effort to contain welfare and Medicaid costs, and to limit the growth of public sector employment.

Our taxpayers -- business and individual -- have suffered for years from the burden of heavy taxation.

- more -
But this year, New Yorkers enjoyed the first permanent income tax cut in 37 years, and I anticipate being able to propose further tax cuts for individuals and businesses in 1978.

The tax cuts I intend to propose to the State Legislature in Albany are absolutely essential to the economy of New York State and New York City.

We have no alternative but to lower our taxes with what flexibility we have. Even with tax cuts in 1978, our taxes will be too high.

At this point in our recent economic history, having done all we can for the City, the best thing we can now do is rebuild the State's economy, which is dependent on a strong and competitive New York City.

The limited flexibility we have is best understood in the monthly report just issued to the underwriters of the 1977 State Tax and Revenue Anticipation Notes by Comptroller Levitt and State Budget Director Philip Toia.

They report that for November, the State has a $76.9 million positive cash flow, and that we currently anticipate an $18 million surplus at the end of our fiscal year in March. Every nickel of the surplus will be reported to the public in my Budget Message for 1978.

The businesses and citizens of our State have suffered high taxation long enough.

It is imperative that we now be able to return to them a dividend in the form of tax cuts.

Serious cuts in the taxes levied by the State will go a long way to restoring New York to the competitive position it once enjoyed among other States.

Lower State taxes will be an invitation to businesses to remain in New York City and State, to locate or relocate in New York, to provide the jobs we need so badly.

Lower State taxes will be a further signal to all the citizens of New York, that the State government will continue to meet its obligations to them as individuals, as we have to the localities in which they live.

In 1975 we saved New York City and Yonkers, which is the State's fourth largest city.

We restored the fiscal credibility of the State.

In 1976, we increased our aid to the City, even as we retrenched in Albany.

In 1977, we balanced the State budget and began permanent tax cuts.
This year, we have seen private sector employment begin to rise again in New York State.

Although all this was done in an atmosphere of emergency, these were not hasty or ill-considered actions.

What we have done for the past three years has been carefully planned, and planned in constant consultation with all the sectors of the public life of New York -- business, labor, and community leadership.

And what we want to do in 1978 is part of that plan to restore and rebuild the private economic system of our State, which in the long run is the only way to restore the public sector in New York City to true health.

We have taken the short run steps and they have worked.

Now we must begin to find permanent solutions for the long run.

The most important step we can now take to insure the recovery of New York City is to arrive at a joint Federal-State-City fiscal compact that will provide the guaranteed and predictable long-term financing the City needs in order to set sure priorities, and in order to rebuild its economic infrastructure.

We must also create some version of a long-term fiscal monitor for the City, through State legislation that is agreeable to all parties.

I am conscious of the efforts of Congress and the administration to aid New York City and cities like it, and I know that action taken at the federal level last year helped significantly to balance the City's budget.

For example, the City employs almost 20,000 people in critical areas like police, fire, health and education with Comprehensive Employment and Training Act funds.

But the reliance on aid which is not guaranteed for the next year builds into the City's budget the kinds of uncertainty of which the private financial market speaks.

And so I ask you not only to accept what I think you acknowledge to be the accomplishments of the City and State in dealing with the fiscal crisis we faced three years ago, but also to remind you of the continuing need of New York to have the Federal government as a partner in the ultimate solution of the City's problems.

We need an assurance that the Federal government -- the Congress and the Administration -- will continue to participate in the City's financing.

We ask you to work with us in designing -- not in an atmosphere of crisis but with a tone of reasoned urgency -- a means for the City over the next few years to complete the process it has set in motion of putting its fiscal house in order.

Secretary Blumenthal recognized this problem in a recent speech before the New York Board of Trade when he spoke of the need for government to provide a "stable, dependable set of policies. For only then can business plan with some certainty -- how to invest resources most profitably and productively -- and how to contribute to the long-term expansion we are depending on. That same kind of certainty is necessary for New York City to solve its financial problems."

--more--
We need to put the issue of the financing of New York City to rest once and for all so that the City and State and the Federal Government will know that the basic needs of the City are met.

In that way we can all turn our energies and efforts to the most important question for all of us -- that of rebuilding the economy of our major cities.

In my view, the most efficient long-term mechanism for refinancing New York City would be some sort of federally guaranteed expansion of the borrowing powers of the Municipal Assistance Corporation.

This would not have impact on the Federal budget, and would enable the City to end its direct dependency on the federal seasonal loans, which -- I might add -- are being repaid to the Federal Government with interest. The seasonal loans have not cost the Federal Government anything.

We are told that various federal officials are cool to the idea of further aid to New York City until the City puts its own house in order, and until the State makes further sacrifices.

But New York City has put its house in order, in a very short space of time, and its people have demonstrated remarkable resilience.

The people of New York State have made real sacrifices, and will continue to help the City to the fullest extent.

A long-term federal-state-city fiscal compact would enable the Federal Government to scale-down and phase-out the seasonal loan program for New York City.

Moreover, federal participation in a long-term financial program will enable the City to begin to market its own short-term notes in modest amounts, beginning perhaps in the summer of 1978.

Once the City can begin to make capital investments -- begin to borrow again -- the work of rebuilding the City can proceed at an accelerated pace made necessary by the age and heavy use of the City's physical plant, such as the century-old water mains in some part of Manhattan and Brooklyn, our bridges, docks, and roads.

The people of New York City and New York State -- 18 million strong -- come to Washington with confidence in themselves, confidence based on successful performance under real stress.

We come asking you, not for handouts -- which we have never wanted -- but for the necessary help to finish the job we have already begun so well together -- the job of restoring the largest and greatest City in our Nation.

New York City faces the world for the people of the United States in a way no other City does.

We have a legitimate claim for help, and we look forward to working with you here in the Congress, and in the Administration, to find a long-term and permanent solution to our financial problems.
Mr. Felix G. Rohatyn
Chairman
Municipal Assistance Corporation
Two World Trade Center
New York, New York 10047

Dear Mr. Rohatyn:

The Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs will conduct a day of oversight hearings on the New York City Seasonal Financing Act of 1975 on Tuesday, December 13, 1977, in New York City. We would be pleased to have you present testimony at those hearings.

The purpose of the hearing is to learn what New York City's progress has been in resolving its fiscal and financial problems with the help of the Federal loans, and particularly what the outlook is for the period after the Federal loan program ends on June 30, 1978. We expect to hear from State and City officials and from representatives of the private sector, in particular from credit market experts.

The hearing will begin at 9:00 a.m. and continue until all witnesses have been heard. We would expect to hear from you about 1:00 p.m. Arrangements for the place of the hearing are still in process. We will be in touch with you again to let you know the location and room number.

In the interest of dialogue and a greater opportunity for questioning by the Members of the Subcommittee, we ask that you limit your prepared presentation to about ten minutes though you may submit a paper of greater length if you so desire.
Some of the questions to which we hope you can respond are:

1. What is the outlook for the City to meet its balanced budget plan in FY 1978?

2. What are the plans for the City to operate with balanced budgets in FY 1979 and beyond?

3. How are the expected demands of employees for wage increases proposed to be met?

4. What additional assistance should and can the State provide?

5. How are the City's future capital needs proposed to be met?

6. What is the prospect for establishment of a fiscal oversight mechanism satisfactory to government, market and employee interests?

7. When is it anticipated the City will be able to return to the private credit market, both for seasonal and long-term financing needs? What are the dollar amounts of these needs?

In accordance with committee rules, please have available 100 copies of your prepared statement.

With best regards,

Sincerely,

WILLIAM S. MOORHEAD
Chairman
The Honorable Hugh L. Carey
Governor of New York
Executive Chamber
State Capitol
Albany, New York 12224

Dear Governor Carey:

The Committee on Banking, Housing and Urban Affairs has scheduled oversight hearings on the New York City Seasonal Financing Act. In this connection, you are invited to appear and testify on Wednesday, December 14, 1977.

The hearings will examine, among other things:

1) New York City's progress toward meeting its borrowing needs in the private credit markets, both in the current year and after June 30, 1978, when the Federal loan program expires;

2) The prospects for the City's achieving a balanced budget in fiscal year 1978 and in subsequent fiscal years; and


The hearings will start at 10:00 A.M. and will be held in Room 5302 of the Dirksen Senate Office Building. For your information, I am enclosing a copy of the Committee's "Guidelines for Witnesses". Be assured that your statement will not be released to the news media until your appearance before the Committee.

Sincerely,

William Proxmire
Chairman

WP:ebg
MEMORANDUM

November 30, 1977

TO: Robert Morgado  
Secretary to the Governor

FROM: Michael Smith

RE: Governor's Congressional Testimony for Dec. 13, 14, 1977

Following up on my conversation with you and John Bender yesterday, a number of points ought to be borne in mind in preparing for the Governor's appearances before the Senate Banking Committee and the House Banking Committee's Economic Stabilization Subcommittee.

Senate Committee Hearing

1) The Senate oversight hearings tend to be ritualistic affairs without a great deal of news value here (particularly in this case, since the Governor will be testifying locally the previous day on substantially the same subjects). As you know, Chairman Proxmire tends to be relatively well informed (if repetitive), skeptical and critical of the City's affairs, but not abusive. He generally asks fairly detailed questions which don't make much news, or issues broad warnings as to the willingness of Congress to subsidize the City forever, which don't require specific responses. The other members of the Committee tend not to invest much staff time or attention on the question of N.Y.C. finances, and consequently ask only a few questions designed to show their constituents they are mindful of their taxpayers' interests, without a great deal of informed follow-up. Consequently, I would propose that the Governor's testimony be brief and specific (focusing only on the first two questions in the letter of invitation and avoiding the SEC report question), and that he be primarily prepared to
respond to the major questions we anticipate from Proxmire (discussed below).

2) The Governor, accompanied by Felix, is scheduled to testify immediately after Secretary Blumenthal on the morning of December 14 (Wednesday). I should have some idea of the likely content of Blumenthal's testimony by the middle of next week, at least insofar as it deals with areas of concern to the Governor. Additional witnesses will include Beame and Goldin followed by the SEC chairman on December 15, and representatives of the banks and underwriters on December 16 (all of whom will be grilled on the SEC report as well as the City's financial future).

3) We are already advised that two major areas of questioning by Proxmire will be the future of the EFCB (or its successor) and the role of the State in assisting the City. As to the fiscal monitor, if the Governor is not in a position to discuss the details of current deliberations on the subject, he will nevertheless be asked his own view as to what such a monitor should look like, (powers, board make-up, etc.)

The question of increased State support for the City may be difficult. It is a chronic Proxmire theme. In the past the Governor could cite the full sweep of emergency actions taken by the State in 1975 and 1976; but that is old news to Proxmire now, leading to what-have-you-done-for-them-lately. Consequently, State budget should be asked to prepare an over-all dollar figure for what the State has done for them lately (and/or proposes to do for them next year, to the extent known), complete with laundry list to be submitted for the record.

Proxmire will also continue to press firmly for State assumption of some of the City's credit needs. On this subject in the December 1976 hearing, the Governor was able to cite the annual $800 million State advance, a constitutional bar to the State's long-term borrowing for the City, and also to warn that the State's own financial condition could be jeopardized if the State became the City's lender. Since that time, however, Proxmire will point out that the State's credit situation has greatly improved, and if the $800 advance is bonded out, why can't the State provide $800 million in seasonal financing for the City without creating any additional net strain on its credit sources? Note that Treasury staff have also expressed interest in this line of thinking.

4) As I mentioned yesterday, I expect to have a clearer idea of other questions to be asked by Proxmire as the hearing approaches and will pass them along.
House Hearing

1) Unlike the Senate Committee, the House Subcommittee is very much an unknown quantity. They have never held an oversight hearing on City finances and thus have no track record. Six of its sixteen current members are freshmen (4 rural Democrats, 2 suburban Republicans), and Moorehead has replaced Ashley as Chairman since passage of the original Seasonal Financing Act. Note that this subcommittee would have jurisdiction not only over a routine extension of seasonal financing but also over any larger financing proposal such as the one now under discussion. A full list of its members (11 Democrats, 5 Republicans) is attached, broken down by how they voted (if at all) on the original seasonal financing bill.

2) Subcommittee staff indicates that about half the Democrats will attend the hearing, including Chairman Moorehead but not Ashley (which is unfortunate since he is generally more influential and a closer ally of the Governor's), as well as most if not all the Republicans (including Rep. Kelly, whose prior visits to and attacks on the City are appreciated in his Florida district; the remaining Republicans fortunately tend to be moderate urban/suburban types).

3) Subcommittee staff has tentatively scheduled the Governor as lead-off witness at 9:00 A.M. December 13 (I don't know if this time has been cleared with anyone), to be followed by Beame, Goldin, Rohatyn, Dale Horowitz (Saloman Bros.) and a representative of the commercial banks, in that order. If this schedule is followed, Felix would testify separate from and later than the Governor. You may want to consider suggesting they appear together, in the event the financing package is to be discussed in detail and to the extent the Governor wants to continue to be associated with it publicly. (Koch has been invited but has not yet accepted)

4) Since the Subcommittee has never before held such an oversight hearing, the Governor's testimony should probably begin by introducing the members to the entire scope of the crisis as it existed two years ago and of the State's achievements in rescuing the City to date. As such, it would provide an excellent forum for a positive summary of the Governor's entire record in office in this regard, with considerably more public attention locally than is likely the following day in Washington. Such an introduction would effectively bring the Subcommittee members up to date, and the remainder of the text (i.e., where do we go from here) could be very much the same as would be used for Proxmire's hearing.

5) The Subcommittee's letter of invitation (attached) listed seven specific questions for the Governor, most of which can be addressed routinely in the prepared text, but others of which (e.g. demands of labor and future oversight mechanism) might better be left for Q and A following the testimony. With a crowded schedule, the questioning period may be mercifully brief.

cc: John Bender
**HOUSE BANKING AND URBAN AFFAIRS**

**Economic Stabilization Subcommittee**

Dec. 2, 1975

**New York City Seasonal Finance Act (PL94-143)**

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<th>YEAS</th>
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<td>Stanley Lundine</td>
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*Not members of Congress at time of vote.
**Cannot vote on floor legislation.
The President  
The White House  
Washington, D. C. 20500

Dear Mr. President:

The Committee on Banking, Housing and Urban Affairs held oversight hearings on the New York City Seasonal Financing Act on December 14, 15 and 16, 1977. Pursuant to those hearings, a Committee Report outlining the findings and recommendations will be issued sometime in January. However, we thought it advisable to inform you of our own views as quickly as possible, since they may have a bearing on the decisions you will soon have to make regarding Administration policy on the New York City financing issue. As you know, the present $2.3 billion Federal seasonal loan program expires on June 30, 1978.

Witnesses at our oversight hearings gave a clear signal that New York City will be seeking and expecting an extension of the seasonal loan program beyond June 30, 1978, and will likely be requesting some long-term financing assistance as well. It was stated or implied repeatedly that the City needs such additional aid or else it will go bankrupt after June 30.

Based on information obtained in the hearings and elsewhere, we are yet to be convinced that further financial assistance from the Federal Government is needed for New York City to be able to meet its financing needs and avoid bankruptcy after June 30, 1978. There are resources available to New York City and New York State which should be sufficient to maintain solvency regardless of what the Federal Government does. And since it is by no means certain that Congress will approve any additional Federal aid to New York City, we think it is essential that alternative sources of financing be given serious consideration at the present time.

We should note as well that the political and economic climate that is likely to prevail in mid-1978 will be considerably different from that of late 1975. In 1975, New York City's finances veered toward chaos and no resolution of the problem seemed possible absent Federal involvement. In 1978, the size of the financing problem will have been considerably reduced, and the City's record of significant progress on a number of issues —
budget balance, accounting reforms, cuts in payroll and programs -- can be expected to put it in a better position to sell its securities. Thus, we would judge that the probability of the financial community stepping in to assist New York City following the expiration of the Federal seasonal loan program is considerably greater. Furthermore, there will be in office a new mayor who has stated firmly, in a letter produced for the Committee's hearings, "there will be no bankruptcy for the City of New York."

There are several steps which we believe New York City can and must take in order to be in a position to meet its financing needs without reliance on the Federal Government. These include achieving real budget balance and taking other actions necessary to assure investors of the security of the City's obligations. In our view, these conditions can and must be met in the next three to four months, or else the City will face grave consequences whatever the Administration and Congress decide to do. With this as a premise, we shall elaborate on the City's expected financing needs over the next three years, both long-term and short-term, and the resources available for meeting those needs outside the Federal Government.

First, the oversight hearings revealed a universal and unequivocal view that New York City must achieve a credibly balanced budget and thus allay the fears caused by the magnitude of the deficit projections for fiscal year 1979. This will require the development of a detailed financial plan which demonstrates the City's ability to achieve recurring budget balance over at least the next three years. As we see it, this plan would have to include the following elements, among others:

1. a schedule for phasing out all of the operating expenses contained in the capital budget (presently about $643 million) over the period of time covered by the financial plan;

2. a signed City-wide agreement on the economic terms and budget costs of the City employee union contracts over that period; and

3. a commitment from New York State to provide substantial additional amounts of financial aid to the City during that period, in order to enable the City to attain recurring budget balance.
We should like to underscore this third point, regarding the role of New York State. Figures obtained by the Committee indicate that during the years of the fiscal crisis and the years of the Federal loan program, that is, fiscal years 1976 through 1978, the amount of State aid to New York City has remained virtually unchanged. The increase during that period has been less than 4 percent, not nearly enough even to keep up with inflation. During that same time period, Federal aid to New York City has gone up markedly, by about 26 percent. In fiscal year 1976, State aid to the City ran about 9 percent higher than Federal aid; now it is 14 percent lower. While there may be some question about the exact numbers, we understand that figures developed by the Treasury Department show a similar trend.

We believe that States have the primary responsibility for their cities under our Federal system, and we think it likely that you share this belief. However, we found in the hearings that not only does New York State have no plans to provide more budget relief to New York City, but in fact it is planning a general tax cut of some $500 million. Although we can comprehend the arguments for some tax relief, we see no reason at all why New York State should not be required to shoulder far more of the burden of eliminating the City's budget deficit, possibly by bringing its funding of welfare and Medicaid costs more into line with the practices of other States. And, while not wishing to belabor the obvious, we should note that it would be most difficult for anyone to persuade Members of Congress to vote additional Federal financial aid to New York City so that New York State residents and elected officials can enjoy the benefits of a tax cut while similar benefits may well not be available to their own constituents.

As a second major point, in addition to balancing the budget, New York City will have to satisfy certain conditions designed to secure sufficient investor confidence to allow the City to borrow on its own in the credit markets. Testimony at the Committee hearings indicated that there is basic agreement on the nature of these conditions within the financial community, and basic acceptance of the need for them by other parties concerned with the City's financing. The conditions can be summarized as follows:
1. Establishment of an accounting and budgetary control system which will produce reliable City financial statements developed in accordance with generally accepted accounting principles.

2. Outside audit of the City's financial statements by a reputable accounting firm on at least an annual basis, with reports made available to the public.

3. Establishment of an independent review mechanism, along the lines of the present Emergency Financial Control Board, with authority to require that the budget be balanced and that the City follow reasonable budgeting and borrowing practices.

The last of these, the review mechanism, will require action by the State Legislature, which also must consider and act on the proposal to increase the Municipal Assistance Corporation's borrowing authority by some $3 billion. The other two are the City's responsibility and, indeed, are already in the process of being accomplished.

In our view, all of the above are essential conditions which must be met by New York City and New York State as rapidly as possible in the coming year. We would suggest April 1, 1978, as a reasonable deadline by which all of these should either be fully accomplished or firm commitments made to accomplish them over the three-year period.

With all of these elements in place, well in advance of the expiration date of the Federal loan program, we then believe that New York City would be able to obtain the financing it needs on its own and thus avoid the danger of bankruptcy after June 30, 1978. We shall discuss below the City's estimated financing needs, both long-term and short-term, over the next three years and the most promising sources of financing available to meet those needs.

In his testimony at the oversight hearings, Felix Rohatyn, Chairman of the Municipal Assistance Corporation, outlined for the Committee his estimates of New York City financing needs, both short-term seasonal and long-term capital needs, over the next three years. He also described his plan for meeting those
needs, which involves a phase-down of the $2.3 billion in Federal seasonal loans and a phase-in of $2.25 billion in Federal long-term lending over that three-year period. We will use the Rohatyn plan as a basis for discussing alternative sources for New York City's financing during that period.

A. Long-term financing.

The Rohatyn plan describes three areas in which long-term financing would be utilized over the next three years. The first and most basic is the City's capital budget, including the expense items which are to be phased out. Mr. Rohatyn sees the capital financing needs as running at the level of $3 - 3.15 billion over the three-year period, or about $1 billion a year. Based on our own estimates and discussions with officials in New York City, we believe that those figures are somewhat high. It must be borne in mind that the $1 billion annual figure includes a sharply declining level of operating expenses, which means therefore a sharply rising level of "true" capital spending. It is questionable whether New York City would have the capacity, let alone the resources, to gear up to a capital program of $800 million or more within three years, from the present level of $428 million, however great its needs may be. The following would seem to be reasonably realistic, in fact reasonably generous, estimates of the City's capital financing needs over the next three years, including both "true" capital and operating expenses on a phase-down basis:

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<th>FY 1979</th>
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<td>Capital</td>
<td>$450 million</td>
<td>$500 million</td>
<td>$700 million</td>
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<tr>
<td>Expense items</td>
<td>$500 million</td>
<td>$390 million</td>
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<td>Total</td>
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Thus we would reduce the overall estimate of long-term capital financing needs from $3 billion or more to $2.7 billion. Presumably these amounts might even be reduced further if need be, either by cutting down on capital investment or by speeding up the phase-out of the operating items, or both.
The question now is how the City would finance this $2.7 billion capital budget. Mr. Rohatyn has said that MAC has the economic capacity under its existing bond resolutions to raise another $2.5 to $3 billion over the three-year period, assuming State authorizing legislation and favorable markets. This means that in the best case, MAC should be able to cover all of the City's capital financing needs. Even assuming the lower figure, it could still finance most and perhaps all of a stringent, bare-bones capital budget.

In addition to MAC, the City should also be able to count on some further financing assistance from its employee pension funds. We recognize the major contribution that the City employee pension funds have already made in shouldering the burden of New York City's long-term financing needs in the past three years, since the credit markets closed against the City. By June 30, 1978, the pension funds will have a total of $3.84 billion invested in New York City securities, which amounts to 35.3 percent of their total assets. This includes $2.53 billion invested pursuant to the November 26, 1975 Agreement. It may not be reasonable to expect the unions to increase substantially the proportion of their resources invested in long-term City bonds over the next three years, but neither would it be wise to encourage a significant decrease in their holdings at the very time the City may be most in need of a financing bridge to the long-term capital markets. Moreover, the financial fate of the pension funds will still be closely linked to that of the City. So whatever may be the expressed desires of the union leadership, we think it would be reasonable to expect the City employee pension funds at least to maintain their existing level of commitment to the City's long-term financing, which would involve the following actions:

1. Reinvestment of the amounts of their holdings which will be maturing over the next three years. According to our calculations, based on tables supplied by Jack Bigel, consultant to the pension funds, this would amount to a total of about $700 million.

2. Investment of 35.3 percent of the new investable funds accruing to the pension funds over the next three years, thus holding constant the overall level of investment in long-term City bonds. It has been somewhat difficult to obtain projections of pension fund investable funds over the entire period, but we have made some rough calculations.
According to a memorandum submitted by Mr. Bigal, the City pension funds anticipate a cash flow surplus of $300 million in the next fiscal year, 1979, but that amount is likely to be reduced by certain one-time expenses to a level of about $150 million. One can extrapolate from this data to estimate that additions to investable funds in the succeeding two fiscal years, 1980 and 1981, would equal at least the $300 million figure and would probably not be encumbered by the unusual expenses faced in 1979. Therefore, we calculate the additional investable funds to the City pension funds over the three-year period to be at least $900 million. If the pension funds then were to maintain their existing 3% percent level of investment in City bonds, this would provide a minimum of $30 million in additional financing for New York City’s capital needs.

It is likely that an extension of P. L. 94-236 with some amendments would be needed to permit these additional City pension fund investments. If this is the case, then we assume that the Administration would request the necessary legislation in a timely fashion.

To sum up, we believe that sufficient long-term financing would be available for New York City in the next three years from sources other than the Federal Government to meet the City’s basic capital financing needs. We estimate that at least $1 billion could be supplied by the City employee pension funds, in addition to the $3 billion Mr. Rohatyn has said could be obtained through MAC, for a total of around $4 billion. This would not only be enough to finance a $2.7 billion capital budget, but also possibly to do some of the other long-term financing actions mentioned in the Rohatyn plan, to which we would assign a lower priority. These are discussed below.

The Rohatyn plan designates two other uses for long-term financing over the next three years:

- $600-800 million for restructuring City bonds
- $750-800 million for bonding out the State advance

While these actions may be desirable, they do not appear to be essential to avoid bankruptcy, which is the focus of our attention. They should be placed in a category of actions to be taken if resources permit.
We would assign second place to the restructuring of some $600-800 million in City bonds which will be maturing in the next three to four years. Although we have not been able to obtain precise data, we have been told that refinancing these bonds to stretch out the debt service over a much longer period of time would potentially provide budget savings to the City of up to $200 million a year, amounts that could roughly offset the cost of phasing out the expense items in the capital budget. Alternatively, there could be some property tax relief. Thus it would seem desirable from a budgetary standpoint to do this restructuring, but only if the resources are there.

Finally, there is the matter of bonding out the State advance, which runs at $750-800 million a year. We have mixed feelings about this. On the one hand, it would have the salutary effect of reducing the City's seasonal borrowing needs. With this and some other adjustments, the Rohatyn plan estimates that the City's present seasonal borrowing needs of about $2 billion a year could be cut in half, down to $1 billion. This would lower the City's debt service costs, and quite possibly facilitate its re-entry into the credit markets for short-term borrowing purposes.

On the other hand, this $800 million seasonal financing is basically guaranteed the City, whereas the equivalent amount of long-term financing is not. Moreover, New York State would be the principal beneficiary of the bonding out of the advance; this would relieve the State of its present need to provide back-door seasonal financing and thus would improve the State's own borrowing picture considerably. All this runs somewhat counter to our view that the State should be more, not less, involved in the City's finances. While we would not oppose the bonding out of the State advance if it can be done with available resources, we would certainly not assign it top priority, and we would definitely oppose the use of Federal long-term financing to accomplish this purpose.

In conclusion, then, we find there is ample reason to believe that New York City could cover its long-term financing needs over the next three years from resources immediately available to it, even in the absence of any financial aid from the Federal Government beyond June 30, 1978. Furthermore, we would not preclude the possibility of the City's being able to do some long-term capital financing on its own, through offerings of new City bonds, at least in the latter part of the three-year period.
However, this is not essential to the basic aim of meeting the City's long-term financing needs.

B. Short-term financing.

The Rotatyn plan estimates that New York City's short-term seasonal financing needs over the three-year period will amount to $1.8 billion a year if the State advance is not bonded out, or $1 billion a year with the bonding-out. We see no reason why these amounts should not be forthcoming from sources other than the Federal Government, for the following reasons among others:

1. The security for these seasonal borrowings is strong, since they are all secured to anticipated revenues from the State. The State's credit is strong, and there are statutory or other express commitments to providing these revenues over at least the next three years.

2. The City has an impeccable record of repaying its seasonal loans from the Federal Government in full and on time or ahead of schedule. There is little reason to believe that other investors could not feel assured of a similar repayment record. Furthermore, with the Federal Government out of the picture, there would be no impediment to repayment arising out of any express or implied prior lien on revenues by the Federal Government.

In our view, New York State should be looked to as the principal source of seasonal financing until such time as these needs can be fully met in the private markets. Governor Carey has told the Committee repeatedly that the State Constitution prohibits lending to a municipality. However, a memorandum from State Comptroller Levitt which the Governor submitted to the Committee a year ago gives some indication that the Constitution may not bar lending for short-term seasonal purposes. The memorandum stated, in part, that "the present Constitutional ban on gifts or loans of the State's credit precludes borrowing to assist the City except by notes payable within a year out of current revenue." (emphasis added) The latter phrase would appear to describe rather clearly the nature of seasonal borrowings and would suggest that the State might be able to assist the City directly in meeting some of those short-term needs.
Even if there might be some additional legal impediments to direct State financing, there is no legal barrier to the State pension funds picking up substantial amounts of the City's short-term notes. These State pension funds hold very considerable assets, and the Committee was informed in the oversight hearings that they have made no real commitments to the City's financing, either short-term or long-term. Given the importance to the State and its public employees of New York City's avoiding bankruptcy -- an eventuality which could imperil the State's finances as well -- we see every reason to expect that the State pension funds should be able to backstop the City's seasonal borrowing needs, to the extent that they cannot be met in the private markets.

There are two State pension funds: the general State employees retirement fund, which has total assets of $9.2 billion, and the teachers retirement fund, with total assets of $5.8 billion. Neither has any significant holdings of either New York City bonds or MAC bonds. Even if the pension funds were to pick up the whole $1.0 billion in seasonal financing, which may not be feasible, this would amount to only 12 percent of their assets. This would be far smaller than the commitment made by the City pension funds, and it would be on obligations whose quick repayment is assured and at attractive rates of interest. As an additional note, we assume that this type of commitment to seasonal financing would not preclude State pension fund investments in MAC bonds as well. In fact, we believe that these pension funds should be urged to make such investments in amounts that are reasonable in light of the size of their assets and the make-up of their portfolios. Should Federal legislation along the lines of P. L. 94-236 be needed to permit these State pension fund investments, we assume the Administration would request such legislation in a timely fashion.

Finally, we come to the role and responsibility of the New York banks and other financial institutions in meeting New York City's financing needs. The total domestic assets of New York State commercial banks, savings and loan associations, and savings institutions were approximately $305 billion as of June 30, 1977, and approximately $247 billion of those were assets of financial institutions headquartered in New York City. From these figures, it is evident that it is well within the means of the New York financial institutions to cover much or all of New York City's
seasonal financing needs, which equal far less than one percent of their assets. The only question is whether the condition of these institutions and of the City would permit such a level of investment.

We feel there is every reason to believe that financial institutions located in New York City and in New York State are in a far better position now to take on new New York City-related obligations than they were in 1975, for several reasons. First, the economy is in better shape now, and the financial strength of the banking industry has improved. Second, the banks hold no short-term City notes at all at the present time, nor are there any such obligations still outstanding or in default. Third, the City has made tremendous strides toward putting its financial house in order in the past three years and will do still more in the next few months. Fourth, the banks can look to the record of repayment of the Federal seasonal loans as a firm indication that the City will live up to its commitments and repay its borrowings. Fifth, although the recently attempted City note offering failed due to the MIG-4 investment rating, it is important to recall nonetheless that the Comptroller of the Currency and the Federal Reserve Board both declared the notes to be eligible investments for the banks they regulate. For all these reasons, we think it reasonable to expect the banks and other financial institutions in New York City and New York State to pick up a substantial volume of short-term City notes over the next three years, and significant amounts of long-term MAC and new City bonds as well.

The Committee received testimony at the oversight hearings from the heads of six of the largest banks in New York City -- Citibank, Chase Manhattan, Morgan Guaranty, Bankers Trust, Manufacturers Hanover, and Chemical Bank. These banks alone represent total capital of $10 billion and total assets of $123 billion. Among them, Chemical Bank had by far the largest holdings of New York City and MAC bonds — about $342 million, or 1.9 percent of assets. The other banks had a much smaller proportion of their holdings in these obligations, and there is every reason to assume that they could invest in far larger amounts of MAC and New York City obligations, particularly new short-term notes, without jeopardizing their financial condition. Certainly, there is no reason to assume that such
investments would be any more risky than some of these banks' foreign loans, which consume a far larger proportion of assets. And although the bankers who testified were reluctant to make firm commitments, they did indicate that they would do their share in any future efforts to meet New York City's financing needs.

It is apparent, then, that we are skeptical about the need for continued Federal financial assistance to New York City. Moreover, we also believe that a removal of the New York City loan would not necessarily serve the best interests of the Federal Government or the nation. First of all, continuing the loan program might encourage other municipalities to look to the Federal Government for similar financial aid in times of economic stress. While the Federal Government has an obvious role to play in assisting cities through its various grant-in-aid programs, a dangerous precedent would be set if the Federal Government became viewed as the ultimate guarantor of the fiscal solvency of municipalities. Such a precedent would certainly weaken the incentive for local self-discipline and erode the foundation of our Federal system.

Secondly, we believe a continuation of the Federal loan program will of necessity involve both the Congress and the Executive Branch in making judgments on the internal affairs of New York City which, under our Federal system, should be the responsibility of local officials. We do not believe Federal officials should be forced to get involved in highly controversial local matters such as wage rates for municipal employees, State or city tax cuts, tuition charges for city universities, subway fares, rent control, or salaries for members of the city council. Indeed, Members of the Senate Banking Committee have taken a good deal of personal criticism for speaking out on these issues. However, as long as we have Federal financial involvement in the affairs of New York City and the need to safeguard the Federal investment, we believe that both the Congress and the Executive Branch will have to take highly unpopular positions from time to time. In the long run, it is much better to have these decisions left to the City and the State without involving the Federal Government.
We realize that our views may not be well received by some. Witnesses at the oversight hearings, including those from the financial community, expressed the view that extension of the Federal loan program in some form is necessary, and some of them clearly espoused the Rohatyn position that long-term Federal financing is needed as well. We believe it is vital that the contrary position be considered and weighed carefully, both in the interest of responsible public policy and in the interest of New York City's financial survival after June 30, 1973.

Mr. Rohatyn has stated that simply extending the Federal seasonal loan program would be the "application of a band-aid to a continually bleeding wound." We believe, on the contrary, that it would be a continuing crutch for a patient that should be made to walk again.

We hope that the points raised in this letter will be a part of your deliberations on Administration policy toward New York City in the coming year.

Best wishes for the holiday season.

Respectfully,

William Proxmire
Chairman

Edward W. Brooke
Ranking Minority Member
STATE OF NEW YORK
EXECUTIVE CHAMBER
HUGH L. CAREY, GOVERNOR

James S. Vlasto, Press Secretary
518 - 474 - 8418
212 - 977 - 2716

FOR RELEASE:
10:00 A.M., MONDAY,
MAY 16, 1977

TESTIMONY OF GOVERNOR HUGH L. CAREY
PREPARED FOR DELIVERY BEFORE THE SENATE
BANKING, HOUSING AND URBAN AFFAIRS
COMMITTEE, ROOM 5300, DIRKSEN OFFICE
BUILDING, WASHINGTON, D.C., MONDAY,
MAY 16, 1977, 10:00 A.M.

On December 21, 1976, I last appeared before this Committee with what I described as a "positive outlook" regarding the City of New York's ability to eliminate its operating deficit as required by the Financial Emergency Act, and its ability to improve its mechanisms for financial planning and management. At the same time I stated that the most critical factors contributing to the New York City's economic recovery were those which existed outside of the control of State and City government. These basic propositions -- that New York City government is adhering to its statutory obligations, and that the vibrancy of all our cities remains a matter to be addressed at the national level--are as true today as they were five months ago.

Today, I return to tell you that while the sense of emergency which characterized New York City's financial affairs for the past two years appears to have subsided, the economic well-being of New York City is still far from assured. For while New York City has been shown to be credit-worthy through its prompt repayment of loans under the seasonal financing act, and while steps have been taken to restore investor confidence, New York City still faces tremendous difficulties.

New York City's performance during this fiscal year will show that it has lived within the financial plan. It has developed what appears to be a balanced budget for the coming year. That budget, when incorporated into the financial plan by the Emergency Financial Control Board, will represent a continuation of the joint City and State effort to restore New York City's fiscal integrity.

This effort has been monumental. It represents the fulfillment of a promise which I made to you when New York City first obtained its Seasonal Financing aid that New York State would require the New York City government to do what was necessary in order to restore its credit worthiness. New York City has repaid all of its federal Seasonal loans as scheduled, and will continue to do so.
It would not, however, serve any of us to pretend that the outlook for New York City is entirely optimistic or that there are not major hurdles to be overcome. Central to New York City's fulfillment of its obligations to the Federal and State governments is its responsibility to adopt a balanced budget for the coming fiscal year. The Control Board will not accept the proposed budget without first subjecting it to careful review. There are significant portions of the budget which rely upon uncertain funding sources, including a Federal contribution in the form of countercyclical assistance, and a restructuring of outstanding Municipal Assistance Corporation obligations that must be in place before the Control Board incorporates the budget into the Financial Plan. If this is not the case, New York officials have committed themselves to revise its budget to reflect any necessary adjustments. We have been assured by New York City officials that as difficult as this contingency may be, they are prepared to undertake their responsibility to amend the budget should the circumstances so require.

The financial crisis has posed many difficulties. But while New York City has made great progress in balancing its budget, the urgency and priority of financial reform has left many citizen needs in New York City largely unattended.

New York City is pioneering in developing a management information system, which will provide a uniform data base and accounting codes, responsibility center budgeting, expanded information capabilities and better controls on accounting practices. But these are technical tools. New York City must still address basic governmental questions concerning management strategy and service delivery needs and goals, so that in the end, it can continue to meet the needs of its citizens.

In this regard, New York State has shown the lead in gaining control of its own financial difficulties while preserving and improving service delivery. Although it received far less attention nationally than the fiscal plight of New York City, the State of New York, in 1975, faced its worst fiscal crisis since the depression. As a result of expenditure patterns which had developed over the previous years, when I entered office in 1975, I found the State and its agencies to be in an extremely precarious fiscal position. The Urban Development Corporation was in extreme financial difficulty. Many State agencies had inadequate resources to fund soaring expenditures. The State was unable to meet its borrowing needs in the private markets. This crisis in State financing coincided with the financial collapse of the City of New York.

During the past two years, we have been successful in both reestablishing a sound financial structure for the State and, at the same time, making enormous contributions to the alleviation of New York City's financial crisis.

The State of New York has stabilized the operations of its troubled agencies, has produced balanced budgets, and has, this spring, been able to finance its seasonal borrowing needs at
New York State restored its fiscal health. And it did so without the assistance of the federal government. This is an achievement of which the State can be justifiably proud.

The fiscal recovery of the State, while dramatic, is still dependent on a fragile balance of improved management practices, tight control over the very marginal projected growth in State expenditures, and successful efforts to stimulate the development of the State's economy. I am committed to maintaining that balance. In order to do so, it is essential that we recognize that the State will not be in a position to provide large amounts of additional assistance to its local governments. To do so would risk what has already been achieved on a State-wide basis. Instead, the solutions to the long term financial pressures draining the resources of local government must be addressed nationally.

But even while the State struggled to avert financial disaster, I found it necessary, and succeeded, in providing extraordinary assistance to New York City, to Youngers, and to other financially troubled communities. For example, New York State has assumed the cost of programs formerly financed by New York City including a greatly increased contribution to the City University and to the operation of the court system. It has provided $800 million in annual advances of State aid to the City. I have also urged upon our Legislature reforms in the State-wide education funding formula. Some of these were enacted, although the changes do not provide as much support to urban districts as I proposed efforts to develop a cost containment package for Medicaid and other health related costs have also been successful and have financial benefits for New York City. These reforms, undertaken at my urging, are a demonstration of New York State government's commitment to a just and fair treatment for all local governments.

Even with this rapid expansion of State assistance which has taken place in the past two years, New York City must still face the bleak prospects contained in its own revenue forecasts, which when projected forward for the next three years show that while the current financial emergency is being managed, great problems lie ahead. New York City's own forecasts, and those made by others show that absent relief from some of the costs, now borne by local government, such as welfare, local resources will be insufficient to maintain the current level of governmental services.

In addition, New York City also faces the challenge of obtaining a truly balanced expense budget -- one which removes all expense budget items from the capital budget. New York State law requires that this be done over a period of ten years and to date, New York City's progress has been satisfactory.

New York City will also attempt borrowing in the private money market shortly, an effort required by the Federal Credit Agreement. Despite its accomplishments, New York City must still be concerned that the attitudes of the private market may keep the doors closed to private financing.
The Congress' sense of priorities about the need to address Urban America's problem has resulted in greater assistance to local governments. I would be remiss if I did not express my appreciation to the Congress for its active role in developing more positive governmental policies for the urban areas of our nation. The economic stimulus programs enacted by Congress in recent years, which provided considerable aid to urban areas, are tangible demonstrations that the Congress recognizes the need to ensure that all segments of American society share in the gradual process of economic recovery.

Yet in spite of this, New York City faces its own very significant problems. It is a City with a large needy population. It is also a City with an eroding tax base with which to provide for basic needs. As the recent GAO study of the long term fiscal outlook of New York City reported to you, the pressures on New York City are those forced upon it by an ever shrinking resources base. And whatever solutions we shape by way of management reform must be augmented and complimented by programs from Washington which deal with our systemic problems.

The GAO report considered several policy options for the Federal government which would ease the financial strains on urban areas, particularly those in the hardpressed Northeastern region. It explores, for example, various methods for federal assumption of the cost of welfare programs, the impact of a variety of more activist federal health policies, and the possibility of increased counter-cyclical funding of aid programs. The report also discusses the precedents at the federal level for intensive regional economic assistance programs of the kind which could be the underpinning of the economic revival of the Northeast. All these options suggested by the GAO merit close study by Congress.

There is no grand design which will maintain New York City's position as a unique and vital urban center. But certainly one problem at the root of New York City's fiscal crisis and central to the fiscal problems of New York State and other urban areas is the failure of the federal government to adequately address the problem of welfare reform. Local and state governments do not have the necessary resources to continue the present pattern of funding welfare costs. Even with the most successful cost containment programs, the burden of welfare funding is gradually pushing governments throughout the country toward financial crisis. Only a federal assumption of an increased portion of the costs of welfare will allow a stabilization of local and state budgets which will enable those governments to concentrate on providing the other basic services for which they have primary responsibility.

Just as all of our urban areas will benefit from welfare reform to relieve them of this crushing burden, they are also in need of other forms of federal help. All of our urban areas will need federal assistance in controlling health care costs; all of our cities need more federal help to stem the tide of urban decay; all of our cities will need economic and job development programs to stabilize their tax base. And finally, when municipalities find the
New York City is particularly able to maintain its historic position if it can depend upon a reasonable share of Federal assistance. Foreign investors have begun to recognize that the City presently has an extensive and highly trained labor pool, a concentrated and well-developed set of service industries, and a comprehensive and sophisticated transportation network which is economic and energy-efficient. This system would be greatly enhanced with an equitable share of Federal mass transit assistance.

I cannot conclude without drawing to your attention the considerable progress which has been made in developing plans for restoring the basic economy of New York City - plans which will be realized through the cooperative efforts of New York City, the State and the Federal government. New York City has reorganized its agencies responsible for economic development and has created a development plan which is now in the early stages of implementation. The federally assisted Westway project will both provide jobs in the immediate future and be a long term stimulus to the economic revival of the business core of New York City. New plans for the construction of the convention center are a major step in reinforcing New York City's role as a center of trade and tourism.

Progress toward the stabilization of New York City both financially and economically is a tribute to the close cooperation which exists between the Federal, State and City governments. My office, the staff of the Emergency Financial Control Board, and the City administration have worked long hours to ensure the success of the efforts to first rescue the City and then set it on a firm course toward the future. The continuation of these joint efforts should be a source of great encouragement to us all.

I can say as Governor of New York State that I welcome the progress we have made together during this most critical phase of New York City's financial emergency. If I have learned anything from this experience it is that just as our problems are interdependent, so must be the solutions to them. I look forward to the continued cooperation of the Congress in meeting the needs of the people of New York State and New York City.
Honorable William W. Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
Room 5214
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Proxmire:

Enclosed are responses to the written questions which the Committee on Banking, Housing and Urban Affairs submitted to Governor Hugh L. Carey when he testified before the committee on May 16th.

If you require any further information please do not hesitate to call upon the staff of the Control Board.

Sincerely,

Stephen Berger

Received
For Action
Jun 1, 1977

Municipal Assistance Corporation

BBA  A.M.
LSD  
HPF  
PCC  P.M.
EJK  
WJL  MAIL
FCR  
SJJW  HAND
State legislation passed this year established the contribution of New York State and New York City to the City University system for FY78. New York City has included the amount required by that legislation, $54 million, in its budget for CUNY senior colleges and therefore there is no shortfall in revenue for CUNY anticipated. In addition, as of July 1st the State Comptroller will begin auditing and writing checks for other than personal service expenditures for CUNY and as of January 1978 will handle CUNY's payroll. Thus, unexpected shortfalls of revenue such as those which occurred last year will be highly unlikely.

These steps are part of the overall State assumption of a larger share of the financing of CUNY. Prior to this year, the State and New York City supported CUNY senior colleges on a fifty-fifty basis. Under the present system the State will pay for 75% of the costs of CUNY senior colleges. Thus, in City FY77 the State contributed $157 million to CUNY for senior colleges and in City FY78 the State's contribution will increase to $214.4 million.

The State has also moved in the direction of increasing support of New York City's criminal justice system through changes in financing of the courts and correctional systems. Last year the State took over the administration of New York City's courts and over the next four years the State will assume full costs for New York City's court system. For example, this year the State will pay 12 1/2% of the costs.

The State is undertaking an overall effort to better synchronize from both a financial and planning perspective the operations of its entire criminal justice system. This year the State has reimbursed New York City for the cost of maintaining State prisoners in local custody.

HEALTH AND HOSPITALS CORPORATION

New York State and New York City have cooperated in a mutual effort to help to eliminate the $45.6 million deficit which the Health and Hospitals Corporation had in FY77. Among the steps that have been taken are accelerated collections of receivables, expenditure reductions, a closely monitored attrition program, appeals for higher third party reimbursement rates, increased tax levy subsidies including the establishment of a $24 million contingency reserve to cover probable shortfalls in revenue anticipated in the financial plan. As a result
the Health and Hospitals Corporation had a balanced financial plan for FY77.

The Control Board anticipated that the Health and Hospitals Corporation will experience a deficit in excess of $44 million in FY78. However, at this point there is still ample time for New York City and the Health and Hospitals Corporation to substitute additional revenue enhancement and expenditure reduction measures to cover that deficit during the course of the year.

The degree of mayoral control over the Corporation and other covered organizations such as the Board of Education, the Board of Higher Education and the Transit Authority is a function of authority assigned through the State legislature. The structures of these organizations were designed for a combination of reasons, some having to do with administrative and management goals which were deemed better met through indirect control by New York City government. The Governor and the Mayor have agreed to the joint appointment of a health official vested with the powers and responsibilities of several State and City offices which would enable a unified and aggressive pursuit of health policies designed to rationalize the entire health care delivery network as well as control costs. At the present time there is a State commission studying the structure of both private and public higher education in New York State. As New York State assumes a greater financial burden for CUNY a rethinking of the administration of CUNY will undoubtedly occur. At the present time there is a proposal which is the subject of lively discussion in New York City to replace the Board of Education with a single Commissioner appointed directly by the Mayor. Thus, the problems with the covered organizations have been an impetus to public policy discussions about the best way to organize and administer these agencies to meet the service goals of each agency.

**NEW YORK STATE'S SPRING BORROWING**

New York State has just completed an extremely successful spring borrowing, in which it was able to secure the necessary short term financing at a remarkably low rate of interest of approximately 4.5%. This sharp decline in the rate which New York State must pay to secure its cash needs has freed up additional monies for State operations and State aid purposes.
Serious study is being given to the problems inherent in New York State's cash flow situation which concentrates both borrowing needs and State aid payments in ways which are less than completely desirable. The problem is an extremely complex one, and any change in the schedule of the timing of payments and borrowing will have far reaching implications for both municipalities and for the State. The State Comptroller recently announced his intention to begin an intensive review and study of alternative ways to even out New York State's borrowing needs and its cash flow.

STATE TAX COLLECTIONS

In his executive budget, the Governor proposed an increased appropriation of $5 million to the Department of Taxation and Finance to provide additional staff to work on tax collection. The Legislature appropriated $4 million. These funds will allow the hiring of 400 additional personnel to improve collections - 300 auditors and 100 support staff, which will be entirely filled by early July. The initial objective will be the improvement of sales and corporate tax collections, since collection of the personal income tax is already operating at a very low uncollected rate.

COST OF LIVING ADJUSTMENTS

On May 18, 1976, the Emergency Financial Control Board adopted wage and salary guidelines. A copy of these guidelines is attached. These procedures bar general wage and salary increases, but specifically authorize increases where the funding is derived from "gains in productivity, reductions of fringe benefits, cost reductions, or through other savings or other revenues approved by the Board, all of which savings shall be in addition to those provided for in the financial plan."

This standard has been applied to each contract considered by the EFCEB since May of 1976. Moreover, the Board has indicated that the City administration should suggest further definition of the relationship between cost of living adjustments (COLA) and productivity and establish minimum acceptable standards for COLA programs. In his report to the Board on March 22, 1977, the Executive Director reported on the creation of new procedures for COLA. He stated: "There should be a limit on the use of other savings or other revenues to fund COLA payments to insure that the productivity concept is not lost. No more than a specified percentage of any COLA payment should be composed of other savings or other revenues with the remainder productivity or directly attributed to fringe benefit or other union related reductions."
Thus, while the precise language of the May 18, resolution would be followed at the current time, further definition would be required for future COLA payments. In conclusion, the March 22nd memorandum to the EFCB recommended: "Thus, while we feel that the EFCB should not place restrictions on the current COLA programs and the current period (10/1/76-3/31/77), the City must now provide policy recommendations to the EFCB on these matters for its consideration prior to the City's submission of additional COLA programs for future periods."

The Board has not approved any COLA program for the period beginning after March 31, 1977 and none are currently pending. While there has not been an official direct response to the recommendations of the Executive Director of the EFCB, the Mayor's Executive Budget message states that: "This Executive Budget contains $50 million for a cost of living adjustment triggered and supplemented on a dollar for dollar matching basis by worker productivity increases. It is based on a new program to link productivity and salary increments and will allow the City to compensate and reward those who make an extra effort."

Enclosed per your request is a list of labor contracts approved by the EFCB since May 18, 1976 and the respective resolutions defining the conditions of the Board's approval, if any.

**IMPACT OF FY78 STATE BUDGET**

Total State aid to the City of New York, as reflected in the proposed FY 78 New York City expense budget has increased by $256 million to $3,001 billion, a 9.3% increase over last year. This figure includes all State aid, including State revenue sharing and the transfer to New York City of the proceeds of specialized State taxes. The New York City budget does not include these forms of aid in its category entitled "State aid" because there are no restrictions on the use of this revenue. Instead these funds are included in the "general fund" category. Thus the summary tables presented in the New York City budget are misleading, because they suggest that State aid is considerably lower than the $3,001 billion that the budget actually includes.

New York State has embarked on a vigorous campaign to contain public assistance, social services, and Medicaid costs. This cost containment program should save $460.4 million during State FY78: $194.3 million for the Federal government, $138.05 million for the State of New York, and $128.05 million for local governments. Approximately 70% of the local government savings should accrue within the City of New York. Looking at the savings on a programatic
basis, $155 million in savings is attributable to public assistance reforms (such as increased "absent father" child support collections, revised grant payment, special grant and eligibility recertification procedures, and a greater emphasis upon employability of welfare recipients), $11.8 million is attributable to social services program amendments (such as a revision of institutional foster care rates to ensure that expenditures do not exceed the 1976-77 level), and $293.6 million is attributable to efforts designed to control the massive Medicaid cost increases of recent years. Such efforts include a freeze on out-patient clinic rates, restructuring of inpatient and residential health care facility rates, closing of unnecessary hospital beds, the institution of co-payments by Medicaid recipients for certain drugs, and increased efforts to curb fraud and abuse by providers.

RENT CONTROL

The primary issue facing New York City's housing stock is its inextricable relationship to the City's declining economy. Unless there is a viable economy providing for tenants with incomes to afford full market rents there must be some stability in the cost of rental housing. In the areas where abandonment has been taking place the relationship between abandonment and rent control and rent stabilization has not been a factor for many years. In many of those areas rent exceeds the market value of the apartments. It would appear now that the principle cause of housing abandonment in the City is related to vacancies and collection losses. The fact is that over the last few years there has been significant improvement in the laws covering both tenants and landlords. Vacancy decontrol, the maximum base rent system and rent stabilization have resulted in a situation where in many cases rental increase have risen above the ability of many tenants to pay and have necessitated the creation of exempt categories such as those for senior citizens.

In addition, there must be sufficient housing available so that efficient and habitable apartments are available at affordable rents. This cannot happen without assistance for housing construction and rehabilitation from the Federal government. The New York State Legislature, like the Congress, is a legislative body, which cannot ignore the strong feelings on both sides of an issue such as rent control. New York State has, however, recognized the need to make some alteration in what is now an aging housing strategy. During this legislative session the Legislature passed, and Governor Carey has signed, a bill extending rent control and rent stabilization for four years and establishing a commission to make a thorough study of the housing problem in New York City and to recommend changes to the Legislature.
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<tr>
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<td>Resolution adopting general wage and salary policies.</td>
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<td>Resolution approving agreements between New York City Transit Authority and the transit workers' unions, placing limitations on the payment of COLA.</td>
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<td>Resolution approving Memorandum of Interim Understanding between City and certain municipal unions providing for COLA payments funded in accordance with the general wage and salary policy of the Board.</td>
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<td>March 25, 1977</td>
<td>Resolution approving COLA payments pursuant to the Memorandum of Interim Understanding of June 30, 1976 and the agreement concluded thereunder.</td>
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<td>May 2, 1977</td>
<td>Resolution approving Transit Authority COLA payments from &quot;other revenues&quot;, in accordance with the wage and salary policies in addition to productivity savings.</td>
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<td>Resolution approving Interim Award by Impasse Panel in the matter of the impasse between the Patrolmen's Benevolent Association and the City of New York providing for payment of COLA effective July 1, 1976.</td>
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<td>May 2, 1977</td>
<td>Resolution approving agreement between Housing Authority and Local 237, International Brotherhood of Teamsters, placing limitations on the payment of COLA.</td>
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* Copies of the Resolutions are attached.
NEW YORK STATE EMERGENCY FINANCIAL CONTROL BOARD

WAGE AND SALARY POLICY

RESOLVED, that the Board adopts the following general wage and salary policies which shall be applicable, during the emergency period or until such earlier time as the Board shall determine, to collective bargaining agreements of the City or covered organizations:

1) No agreement shall provide for general wage or salary increases or increases in costs of fringe benefits.

2) No agreement shall provide for increases or adjustments to salaries or wages, including those based upon increases in the cost of living, unless such increases or adjustments are funded by independently measured savings realized, without reduction in services, through gains in productivity, reductions of costs of fringe benefits or through other savings or other revenues approved by the Board, all of which savings shall be in addition to those provided for in the financial plan.

3) Each agreement shall provide for a mechanism to permit savings in pension costs or other costs of fringe benefits during the term of agreement.
RESOLVED, that the Board adopts the following general wage and salary policies which shall be applicable, during the emergency period or until such earlier time as the Board shall determine, to collective bargaining agreements of the City or covered organizations:

1.) No agreement shall provide for general wage or salary increases or increases in fringe benefits.

2.) No agreement shall provide for increases or adjustments to salaries or wages, including those based upon increases in the cost of living, unless such increases or adjustments are funded by independently measured savings realized, without reduction in services, through gains in productivity, reductions of fringe benefits or through other savings or other revenues approved by the Board, all of which savings shall be in addition to those provided for in the financial plan.

3.) Each agreement shall provide for a mechanism to permit savings in pension costs or other fringe benefits during the term of agreement.

FURTHER RESOLVED, that to the extent that the collective bargaining agreement recently negotiated by the Transit Authority does not give effect to the general wage and salary policies herein adopted, the Board will establish such conditions and limitations on the performance of such agreement as shall be necessary to insure that such agreement does give effect to the wage and salary policies herein adopted.
WHEREAS, the Emergency Financial Control Board on April 30, 1976 received and took under consideration proposed collective bargaining agreements (hereinafter the "contracts") between the New York City Transit Authority as employer and the Transport Workers Union of America and the Amalgamated Transit Union representing the hourly rated employees of the Transit Authority and the hourly rated and clerical employees of the Manhattan and Bronx Surface Operating Authority; and
WHEREAS, after due consideration the Board decided that it could not approve the contracts as submitted, requested the Authority to submit revised contracts that would guarantee the City no adverse impact on its financial plan and no new cost to the State, and assigned Stephen Berger, Executive Director of the Board and John Zuccotti, First Deputy Mayor of the City of New York to observe and report on the Authority's meetings with the Unions; and
WHEREAS, the observers report that no contract revisions have been made, the Unions contending that joint good faith implementation of the productivity provisions of the contracts will generate savings in operating costs at least sufficient to meet any reasonably foreseeable increase in the cost of living allowances provided by the contracts and that the contracts as submitted satisfy the requirements fixed by this Board in its April 30 resolution; and
WHEREAS this Board, without reflection on the good faith of the Transit Authority and Unions, may not under its statutory responsibilities and in view of the serious financial crisis faced by the City and the Transit Authority, approve collective bargaining agreements which will increase the take home pay and the cost of fringe benefits of the employees, without ensuring that the payment of such increases has no adverse impact on the City's financial plan or on the financial plan submitted by the Authority; it is therefore

RESOLVED, that the proposed contracts are hereby approved and returned to the parties for execution and performance subject to the following conditions and limitations:

1. The cost-of-living adjustments ("COLA") provided by the proposed contracts shall be calculated and paid at a rate of one cent per pay hour for each full four-tenths (0.4) of a point increase in the consumer price index, rather than at the rate specified in the proposed contracts. The difference between the rate so approved and the rate specified in the contracts is deferred.

2. Payments of COLA made under the proposed contracts and these conditions and limitations, shall not be deemed part of wages or compensation for the purpose of computing pension contributions of either an employee or the Transit Authority or in fixing any rights, benefits or allowances of an employee or his beneficiaries under the retirement systems or plan to which he belongs, but shall be included for all other purposes covered by the contracts.
3. No COLA shall be paid for increases in the cost-of-living index during the 1976 calendar year which exceed 6 per cent of the CPI for December 1975 (i.e. a maximum increase of 25¢ per hour over the 22¢ paid as of March 31, 1976), or for increases during the 1977 calendar year which exceed 6 per cent of the index for November 1976. Any difference between the COLA paid pursuant to this paragraph and the COLA calculated pursuant to the provisions of the contracts is deferred.

4. Payments of COLA during any period specified in the proposed contracts may be made only from funds available from actual accrued productivity savings, exclusive of reductions in service. However, payment of the COLA due July 1976 may be made upon certification by the Transit Authority that the Steering Committee and the Joint Productivity Working Committees designated in the contracts are cooperating constructively in developing more effective, more efficient and more economical utilization of the Authority’s employees and facilities, and that productivity savings are definitively scheduled to provide sufficient funds to pay said COLA.

For each subsequent period designated for COLA payments in the contracts, the Transit Authority shall determine prior to the beginning of each month whether or not the productivity savings are sufficient to make the COLA payments during such month, and if the Transit Authority so finds, it shall certify this fact to the Board and make the required COLA payments. If the Transit
Authority determines that the savings are not sufficient, the unions may contest this determination before the Impartial Arbitrator provided for in the contract. If the Impartial Arbitrator determines that productivity savings are sufficient, the Authority shall make the required COLA payments.

The Transit Authority may, in its discretion, subject to review by the Impartial Arbitrator, make COLA payments subject to productivity savings in the various represented entities, namely, in the Manhattan and Bronx Surface Transit Operating Authority, in the TWU represented unit in the Transit Authority, in the ATU unit in Staten Island, and in the ATU unit in Queens.

However, the Board reserves to itself the right to make the final determination as to whether or not the savings pursuant to the productivity provisions of the contracts are adequate to warrant COLA payments. The Board shall monitor the productivity agreements through its duly designated representative, the Special Deputy Comptroller for the City of New York. The Board may, at any time, suspend all or part of the payment of the COLA if it has reason to believe that the productivity savings cannot sustain the payments.

5. The retroactive and prospective payment by the Transit Authority of annual and semi-annual wage increments as provided in the proposed contracts is hereby approved. Payment by the Transit Authority of the COLA under its prior contracts with the unions is hereby approved and continued payment of the COLA, under
the conditions of its prior contracts, in an amount equal to 22 cents per pay hour, during the term of the proposed contract is hereby approved.

6. As to the deferred items, the Board provides that if on March 31, 1977, the monies accumulated by productivity savings are in excess of the amounts needed to defray the cost of the 0.4 cost-of-living adjustment, the TA may, consistent with its then existing overall financial condition, recommend to this Board the use of a portion of these surplus productivity savings (a) to pay the difference between the rate of the COLA as herein limited and the rate provided in the proposed contracts (either retroactively or prospectively or both) and or (b) any COLA deferred by reason of the 6% limitation imposed in #2 above. For the contract period subsequent to March 31, 1977, a similar review may be made on or after January 1, 1978. The Board reserves the right to determine whether the portion of the surplus recommended to be allocated to these payments is consistent with the Transit Authority's overall financial condition as well as what payments may be made.
7. The Transit Authority, under the productivity agreement, will seek to maximize those savings which will eliminate as far as possible, the inclusion in pension costs of other than the basic wage rate of retiring employees. To this end the Transit Authority shall exercise close administrative control as to overtime and overtime distribution; sick leave, sick leave pay and related costs and the distribution of vacation periods over a calendar year.

8. The Transit Authority is directed to insure that payments for salaries and wages, including payments of cost-of-living adjustments as hereby limited, do not exceed the amount budgeted for such purpose in the financial plan submitted to this Board.

RESOLVED FURTHER, that the suspension of salary or wage increases and other payments imposed by Section 10 of the Financial Emergency Act and extended by action of this Board is hereby terminated to the extent necessary to permit the Transit Authority to make payments under the proposed contracts in accordance with the conditions and limitations specified above.
WHEREAS, the Emergency Financial Control Board on April 30, 1976 received and took under consideration proposed collective bargaining agreements (hereinafter the "contracts") between the New York City Transit Authority as employer and the Transport Workers Union of America and the Amalgamated Transit Union representing the hourly rated employees of the Transit Authority and the hourly rated and clerical employees of the Manhattan and Bronx Surface Operating Authority; and

WHEREAS, after due consideration the Board decided that it could not approve the contracts as submitted, requested the Authority to submit revised contracts that would guarantee the City no adverse impact on its financial plan and no new cost to the State, and assigned Stephen Berger, Executive Director of the Board and John Zuccotti, First Deputy Mayor of the City of New York to observe and report on the Authority’s meetings with the Unions; and

WHEREAS, the observers report that no contract revisions have been made, the Unions contending that joint good faith implementation of the productivity provisions of the contracts will generate savings in operating costs at least sufficient to meet any reasonably foreseeable increase in the cost of living allowances provided by the contracts and that the contracts as submitted satisfy the requirements fixed by this Board in its April 30 resolution; and
WHEREAS this Board, without reflection on the good faith of the Transit Authority and Unions, may not under its statutory responsibilities and in view of the serious financial crisis faced by the City and the Transit Authority, approve collective bargaining agreements which will increase the take home pay and the cost of fringe benefits of the employees, without ensuring that the payment of such increases has no adverse impact on the City's financial plan or on the financial plan submitted by the Authority; it is therefore

RESOLVED, that the proposed contracts are hereby approved and returned to the parties for execution and performance subject to the following conditions and limitations:

1. The cost-of-living adjustments ("COLA") provided by the proposed contracts shall be calculated and paid at a rate of one cent per pay hour for each full four-tenths (0.4) of a point increase in the consumer price index, rather than at the rate specified in the proposed contracts. The difference between the rate so approved and the rate specified in the contracts is deferred.

2. Payments of COLA made under the proposed contracts and these conditions and limitations, shall not be deemed part of wages or compensation for the purpose of computing pension contributions of either an employee or the Transit Authority or in fixing any rights, benefits or allowances of an employee or his beneficiaries under the retirement systems or plan to which he belongs, but shall be included for all other purposes covered by the contracts.
3. No COLA shall be paid for increases in the cost-of-living index during the 1976 calendar year which exceed 6 per cent of the CPI for December 1975 (i.e. a maximum increase of 25¢ per hour over the 22¢ paid as of March 31, 1976), or for increases during the 1977 calendar year which exceed 6 per cent of the index for November 1976. Any difference between the COLA paid pursuant to this paragraph and the COLA calculated pursuant to the provisions of the contracts is deferred.

4. Payments of COLA during any period specified in the proposed contracts may be made only from funds available from actual accrued productivity savings, exclusive of reductions in service. However, payment of the COLA due July 1976 may be made upon certification by the Transit Authority that the Steering Committee and the Joint Productivity Working Committees designated in the contracts are cooperating constructively in developing more effective, more efficient and more economical utilization of the Authority's employees and facilities, and that productivity savings are definitively scheduled to provide sufficient funds to pay said COLA.

For each subsequent period designated for COLA payments in the contracts, the Transit Authority shall determine prior to the beginning of each month whether or not the productivity savings are sufficient to make the COLA payments during such month, and if the Transit Authority so finds, it shall certify this fact to the Board and make the required COLA payments. If the Transit
Authority determines that the savings are not sufficient, the
Unions may contest this determination before the Impartial Arbitrator
provided for in the contract. If the Impartial Arbitrator deter-
mines that productivity savings are sufficient, the Authority
shall make the required COLA payments.

The Transit Authority may, in its discretion, subject
to review by the Impartial Arbitrator, make COLA payments subject
to productivity savings in the various represented entities,
namely, in the Manhattan and Bronx Surface Transit Operating Authority,
in the TWU represented unit in the Transit Authority, in the ATU
unit in Staten Island, and in the ATU unit in Queens.

However, the Board reserves to itself the right to
make the final determination as to whether or not the savings
pursuant to the productivity provisions of the contracts are
adequate to warrant COLA payments. The Board shall monitor the
productivity agreements through its duly designated representative,
the Special Deputy Comptroller for the City of New York. The
Board may, at any time, suspend all or part of the payment of the
COLA if it has reason to believe that the productivity savings
cannot sustain the payments.

5. The retroactive and prospective payment by the Transit
Authority of annual and semi-annual wage increments as provided
in the proposed contracts is hereby approved. Payment by the
Transit Authority of the COLA under its prior contracts with the
unions is hereby approved and continued payment of the COLA, under
the conditions of its prior contracts, in an amount equal to 22 cents per pay hour, during the term of the proposed contract is hereby approved.

6. As to the deferred items, the Board provides that if on March 31, 1977, the monies accumulated by productivity savings are in excess of the amounts needed to defray the cost of the 0.4 cost-of-living adjustment, the TA may, consistent with its then existing overall financial condition, recommend to this Board the use of a portion of these surplus productivity savings (a) to pay the difference between the rate of the COLA as herein limited and the rate provided in the proposed contracts (either retroactively or prospectively or both) and or (b) any COLA deferred by reason of the 6% limitation imposed in #2 above. For the contract period subsequent to March 31, 1977, a similar review may be made on or after January 1, 1978. The Board reserves the right to determine whether the portion of the surplus recommended to be allocated to these payments is consistent with the Transit Authority's overall financial condition as well as what payments may be made.
7. The Transit Authority, under the productivity agreement, will seek to maximize those savings which will eliminate as far as possible, the inclusion in pension costs of other than the basic wage rate of retiring employees. To this end the Transit Authority shall exercise close administrative control as to overtime and overtime distribution; sick leave, sick leave pay and related costs and the distribution of vacation periods over a calendar year.

8. The Transit Authority is directed to insure that payments for salaries and wages, including payments of cost-of-living adjustments as hereby limited, do not exceed the amount budgeted for such purpose in the financial plan submitted to this Board.

RESOLVED FURTHER, that the suspension of salary or wage increases and other payments imposed by Section 10 of the Financial Emergency Act and extended by action of this Board is hereby terminated to the extent necessary to permit the Transit Authority to make payments under the proposed contracts in accordance with the conditions and limitations specified above.
RESOLVED, that the Memorandum of Interim Understanding, dated as of June 30, 1976, between the City of New York and the signatory Municipal Labor Unions is hereby approved and the wage freeze imposed by Section 10 of the Financial Emergency Act and extended by action of the Control Board is hereby terminated to permit payment of any cost of living adjustment or other salary or wage increase, provided by the terms of any contract that expired on December 31, 1975 or June 30, 1976, and permitted by any deferral agreement now in effect, to any employee covered by said Memorandum; and further

RESOLVED, that the City and the signatory Unions are hereby directed promptly to conclude definitive collective bargaining agreements for the contract period 1976 to 1978 consistent with The Financial Plan, and with The Program to Close The Budget Gap (3/26/76), in accordance with the provisions of the Memorandum and to submit such agreements for review and approval by the Control Board.
RESOLUTION ON S.I.R.T.O.A. COLLECTIVE
BARGAINING AGREEMENTS

WHEREAS, the City by a letter dated June 18, 1976 submitted two collective bargaining agreements—one between the Staten Island Rapid Transit Operating Authority and the United Transportation Union, the other between the Authority and the Brotherhood of Locomotive Engineers—for the review and consideration of the Board pursuant to the Financial Emergency Act, and recommended their approval;

WHEREAS, the collective bargaining agreements contain provisions relating to crew assignments and to the abolition of certain positions that allow the Authority to reduce its labor costs in consideration for wage increases and certain other employee benefits as set forth in the agreement;

WHEREAS, the Authority has certified and the City has confirmed that the agreements are in accordance with the Authority's financial plan;

WHEREAS, it is appropriate for the Board to mitigate the hardship imposed on the employees of a covered organization by the wage freeze to the extent that it can do so without jeopardizing the covered organization's financial plan; and

WHEREAS, under Section 10 of the Act the Board may, for appropriate reason, direct that the wage freeze imposed by the Financial Emergency Act and extended by action of the Board shall, in whole or in part, be terminated;

NOW, THEREFORE, BE IT RESOLVED, that on the recommendation of the City and pursuant to the Financial Emergency Act the Board hereby approves the aforesaid collective bargaining agreements and terminates the wage freeze to the extent necessary for the terms of the agreements to be carried out.
WHEREAS, on December 29, 1976 the City submitted for review and approval of the Control Board a series of proposed contracts, as amended by a memorandum of agreement, between the Board of Education and the United Federation of Teachers (UFT) covering pedagogical and other employees of the Board of Education; and

WHEREAS, the Control Board reviewed and considered the report and recommendations of the City on the proposed contracts, the report of the Special Deputy Comptroller and the report and recommendations of the Executive Director of the Control Board on the proposed contracts; and

WHEREAS, on February 3, 1977, the Control Board determined that final action on the proposed contracts should be deferred until February 7, 1977 and directed its Executive Director, the Special Deputy Comptroller for the City of New York and designated representatives of the City to confer with the parties to the proposed contracts to determine whether appropriate arrangements could be recommended for implementation of the proposed contracts, which would take into account the objections raised in the reports of the Executive Director and the Special Deputy Comptroller; and

WHEREAS, the City has recommended the adoption of the arrangements hereafter set forth and has certified that the payments to be made are in compliance with the Financial Plan for FY 1976 and FY 1977 and will be in compliance with the Financial Plan for FY 1978 when it is approved by the Control Board, the Financial Emergency Act, and the general wage and salary policies of the Control Board, and the Executive Director and Special Deputy Comptroller have concurred in said recommendation; it is therefore
RESOLVED, that subject to ratification by the UFT of the proposed contracts, as amended, and the limitations on payments hereinafter set forth, the proposed contracts, as amended by the memorandum of agreement, are hereby approved and the wage freeze imposed by Section 10 of the Financial Emergency Act and extended by action of the Control Board is hereby terminated to permit payment of the wage increases, other than the "productivity COLA", provided by the proposed contracts, as amended, during the first two contract years (September 9, 1975 to September 9, 1977) and until September 30, 1977. Unless it has been determined prior to September 30, 1977 that the wage freeze provisions of Section 10 are not applicable to the payment of step increments, the City and the parties to the proposed contracts will submit by September 30, 1977, for review and approval of the Control Board, further agreements providing for appropriate deferrals or other arrangements to account for a) payments of step increments during the first and third contract years, b) payments of increased longevity increments to employees who have not deferred the receipt of such increases. Such agreements may provide for implementation of the deferrals or other arrangements at any time or date on or increases. Such agreements may provide for implementation of the deferrals or other arrangements at any time or date before December 15, 1977. If it has been determined prior to December 15, 1977 that the wage freeze provisions of Section 10 of the Financial Emergency Act are not applicable to the payment of step increments, it is the intention of the Control Board to terminate the wage freezes to the extent necessary to permit payment of the wage increases, other than the "productivity COLA", provided by the proposed contracts, as amended; and further

RESOLVED, that the final agreements to be concluded by the parties will not include the change in rate for the COLA to be made during FY 1977, as contemplated by the memorandum of agreement and will reflect the resolution of the ambiguities as noted in Part III, Attachment A of the report of the Special Deputy Comptroller under the heading "Written/Verbal Certification" and as set forth in this resolution with respect to "productivity COLA".
RESOLVED, that payment of the "productivity COLA" provided by the proposed contracts, as amended, shall be subject to submission to and review and approval by the Control Board of the final form of the proposed contracts, as amended, which shall reflect the following provisions proposed by the parties to clarify arrangements for the funding and payment of the "New COLA":

1. "New COLA" shall, except as set forth below, accord with the General Wage and Salary Policies of the Control Board and with the "New COLA" provisions of the Memorandum of Interim Understanding (June 30, 1976).

2. A panel consisting of representatives of the Board of Education, the UFT and the City will be formed to develop productivity programs, and the panel shall determine the value of the increased productivity achieved through such programs; provided, however, that the eligibility of the programs for the purpose of funding payments of "New COLA" and the panel's determination of their value shall be subject to Control Board approval, and the determination of the Control Board shall be conclusive.

3. The Control Board will give consideration to approval of arrangements providing that for the fiscal years 1977 and 1978, 50 per cent of all additional non-City revenue available for general school purposes or otherwise available for salary adjustments beyond the revenue level in the financial plan for such fiscal year shall, subject to the approval of the Control Board, be available for funding "New COLA" payments; provided that the sum of such payments in either fiscal year shall not exceed the value of the increase of productivity achieved in such fiscal year as approved by the Control Board pursuant to provision (2) above or the amount calculated in accordance with the "New COLA" provisions of the Memorandum of Interim Understanding, whichever is less. In lieu of such arrangements, the parties shall utilize arrangements contemplated in the Memorandum of Interim Understanding. In determining the value of the increased productivity achieved in fiscal year 1978, credit for productivity savings shall be given for increased productivity resulting from items 2, 3, 4, and 5 in Attachment B of the memorandum of agreement, subject to the approval of the Control Board.

4. Money resulting from the State-Aid lawsuit must first be applied toward the restoration of the full school day.
WHEREAS, on June 30, 1976, the Control Board approved Memoranda of Interim Understanding executed by the City and various municipal labor unions, including District Council 37, A.F.S.C.M.E., AFL-CIO ("DC-37"), which were to provide the basis for final collective bargaining agreements between the City and each of the municipal labor unions; and

WHEREAS, on February 1, 1977, the City submitted to the Control Board a proposed collective bargaining agreement with DC 37 (the "DC 37 Agreement") providing for certain reductions in fringe benefits, which the City projects will realize at least $24 million in savings during the two years covered by the DC 37 Agreement, and for the payment of cost-of-living adjustments ("COLA") as contemplated by the Memoranda of Interim Understanding; and

WHEREAS, on December 6, 1976 the City submitted a program to fund COLA payments to employees covered by the DC 37 Agreement, for the period October 1, 1976 through March 31, 1977, by productivity savings and by other savings and other revenues not presently included in the financial plan; and

WHEREAS, prior to making any COLA payments for the period October 1, 1976 through March 31, 1977, the City will submit a financial plan modification which will include all savings and revenues necessary to fund the full cost of such payments, which is presently projected to aggregate approximately $7.8 million; and

WHEREAS the DC 37 Agreement provides for an increase in uniform contributions to the DC 37 Health and Security Plan (the "Welfare Fund") for certain employees which should not be paid until the Control Board has reviewed and approved such payments and the proposal for funding such payments as in compliance with the general wage and salary policies, as issued by the Control Board and presently in effect; and
WHEREAS, the City has certified that the DC 37 Agreement is in compliance with the general wage and salary policies, as issued by the Control Board and presently in effect; and

WHEREAS, the City has further certified that, upon approval of the Modification, performance of the DC 37 Agreement will be in accordance with the financial plan; and

WHEREAS, the City was provided such further and additional certifications, with respect to the program to fund COLA payments and with respect to other matters, as have been requested by the Control Board; it is therefore

RESOLVED, that pursuant to the recommendations of the City the DC 37 Agreement is hereby approved; and further

RESOLVED, that pursuant to the further recommendations of the City the wage freeze imposed by Section 10 of the Financial Emergency Act and extended by action by the Control Board is hereby terminated to permit COLA payments for the period October 1, 1976 through March 31, 1977, subject to submission to and approval by the Control Board of a financial plan modification which reflects such payments and all savings and revenues necessary to fund the full projected costs of said payments; and further

RESOLVED, that no payments of increased Welfare Fund contributions pursuant to the DC 37 Agreement shall be made unless the Control Board has approved said payments and the proposal for funding such payments as in compliance with the general wage and salary policies issued by the Control Board and presently in effect.
WHEREAS, the City has submitted to the Control Board certain agreements and instruments between the Board of Higher Education and the Professional Staff Congress/CUNY consisting of a collective bargaining agreement dated June 18, 1976, a deferral agreement dated June 18, 1976, a memorandum of understanding dated February 15, 1977 and a joint letter dated March 4, 1977 (said agreements and instruments are hereafter collectively referred to as the "proposed agreements"); and

WHEREAS, the City has certified that, with respect to fiscal years 1976 and 1977, performance of the proposed agreements is in accordance with the financial plan and has recommended that the financial plan submission for the Board of Higher Education covering fiscal year 1978, to be prepared and submitted to the Control Board, provide for payment of the costs of the proposed agreements during that fiscal year; and

WHEREAS, the City has further certified that the proposed agreements are in compliance with the general wage and salary policies as issued by the Control Board and presently in effect; and

WHEREAS, the City has stated that the proposed agreements provide deferrals which it deems an acceptable and appropriate contribution towards alleviating the fiscal crisis of the City; and

WHEREAS, the City has recommended approval of the proposed agreements and termination of the wage freeze imposed by Section 10 of the Financial Emergency Act (the "Act") and extended by action of the Control Board to the extent necessary to permit payment during fiscal year 1976 and fiscal year 1977 of wage increases which are not deferred pursuant to the proposed agreements; it is therefore
RESOLVED, that pursuant to the recommendations of the City the proposed agreements are hereby approved; and further

RESOLVED, that pursuant to the further recommendations of the City the wage freeze imposed by Section 10 of the Act and extended by action of the Control Board is hereby terminated to the extent necessary to permit payment during fiscal years 1976 and 1977 of wage increases which are not deferred pursuant to the proposed agreements; and further

RESOLVED, that the appropriate officers and members of the Board of Higher Education are hereby directed to prepare and submit to the City, for review and transmittal to the Control Board, a financial plan submission for the Board of Higher Education covering fiscal year 1978 which provides for payment of the costs of the proposed agreements during that fiscal year.
WHEREAS, by a resolution adopted May 18, 1976 (the "May 18 Resolution") the Control Board required that the cost-of-living adjustment ("COLA"), to be paid by the New York City Transit Authority (the "Transit Authority") to its employees who are members of the Transport Workers Union of America and the Amalgamated Transit Union pursuant to Supplemental Agreements between such parties, dated April 1, 1976 (the "TA Agreements"), be funded entirely by productivity savings; and

WHEREAS, by a resolution adopted on February 7, 1977 (the "February 7 Resolution") the Control Board directed the Transit Authority to reduce COLA payments during the last part of fiscal year 1977 in order to offset a shortfall in required productivity savings; and

WHEREAS, the Transit Authority thereafter requested the Control Board to reconsider the funding standards applicable to COLA payments made by the Transit Authority and to permit the use of "other savings or other revenues" as a funding source for such payments; and

WHEREAS, the general wage and salary policies of the Control Board, as currently applied to the City of New York and covered organizations, permit the use of "other savings and other revenues" as a funding source for COLA payments; and

WHEREAS, "other savings and other revenues" are used to fund a portion of the COLA payments of the City during the term of the financial plan; and

WHEREAS, it is currently estimated that more than half of the projected aggregate COLA payments of the Transit Authority during fiscal year 1977 will be funded by productivity savings; and

WHEREAS, on April 29, 1977 the City submitted, with appropriate certifications, and recommended approval of a financial plan submission for the Transit Authority, which financial plan submission has been certified by the Transit Authority as containing adequate "other revenues", realized without reductions in service, to fund the balance of COLA payments during fiscal year 1977; it is therefore

RESOLVED, that the Control Board hereby cancels the February 7 Resolution and approves the payment of COLA by the Transit Authority pursuant to the TA Agreements during fiscal year 1977.
WHEREAS, on April 29, 1977 the City submitted for consideration by the Control Board a copy of the Interim Report and Recommendations in the matter of the Impasse between the Patrolmen's Benevolent Association ("PBA") and the City of New York, I-130-77 (the "Interim Award"), and requested that the Control Board terminate the wage freeze imposed by Section 10 of the Financial Emergency Act (the "Act") and extended by action of the Control Board to the extent necessary to permit $441 in COLA payments during fiscal year 1977 as contemplated by the Interim Award; and

WHEREAS, the Interim Award provides for the reduction of certain fringe benefit costs which the City has certified are in compliance with and will fully satisfy the requirements of the financial plan and the Memorandum of Interim Understanding, dated June 30, 1976, between the City and the PBA; it is therefore

RESOLVED, that at the recommendation of the City the wage freeze imposed by Section 10 of the Act and extended by action of the Control Board is hereby terminated to the extent necessary to permit $441 in COLA payments pursuant to the Interim Award.
WHEREAS, the City has submitted to the Control Board and recommended approval of a proposed collective bargaining agreement dated February 22, 1977 between the New York City Housing Authority (the "Housing Authority") and the City Employees Union, Local 237, International Brotherhood of Teamsters ("Local 237") for the period January 1, 1977 through December 31, 1978 and a memorandum of understanding dated April 29, 1977 amending such collective bargaining agreement (collectively, the "HA Contract"); and

WHEREAS, on April 29, 1977 the City submitted and recommended the approval of a financial plan submission for the Housing Authority; and

WHEREAS, the City has certified that, except for payment of cost-of-living adjustments ("COLA"), performance of the HA Contract will be in accordance with the financial plan submission made for the Housing Authority; and

WHEREAS, the City has recommended that the wage freeze imposed by Section 10 of the Financial Emergency Act (the "Act") and extended by action of the Control Board be terminated to the extent necessary to permit payment of wage increases under the HA Contract, provided that payment of COLA under the HA Contract be subject to prior review and approval by the Control Board of (a) a program to fund COLA payments, which program is in compliance with the general wage and salary policies of the Control Board and (b) a financial plan modification to reflect said program; and

WHEREAS, the City has certified that after disallowance by the Control Board of certain increases in wage and fringe benefits the HA Contract will be consistent with the general wage and salary policies of the Control Board; and

WHEREAS, the HA Contract provides for an increase in contributions to the Local 237 Welfare Fund which should not be paid until the Control Board has reviewed and approved such payments and the proposal for funding such payments as in compliance with the general wage and salary policies of the Control Board; it is therefore

RESOLVED, that pursuant to the recommendations of the City and subject to the disallowances set forth below, the HA Contract is hereby approved subject to review and approval by the Control Board of the financial plan submission of the Housing Authority dated April 29, 1977; and further

RESOLVED, that the officers and members of the Housing Authority shall not pay or otherwise give effect to the following wage increases and increases in fringe benefits which are hereby disallowed as inconsistent with the general wage and salary policies of the Control Board:
a) the increase in the equalization of pay adjustment from $283 per annum to $385 per annum provided under subdivision (f) of Article 4 of the HA Contract;

b) the increase in minimum guaranteed mileage from twenty miles per day provided under Article 36 of the HA Contract;

c) the provision of "heat day" benefits to employees in the skilled trades titles under subdivisions (b) of Article 27 of the HA Contract; and further

RESOLVED, that pursuant to the recommendations of the City and unless and until the Control Board shall act to disapprove the financial plan submission of the Housing Authority dated April 29, 1977, the wage freeze imposed by Section 10 of the Act and extended by action of the Control Board is hereby terminated to the extent necessary to permit payment of wage increases as provided by the HA Contract; provided, however, that payment of COLA under the HA Contract shall be subject to prior review and approval by the Control Board of (a) a program to fund COLA payments, which program is in compliance with the general wage and salary policies of the Control Board and (b) a financial plan modification to reflect said program; and further

RESOLVED, that unless it has been determined prior to September 30, 1977 that the wage freeze provisions of Section 10 of the Act are not applicable to the payment of step increases, the City and the parties to the proposed contracts will submit by September 30, 1977, for review and approval of the Control Board, specific programs for funding, in accordance with the general wage and salary policies of the Control Board, all step increases paid or to be paid pursuant to the HA Contract. Such programs shall provide for implementation on or before December 15, 1977. And further

RESOLVED, that no payments of an increase in Welfare Fund contributions shall be made unless the Control Board has approved said payments and the proposal for funding such payments as in compliance with the general wage and salary policies of the Control Board.
May 25, 1977

Honorable William W. Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
Room 5214
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Proxmire:

Enclosed are responses to the written questions which
the Committee on Banking, Housing and Urban Affairs submitted
to Governor Hugh L. Carey when he testified before the committee
on May 16th.

If you require any further information please do not
hesitate to call upon the staff of the Control Board.

Sincerely,

Stephen Berger
United States Senate

Transcript of Proceedings

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
OVERSIGHT HEARINGS
NEW YORK CITY, SEASONAL FINANCING ACT

Washington, D.C.
Monday, 16 May, 1977

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Victor L. Lowe,
   Director, General Government Division,
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Oversight Hearings

New York City Seasonal Financing Act

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Monday, May 16, 1977

United States Senate,

Committee on Banking, Housing and Urban Affairs,

Washington, D. C.

The Committee met at 10:10 a.m., in room 5302, Dirksen Senate Office Building, the Honorable William Proxmire, chairman of the Committee, presiding.

Present: Senators Proxmire, Lugar and Schmitt.

Also Present: Senators Javits and Moynihan.
The Chairman. The Committee will come to order.

Today the Committee opens two days of oversight hearings on the New York City Loan Program.

This marks the third set of oversight hearings the Committee has held since the New York City Financing Act was passed on December 9, 1975.

The first hearings, held just over a year ago, explored the City's prospects and problems going into the second year of its Financial Plan, fiscal 1977.

The second set of hearings, held last December, focused on the problems posed by the Court of Appeals decision overturning the moratorium on about $1 billion in short-term City notes. Based on testimony given, the Committee concluded that New York City had the resources available to repay those notes, without needing any additional federal aid. This has since proven to be correct.

Now we are facing the crucial third year of the Financial Plan, and the final year of the federal loan program.

In its 1978 fiscal year, which begins on July 1, New York City is required by state law to have a balanced budget and wipe out the remainder of the $1 billion-plus deficit it had accumulated over many years of waste and mismanagement.

The City is also directed, under the Credit Agreement with the Treasury, to try to meet its seasonal borrowing needs in the private markets after July 1, before it can come in and
request a Treasury loan.

In addition, the Credit Agreement requires the City to have its new accounting system in place and in operation by July 1, so that it can control spending and produce accounts that can be audited in the coming year.

These requirements are the irreducible minimum that the City should meet to qualify for the federal loans in fiscal year 1978. Otherwise, it will be difficult for the Secretary of the Treasury to determine that there is a reasonable prospect of repayment of those loans.

The City's 1978 fiscal year is also the final year of the federal loan program. After June 30, 1978 New York City is supposed to stop borrowing from the federal government and get back into the private credit markets to cover its financing needs.

This Committee has consistently taken the position that this will be the end of the line -- that it is unlikely Congress will extend the New York City loan program.

Thus it is important that we take a good hard look at the City's position and prospects right now. The Committee intends to explore the following subjects, among others:

--- New York City's progress in carrying out its Financial Plan, and the likelihood of its achieving a balanced budget in fiscal year 1978 and beyond;

--- the status of the moratorium note repayment efforts, and its impact on the Financial Plan;
-- the City's plans for borrowing in the private markets
and from the federal government in fiscal 1978; and

-- the prospects for New York City's meeting its borrowing
needs in the private markets after June 30, 1978 when the
federal program ends.

I have been impressed, as I've said before, with New York
City's progress to date. It has:

-- taken 60,000 employees off the payroll since January
1975, a drop of 20 percent;

-- cut $200 million out of the budget in fiscal year 1976,
and perhaps another $400 million in 1977;

-- maintained a wage freeze and negotiated some cuts in
fringe benefits; and

-- ended free tuition at the City University.

I know this hasn't been easy. In fact, it's been very,
very tough. But they've done it, and they can do more. That's
been an extremely difficult action. I don't know of any big
city that has taken these kind of tough hard decisions and made
these sacrifices, certainly not in the recent past. It's been
very tough. I frankly think they can and must do more.

Our witnesses today are New York City's chief watchdogs.
First, we will hear from Governor Carey, who is Chairman of the
Emergency Financial Control Board, which supervises the City's
fiscal and financial affairs and approves its budget-balancing
plans. He is accompanied by Stephen Berger, the Board's.
Executive Director; Sidney Schwartz, who audits the City's accounts for the State Comptroller; and Felix Rohatyn, Chairman of the Municipal Assistance Corporation, which has been doing the City's financing. After that we will hear from Victor Lowe of the General Accounting Office, which is required by law to monitor the City's progress under the Seasonal Loan Program.

I understand Senator Javits has a statement.

STATEMENT OF THE HONORABLE JACOB JAVITS,
U. S. SENATOR FROM NEW YORK STATE.

Senator Javits. Thank you. Very briefly, Mr. Chairman, it's mainly to thank the Chair for, one, conducting these hearings; and, two, for being so gracious as to allow my colleague, Senator Moynihan, and I to sit with them and we felt him and we felt we needed to question the witnesses.

I'd like also to emphasize, Mr. Chairman, that we do believe that our State and our City have done legendary things in trying to meet their crisis and the State of New York has shown extraordinary degree of state patriotism in trying to help the City and indeed has almost put itself in the condition of the City in that effort. That is what it should do, but still when it does it one must feel very gratified that our legislature and our governor have combined to really take this enormous responsibility for the City.

It doesn't mean there may not be other things they can and should do, but the spirit manifested is very laudable.
Also, Mr. Chairman, I hope -- and I know the Chairman of this Committee so well that I know that he realizes that you're not only hearing about New York; you're hearing about all the older cities of the country. We are but the tip of the iceberg which are in the gravest peril and that constitute a very large proportion of the population of the country. I realize that it may no longer be feasible to have a cash flow bill, but I also realize that it is even more infeasible not to have some arrangement by which the older cities can survive.

Bankruptcy, Mr. Chairman, is not an answer because bankruptcy would not only drag the cities into further vicissitude but could also drag the whole financial system of the country into a very depression.

One last thing which aside from the overall responsibility which this Committee carries and by a great confidence in Senator Proxmire and Senator Brooke to carry it ably and with a sense of far-sightedness and statesmanship. The federal government can also help. And the Committee can help the City in accelerating the operations of the bureaucracy--and I don't say that invidiously -- in dealing with the payments to the City which cost a great deal of extra money in interest which taxes the City's resources, when it has to lay out money for which it eventually will be reimbursed, and considering the ongoing relationship, the possibility of advance payments should be very seriously considered because as these payments are recurring
the federal government can always get its money back and the
failure to pay on time turns out to be a very serious additional
burden to the City.

Again, Mr. Chairman, I can't tell you -- and I think I
speak for all our people, as does Senator Moynihan -- how
grateful we are, notwithstanding the fact that you're making
hard and tough decisions too, for your interest, for conducting
these hearings, and for your attention to the problem. I think
the sheer intensity of that attention will produce a desirable
result.

The Chairman. Thank you, Senator Javits.

(Complete statement follows)
The Chairman. Governor Carey.

STATEMENT OF THE HONORABLE HUGH L. CAREY, GOVERNOR, STATE OF NEW YORK; ACCOMPANIED BY: FELIX G. ROHATYN, CHAIRMAN, MUNICIPAL ASSISTANCE CORPORATION; STEPHEN BERGER, EXECUTIVE DIRECTOR, EMERGENCY FINANCIAL CONTROL BOARD; AND SIDNEY SCHWARTZ, SPECIAL DEPUTY COMPTROLLER FOR THE CITY OF NEW YORK, NEW YORK STATE DEPARTMENT OF AUDIT AND CONTROL.

Gov. Carey. Thank you, Mr. Chairman.

Mr. Chairman, Senator Javits, Senator Moynihan:

On December 21, 1976, I last appeared before this Committee with what I described as a "positive outlook" regarding the City of New York's ability to eliminate its operating deficit as required by the Financial Emergency Act, and its ability to improve its mechanisms for financial planning and management. At the same time I stated that the most critical factors contributing to the New York City's economic recovery were those which existed outside of the control of state and city government. These basic propositions -- that New York City government is adhering to its statutory obligations, and that the vibrancy of all our cities remains a matter to be addressed at the national level -- are as true today as they were five months ago.

Today, I return to tell you that while the sense of emergency which characterized New York City's financial affairs for
the past two years appears to have subsided, the economic well-being of New York City is still far from assured. For while New York City has been shown to be credit-worthy through its prompt repayment of loans under the Seasonal Financing Act, and while steps have been taken to restore investor confidence, New York City still faces tremendous difficulties.

New York City's performance during this fiscal year will show that it has lived within the financial plan. It has developed what appears to be a balanced budget for the coming year. That budget, when incorporated into the financial plan by the Emergency Financial Control Board, will represent a continuation of the joint City and State effort to restore New York City's fiscal integrity.

This effort has been monumental. It represents the fulfillment of a promise which I made to you when New York City first obtained its Seasonal Financing aid that New York State would require the New York City government to do what was necessary in order to restore its credit-worthiness. New York City has repaid all of its federal Seasonal loans as scheduled, and will continue to do so.

This extraordinary partnership of state, city and federal government has brought New York City and its residents from the dark and gloomy days of less than two years ago when the first message sent to New Yorkers from the national capital was that no help would be made available. But as the Congress then
accepted a part in reaching a solution, you now also share the
credit for the success to date in alleviating New York City's
most immediate financial problems.

In other words, I'm here to express gratitude not only for
what was done then but since then, the actions taken by the
Congress on job programs, the actions taken by the Congress on
reworking formulas so the cities would not be left, are the
types of things that have contributed much, Senators and Mr.
Chairman, to the kind of feeling we detect in the City.

It would not, however, serve any of us to pretend that the
outlook for New York City is entirely optimistic or that there
are not major hurdles to be overcome. Central to New York City's
fulfillment of its obligations to the federal and state govern-
ments is its responsibility to adopt a balanced budget for the
coming fiscal year. The Control Board will not accept the pro-
posed budget without first subjecting it to careful review. There
are significant portions of the budget which rely upon uncertain
funding sources, including a federal contribution in the form
of countercyclical assistance, and a restructuring of out-
standing Municipal Assistance Corporation obligations that must
be in place before the Control Board incorporates the budget into
the Financial Plan. If this is not the case, New York officials
have committed themselves to revise its budget to reflect any
necessary adjustments. We have been assured by New York City
officials that as difficult as this contingency may be, they
are prepared to undertake their responsibility to amend the budget should the circumstances so require.

The financial crisis has posed many difficulties. But while New York City has made great progress in balancing its budget, the urgency and priority of financial reform has left many citizen needs in New York City largely unattended.

New York City is pioneering in developing a management information system, which will provide a uniform data base and accounting codes, responsibility center budgeting, expanded information capabilities and better controls on accounting practices. But these are technical tools. New York City must still address basic governmental questions concerning management strategy and service delivery needs and goals, so that in the end, it can continue to meet the needs of its citizens.

In this regard, New York State has shown the lead in gaining control of its own financial difficulties while preserving and improving service delivery. Although it received far less attention nationally than the fiscal plight of New York City, the State of New York, in 1975, faced its worst fiscal crisis since the depression. As a result of expenditure patterns which had developed over the previous years, when I entered office in 1975, I found the state and its agencies to be in an extremely precarious fiscal position. The Urban Development Corporation was in extreme financial difficulty. Many state agencies had inadequate resources to fund soaring expenditures.
The state was unable to meet its borrowing needs in the private markets. This crisis in state financing coincided with the near financial collapse of the City of New York.

During the past two years, we have been successful in both reestablishing a sound financial structure for the state and, at the same time, making enormous contributions to the alleviation of New York City's financial crisis.

Let me point to that, Mr. Chairman, as an example of what has happened. If we had taken the choice which was offered to us, to let the city collapse and stand back—that was an option. I don't know what the result would have been. I found it to be an unacceptable option. But let me point out that the state has come to the aid of the city and, as Senator Javits referred to, the fact that we took a risk and we assumed responsibility—and thereby the state became impaired as well. I don't want to disagree with the Senator, but we went down the right road. We went to the point of taking on a calculated risk because in my judgment the state could not stand aside without impairment. So we did involve ourselves.

The result has been that last year when the state went into the note market in order to meet its spring borrowing needs of over $4 billion, we paid a rate of 7 percent. This year, in broadened markets all across the country, with new underwriters and new underwriting managers coming in, the rate
stayed in that market at 4.51%, a saving of nearly $60 million in debt service to our taxpayers. So we went down the right road and it has provided a benefit to all the citizens of New York State because we made the right judgment.

The State of New York has stabilized the operations of its troubled agencies, has produced balanced budgets, and has, this spring, been able to finance its seasonal borrowing needs at extraordinarily low rates of interest. It has done so through tight constraints on wage and salary increases and successful new programs to contain costs, particularly in the area of health and social services. In the process, New York State by saving money itself has been able to contain social service costs for its localities. New York State has challenged the myth that citizens can measure the services they receive by the amount of money government spends. The federal government has benefitted monetarily from the exercise in New York State's experience.

New York State restored its fiscal health. And it did so without the assistance of the federal government. This is an achievement of which the State can be justifiably proud.

Parenthetically, without the assistance of the federal government, we did appreciate the guarantee that was extended to us on the financing, a matter which frankly would not have been available to us had it not been for the work of this Committee.

The fiscal recovery of the State, while dramatic, is
dependent on a fragile balance of improved management practices, tight control over the very marginal projected growth in state expenditures, and successful efforts to stimulate the development of the State's economy. I am committed to maintaining that balance. In order to do so, it is essential that we recognize that the State will not be in a position to provide large amounts of additional assistance to its local governments. To do so would risk what has already been achieved on a Statewide basis. Instead, the solutions to the long term financial pressures draining the resources of local government must be addressed nationally.

But even while the State struggled to avert financial disaster, I found it necessary, and succeeded, in providing extraordinary assistance to New York City, to Yonkers, and to other financially troubled communities. For example, New York State has assumed the cost of programs formerly financed by New York City, including a greatly increased contribution to the City University and to the operation of the court system. It has provided $800 million in annual advances of State aid to the City. I have also urged upon our legislature reforms in the Statewide education funding formula. Some of these were enacted, although the changes do not provide as much support to urban districts as I proposed. Efforts to develop a cost containment package for Medicaid and other health related costs have also been successful and have financial benefits for New York
City -- and I repeat, to the federal government as well. These reforms, undertaken at my urging, are a demonstration of New York State government's commitment to a just and fair treatment for all local governments.

Even with this rapid expansion of State assistance which has taken place in the past two years, New York City must still face the bleak prospects contained in its own revenue forecasts, which when projected forward for the next three years show that while the current financial emergency is being managed, great problems lie ahead. New York City's own forecasts, and those made by others, show that absent relief from some of the costs now borne by local government, such as welfare, local resources will be insufficient to maintain the current level of governmental services, and we are at a bare bones level.

In addition, New York City also faces the challenge of obtaining a truly balanced expense budget -- one which removes all expense budget items from the capital budget. New York State law requires that this be done over a period of ten years and to date, New York City's progress has been satisfactory.

New York City will also attempt borrowing in the private money market shortly, an effort required by the Federal Credit Agreement. Despite its accomplishments, New York City must still be concerned that the attitudes of the private market may keep the doors closed to private financing.

However, there are many developments from outside New York
City which provide encouragement. Recovery in the national economy has helped New York City, though the City still lags behind the national norm. At present, national unemployment for April is 6.9 percent, while unemployment in New York City for the same period is 10.1 percent. The Congress' sense of priority about the need to address urban America's problem has resulted in greater assistance to local governments. I would be remiss if I did not express my appreciation to the Congress for its active role in developing more positive governmental policies for the urban areas of our nation. I do express that now. The economic stimulus programs enacted by Congress in recent years, which provided considerable aid to urban areas, are tangible demonstrations that the Congress recognizes the need to ensure that all segments of American society share in the gradual process of economic recovery.

Yet, in spite of this, New York City faces its own very significant problems. It is a City with a large needy population. It is also a City with an eroding tax base with which to provide for basic needs. As the recent GAO study of the long-term fiscal outlook of New York City reported to you, the pressures on New York City are those forced upon it by an ever shrinking resources base. And whatever solutions we shape by way of management reform must be augmented and complimented by programs from Washington which deal with our systemic problems.

The GAO report considered several policy options for the
federal government which would ease the financial strains on urban areas, particularly those in the hardpressed Northeastern region. It explores, for example, various methods for federal assumption of the cost of welfare programs, the impact of a variety of more activist federal health policies, and the possibility of increased countercyclical funding of aid programs. The report also discusses the precedents at the federal level for intensive regional economic assistance programs of the kind which could be the underpinning of the economic revival of the Northeast. All these options suggested by the GAO merit close study by Congress.

There is no grand design which will maintain New York City's position as a unique and vital urban center. But certainly one problem at the root of New York City's fiscal crisis and central to the fiscal problems of New York State and other urban areas is the failure of the federal government to adequately address the problem of welfare reform. Local and state governments do not have the necessary resources to continue the present pattern of funding welfare costs. Even with the most successful cost containment programs, the burden of welfare funding is gradually pushing governments throughout the country toward financial crisis. Only a federal assumption of an increased portion of the costs of welfare will allow a stabilization of local and state budgets which will enable those governments to concentrate on providing the other basic services for which they have primary responsibility.
Just as all of our urban areas will benefit from welfare reform to relieve them of this crushing burden, they are also in need of other forms of federal help. And I welcome the presence here today of Senator Moynihan. We have fought together before for the welfare reform. Now it’s more critical because unless welfare reform of a fiscal nature brings relief to the local government we will impair the quality of life in areas where these areas have not been in crisis before, and we will not be able to attract jobs. We will not hold business. Welfare reform and fiscal relief type welfare reform is an imperative, a necessity. All of our urban areas will need federal assistance in controlling health care costs; all of our cities need more federal help to stem the tide of urban decay; all of our cities will need economic and job development programs to stabilize their tax base. And finally, when municipalities find the private capital market closed, they will need to have a mechanism available which allows them to obtain financing at rates that are not usurious. We do no less for foreign countries -- we should do as much for our own people.

New York City is particularly able to maintain its historic position if it can depend upon a reasonable share of federal assistance. Foreign investors have begun to recognize that the City presently has an extensive and highly trained labor pool, a concentrated and well-developed set of service industries, and a comprehensive and sophisticated transportation
network which is economically attractive and energy-efficient. This system would be greatly enhanced with an equitable share of federal mass transit assistance.

I cannot conclude without drawing to your attention the considerable progress which has been made in developing plans for restoring the basic economy of New York City — plans which will be realized through the cooperative efforts of New York City, the State and the Federal government. New York City has reorganized its agencies responsible for economic development and has created a development plan which is now in the early stages of implementation under Osborn Elliott, who’s been added to the City staff as Deputy Mayor for Economic Development. The federally assisted Westway project will both provide jobs in the immediate future and be a long term stimulus to the economic revival of the business core of New York City, and, as Senator Moynihan has said so well, we will get our great Hudson River back. We will be able to get there and see it again which we can’t do now. New plans for the construction of the convention center, which is not some kind of a frolic but a very hard-nosed need in our city to attract people to our city are moving forward. The convention center and things of that kind can be a major step in reinforcing New York City’s role as a center of trade and tourism.

Progress toward the stabilization of New York City both financially and economically is a tribute to the close
cooperation which exists between the federal, state and city
governments. My office, the staff of the Emergency Financial
Control Board, and the city administration have worked long hours
to ensure the success of the efforts to first rescue the City
and then set it on a firm course toward the future. The con-
tinuation of these joint efforts should be a source of great
encouragement to us all.

I can say as Governor of New York State that I welcome
the progress we have made together during this most critical
phase of New York City's financial emergency. If we have
learned anything from this experience, it is that just as our
problems are interdependent, so must be the solutions to them be
interdependent. I look forward to the continued cooperation of
the Congress in meeting the needs of the people of New York
State and New York City and for your attention I express my
gratitude.

The Chairman. Thank you, Governor Carey, for once again,
a most impressive statement. I think your fight over the last
couple years for New York City has been certainly one of the
principal reasons why the federal government was able to provide
the assistance it did provide to the City.

Much of your statement is of the way that the State has
assisted the City and, of course, that's proper. At the same
time, I think many of us realize that the cities are the
creatures of the state and that the state has a fundamental
responsibility and that, as a matter of fact, if it weren't for
the obvious fact that New York City's budget as I understand it
is as big or bigger than New York State budget that you have
such a colossal problem there --

Gov. Carey. About $11.4 for the state and $13.8 for the
City, and all but $3 or $4 billion of the State's budget is
shared with the locality.

The Chairman. As I say, if it weren't for that situation,
the federal government wouldn't have acted and shouldn't have
acted. If the state has the resources to do the job, the
federal government should stay out. The cities are the problems
of the state and I think we should recognize that.

Here I do think we had an unusual kind of situation and
I think, as you point out, the State has done well.

Let me ask you this. As chairman of the Emergency
Financial Control Board, you pass on the city's fiscal year '78
financial plan to determine whether it presents a balanced
budget as is required by law. Based on preliminary reviews,
do you see any problems in the mayor's executive budget for
fiscal year '78 that might prevent the city from meeting this
budget balancing requirement?

Gov. Carey. Yes, I do see problem areas. I mentioned
that there are contingency funds in there, such as counter-
cyclical money which must be derived or should be derived
from the Mitchell-Lama financing and so forth. The precise
data on where those uncertainties lie, of course, are not unknown to the mayor and he recognizes those in the budget and they carry this contingency.

The Chairman. What I'm asking is whether or not there are sufficient backups in the event some of these don't develop as you'd like them to the city will still be able to do the job.

Gov. Carey. The city has said that lacking these contingencies they are prepared to adopt alternative plans to offset any of the loss.

The Chairman. Are those plans articulated? Are they known? Do you feel they are adequate?

Gov. Carey. Let's take the monies that would be invested in the MAC stretch. If the ideal does not occur, then MAC has other resourceful ideas on how it can help the city, for instance, on the Mitchell-Lama shortfall. So some of these ideas (I would like to share in terms of answers with Mr. Prohasty and Mr. Berger, who are here today. Mr. Berger has carefully diagnosed the city's budget in all detail and we say that it's a good budget going in, but it's going through the Board of Estimate and the City Council process and what emerges from the process in terms of a budget adopted by the review process the city will be the one we have to address.

Now we don't see any great travail there because it's basically a good document going in, but all those -- the mayor and the Board of Estimate and the City Council -- must be
aware that there's no room for deviation from basic austerity. Mr. Berger can help us.

Mr. Berger. I think what we have done is the budget must be adopted by July 1st. We have scheduled major meetings of the Control Board to discuss the budget for June 3rd, which will give us a month. There are several areas. The Governor has mentioned certain uncertainties which depend upon the actions of others.

There's a second series of questions being raised by the accountants who are now involved and looking at the budget, both state and city accountants. The city has been involved in these discussions all the way through. It is clear that everybody agrees that these must be resolved and alternatives will have to be found before the Control Board will pass on any of these contingencies. Some of these items will go back before the State Legislature. All will be done before the budget has to be adopted.

The Chairman. Let me ask you, Governor Carey, a specific question.

Gov. Carey. Mr. Chairman, for the record, I want to be careful. Edwin Newman may be listening. I said precise improbables. I don't want to be held accountable for that kind of statement. The precise contingencies is what I meant. You can't be precise and improbable at the same time, although Senator Moynihan has been some time.
The Chairman. You're not saying that Senator Moynihan is a precise improbable, are you?

Gov. Carey. Some people thought he was until he was elected.

The Chairman. Now he's a certainty.

Are there any changes you believe the city should make before the Control Board approves the '78 plan? Let me give you an example. Should pension costs be counted on an accrual basis as the state comptroller recommends? I understand that would add $150 million to the budget.

Gov. Carey. The whole pension matter is subject to discussion, realistically, frankly, with the sacrifices that have been made by the labor force in the city, it would be ideal to have some additional pension reform incorporated in the budget, but I don’t see it realistically happening.

The Chairman. The city's fiscal year '78 budget includes over $600 million in operating expenses in the capital budget. That's a higher figure than last year, supposedly due to changes in accounting standards. I realize that the state law permits these to be phased out over ten years. However, how do you think investors will view a budget which is called balanced but which still includes all those operating expenses in the capital budget and takes those costs out in saying the budget is balanced?

Gov. Carey. As you said, the state law requires the
state-law requires the elimination of those items which have never been in the budget anyway in ten years. In my discussions with Mr. Rohatyn, as far as access to market is concerned and investor confidence, he does not regard that as an insuperable problem, but I don't want to speak for Mr. Rohatyn because there may be a legal difficulty in going to market while that condition obtains.

The Chairman. Would it help if we phased it out over a shorter period?

Gov. Carey. It would help if that could be done, but we now come to the point of a phase-out of $600 million from ten years to five years shorter period which places a heavier burden upon the services of the city than are now being provided.

Mr. Rohatyn. Senator, I think on that issue, I'm not sure that phasing it out more rapidly would make that much of a difference. I think the key issue is one of disclosure and proper accounting and of the investors seeing that that is being phased out properly. I think that it might have a marginal impact if we phased it out over five years instead of ten years, but the tradeoff question is obviously what it would do to the city's ability to function. I think must more important in terms of investor confidence is the stabilization of the city's tax base and the revenue structure of the city.

As I said, I think it might make a marginal difference.

The Chairman. From an investor's standpoint, you think
it's not critical, although it's important, but not crucial.

Let me ask you if there's a legal problem involved here. I understand the city's bond counsel has questioned whether it's legal under the state constitution for the city to issue bonds for capital projects which also include operating expenses since they don't result in an asset.

Mr. Rohatyn. I think there is a legal problem that's being researched now. I think the legal problem may be a much larger impediment.

The Chairman. Could the city be legally barred from floating bonds as far as the operating expenses remain in the capital budget?

Mr. Rohatyn. I think it might be hampered in terms of the amounts they can finance. I'm not sure they would be completely shut out of the markets.

The Chairman. That limitation might make it difficult for you to provide the kind of private financing to make it possible -- we all hope you can do -- which is to end the seasonal loan.

Mr. Rohatyn. It would, but the city's ability to borrow in amounts adequate for its needs might be hampered, and I think these are a couple items I will be addressing myself to shortly.

The Chairman. Now you balanced the budget as I understand it in 1978 allowing for this operating expenses matter, but I'm concerned that the city's budget projects now a new deficit after
fiscal '78 and the investor certainly would look at that -- a
deficit of $97 million in '79 and then $282 million in 1980.
You're almost in balance in 1981, a $5 million deficit, I under-
stand, adding up to a cumulative deficit of $384 in the absence
of any offsetting action.

Has the Control Board directed the city to supply a
detailed financial projection for '79 as Mr. Berger recommended
earlier this year?

Gov. Carey. We have so directed, but here we are in the
uncertainty of '79 and '80 and our target for '78-9 budget has
been since Mr. Axelso first proposed the financial plan an
$86 million gap. The city has done a monumental
job in closing gaps up to now, on and ahead of schedule. Attr-
tion, for instance, has proceeded far better than we had antici-
cipated in terms of the cost of the personnel services. We are
not suffering from it, but we are now in the plight of full
disclosure and I would only say that we in the state have a
five-year projection that shows we have difficult days ahead
until our economy levels out from what is still a low equilibrium
and starts back.

The Chairman. With a $13 billion budget, you would think
that $86 million or $282 million would be something that would
be achievable. I realize you have made enormous progress and
that you have cut and cut very hard and it's difficult to make
the cuts now, but it would seem that putting that in perspective
that $282 million, which is the biggest deficit you will have, in 1980, that with a $13 billion budget that doesn't seem to be insuperable.

Gov. Carey. I know you will hear from the mayor and it's been repeated and its replication does not detract from its veracity. There's just so much of tax levy funds to be cut. In that $13.6 billion of the city budget, there are the costs of the agencies, the hospital corporations, which reflect its own $25 million deficit or more; the cost of the board of education and the schools. Few cities have the burden of school costs that New York City has. When you get down to the available area that can be cut of so-called tax levy funds, you're talking about the funds for sanitation, police, fire -- and we have reached the point in those services where to reduce them further would jeopardize the lives of the citizens of that city. So there's no such thing as an easy cut.

I didn't even mention, by the way, the heavy component of that budget which is debt service, a major component of course. We can't reduce that. We can through the devices and the ingenuity and the determination of MAC assist in lowering that cost of debt service which is what MAC is all about.

The Chairman. My time is up; but let me ask a final question. Will you require that the financial plan keep in budget balance in '79 before you approve the financial plan for '78?
Gov. Carey. Senator, I don't know where I will be in '79. I cannot give you that assurance.

The Chairman. I'm saying before you approve the financial plan for '78.

Gov. Carey. There are moves afoot in a sense of going to market to get a long term bond or a bond through the market which would be longer term than the short-term borrowings which are opposed by most of us. In order to do that there will have to be some monitoring mechanism to which Mr. Rohatyn will address himself. That may well involve the elimination of the Emergency Control Board. But as long as we're alive, we board, and I'm the Chairman, with a board which has worked very effectively -- city, state and private members -- we will ensure that our mandate and our statutory responsibility is carried out that there will be a balanced budget.

The Chairman. Well, I appreciate that, but I wonder if you can do any more in the few days that remain relatively between now and the beginning of fiscal '78 so that before you approve the fiscal '78 financial plan you will require a balanced budget in '78?

Gov. Carey. Well, Mr. Berger mentioned there will be an exhaustive review and analysis of '78-79. We will do all in our power to make that '79 budget projection as realistic as possible.

The Chairman. Now we are honored this morning to have both Senator Moynihan and Senator Javits here, two of the
distinguished members of the United States Senate, and with a very deep interest and a high degree of competence and I'm sure their questions will be searching and helpful to the committee; but we do have members of the Committee and I'm sure Senator Lugar and Senator Schmitt should be recognized first and they will be.

Senator Lugar. Governor Carey, as you approach this Committee today and a broader group through it, what do you think is a fair solution, in the best of all worlds, -- what are you asking really from the federal government, in addition to programs that are already existing?


Senator Lugar. That's the key factor?

Gov. Carey. As a former mayor of Indianapolis, Senator Lugar, you must know firsthand that if you had to bear the local share of welfare on the basis of 25 percent of the total cost, you'd be in difficulty with the city budget in Indianapolis, I would think.

Senator Lugar. Yes, we would be. Now what is the further burden, looking at it from the standpoint of the State of New York, that you face? You have mentioned other cities that you have had to assist in addition to New York City -- the Yonkers case, for example, and others. What sort of predicaments do you face in the next couple years with regard to your budget
there? Is this going to be a self-sustaining situation or is

the State of New York looking to the federal government in some

specific ways?

Gov. Carey. Well, the ways in which we are looking to

the federal government are precisely the ways in which the

National Governors Conference addressed the problems

in all the states. We have an obsolete transportation system

in the country. We need better rail systems and mass transit

systems, intermodal systems, not just mass transit on subways

and so forth. While the Metro is being finished in Washington,

the bus systems that are needed to be energy efficient are not

being put in place around the country.

The equipment that, frankly, we are using to transport

people on surface mass transit is obsolete before it comes off

the delivery line in Detroit. Compare the systems being used

in European cities with those great big, belching buses that

run all over this country. We should do a better job. The

federal government should set standards for that, for better

buses, more efficient, better maintained -- in other words,

transportation energy.

We in the Northeast and New York City particularly are

suffering for a cure that frankly you need as much as we do.

You can't continue to ship out $30 billion a year in adverse

balance of payments and have a sound economy in this country

and around the world. We can't afford to continue to rely on
the Middle East as a major resource for high cost fossil fuel and have any kind of an economy in the Northeast or New York City.

Your problems are our problems. We look to you to solve these national problems and we will participate in the recovery we need.

Then the take-over of welfare by the federal government won't be so expensive because we'll put people back to work. Right now about 10 percent rate of unemployment in New York City and about one point lower across the state, we are dragging down the national economy, the 6.9 percent national unemployment average is pulled up to that level by our high unemployment in New York City. I dare say that the national level, if you take New York City away, with our huge population, and if you take New York State and the Northeast out, the national average of unemployment would be down around 4 or 3-1/2 percent. So we're pulling you back and holding you back and we want the country to move ahead.

Senator Lugar. Let me ask two more intergovernmental questions. Granted, that the welfare predicament in both New York City and the State as a whole --

Gov. Carey. And the counties. It's just as severe in the counties as in the cities.

Senator Lugar. And you have mentioned the transportation situation -- subways and other methods of mass transit. What
sort of answers can you give as Governor of New York to people representing other states, for example, in terms of the general equity of money flows to New York State?

For example, in Indiana, we do not have a complex mass transit system and most federal bills to that effect are not going to be of great benefit to us. Likewise, different evolution of welfare payments of the welfare system so that a substantial change along the lines that you were mentioning seems to me today are likely to lead to inequity for the State of Indiana and for many others.

Gov. Carey. Senator, when Studebaker was going down the drain we stepped to the aid of Studebaker. I recall that. Do you remember when Studebaker was unable to survive and we thought that was a national calamity? Congress helped Studebaker.

Senator Lugar. I suspect the Studebaker case will not really stand for the sort of monumental shifts we're talking about in terms of welfare.

Gov. Carey. I remind you that we did it, and if we can save Studebaker, wherever it stands now, we should be able to save New York City.

Senator Lugar. I think the problem really needs to be answered by you and those representing New York and I ask it not in an antagonistic way.

Gov. Carey. We are not pleading for special treatment.
all those wonderful places in Indiana -- we traveled by bus. A very efficient chairman was very careful about spending committee funds and the buses at that time were not very comfortable. I hope they have improved.

Senator Lugar. No, I don't think they have improved a great deal.

Gov. Carey. Then we want better buses for Indiana.

Senator Lugar. That comes to the heart of the matter which I think really at some point you have to address. That is, why should citizens in the State of Indiana be spending money for more adequate transportation system in New York City?

Gov. Carey. Because we don't build equipment in New York City or New York State for that system. Our purchasing power goes throughout the country. We buy our rails from the steel mills of Pittsburgh or wherever the rails are forged, and the rails are manufactured, and our rolling stock is built nowhere in our state. So we become, frankly, a good source of purchasing power for the vendors in Indiana and elsewhere. I'd like to see the steel mills in Gary and all of the activities in Cleveland, Toledo, Ohio and the other parts of our country supported by a vital economy, a vigorous economy in New York City.

Senator Lugar. I would, too. Now let me ask a question from the other standpoint; and that is, with the federal government anticipating deficits of $64 billion, as is the
current situation, what would be your advice to the federal
government in terms of adopting expensive programs that go well
beyond that budget? Purely changes in welfare reform or trans-
portation and other situations will take us beyond that. What
sort of advice and counsel as a citizen of the United States,
do you have to those of us who have responsibilities here?
Gov. Carey. I will take Mr. Lance's aphorism, if it ain't broke, don't fix it.

Now, the welfare system is broken, it needs fixing, but you can't fix it and repair it without money. If you give me the choice, hold up the B-1 bomber and let's take care of welfare reform.

But I am not here any more, thankfully.

When I was here, I did march up the Hill with a welfare reform program supported by the Nixon and Ford Administrations. It went through the House and foundered in the Senate.

It shouldn't happen again, because welfare reform and containment of Medicaid costs will, in the long run, be an economy for this great country.

If you give us a way, we will have welfare reform, so we can train people for jobs.

If you give us a way to substitute employment to the dispair of welfare, crime will be contained in our society. That is proven. If you give us a way to address the breakdown of mass transit, we can show you that by containing costs of conducting city government, our economy can make a greater contribution than simply asking for more funds for unemployment insurance.

Many states, some 30 in number, are going to have to borrow to pay into the federal compensation because they are broke. That $64 billion deficit that now exists and shines us in the face
won't be helped by a simple remote attitude by the Federal Government toward the problems of the central cities and older states.

We can participate in the economy.

I would love to discuss with you at any other time our plans in the Northeast for an energy development program in which we could use the purchasing power of the Northeast to cooperate with the Appalachian Region and use our purchasing power to bring about recovery in Appalachia instead of contributing to the coffers of the Middle East.

Senator Lugar. Thank you. My time is up. I am sympathetic with what you are saying, but I think the basic question that I have asked, that is, in terms of equity to other parts of the country and the general budget situation are important ones.

I think we have been trying to address them and I think we will have to be addressed before there is movement really.

Gov. Carey. We don't want special help or special treatment. We don't want to be a drain on the national economy. We proved the point beyond any contradiction that in New York City bankruptcy would have hurt Indianapolis and all the other major cities of this country. That is no longer arguable.

So, since we are not talking about insolvency, we are talking about recovery on a national scale. We want to be part
of that recovery, we are not suggesting any special treatment whatsoever. I am, in a sense, articulating the National Governors Conference position. I am repeating the pledge made by the President of the United States toward that position that the Federal Government should give relief through welfare reform. We would like that pledge redeemed.

Senator Lugar: Thank you.

The Chairman. Senator Schmitt.

Senator Schmitt. Mr. Chairman, I will defer to my colleagues from New York. They may have other things they need to do. It not being their specific committee, I will hold my questions for a little while later.

Gov. Carey. Mr. Chairman, if I may, Mr. Rohatyn has a short prepared statement.

The Chairman. That is fine.

Mr. Rohatyn. Thank you, Mr. Chairman.

Governor Carey has asked me to comment on the City's current financing situation and on the City's prospects for future financing. You may recall that our last appearance before this committee coincided with the judicial decision which declared unconstitutional the 3-year moratorium on certain City notes held by the public.

As a result, the City, already under serious financial strain to reach a balanced budget for fiscal year 1978, was required to raise almost $1 billion to pay off those notes.
At that hearing, I outlined a plan to finance a moratorium debt based primarily on three elements:

About half to be provided by the sale of MAC securities and the remainder to be provided by the sale of MAC securities and the remainder to be provided by a voluntary restructuring of MAC debt held by certain N. Y. banks and pension systems, as well as by the proceeds of the sale of Mitchell-Lama mortgages.

While no final agreement on restructuring the MAC debt has so far been reached, I am pleased to report the billion dollars of publicly-held moratorium notes will be repaid in accordance with the court schedule, following the rough outlines of the plan we proposed last December, and without materially affecting the City's capacity to reach a balanced budget for Fiscal 1978.

We have been particularly encouraged by the market's response to the issuance of MAC securities during this time.

Our exchange offer of last month, which was a keystone of the moratorium refinancing plan, whereby MAC bonds were offered in exchange for City notes, was an unqualified success, producing more than $40 million in exchanges, well above the $250 million originally targeted.

In addition, in the wake of a recent Court of Appeals decision reaffirming the constitutionality of MAC's revenue flow, we are now planning shortly to issue an additional $100
million MAC bonds for which we anticipate substantial demand at interest rates well below our previous offerings. Significantly, the terms for this new offering will be set by competitive bids for the first time since MAC was created.

This is a further indication of the growing confidence of the marketplace in MAC securities, and will reduce the cost of the financing we must provide to maintain essential City services.

The total of $500 million we thus project to make available to the City through these offerings should provide enough of a cushion to assure that the moratorium debt can be paid in timely fashion, even if the City continues to fall short of its goals for the sale of Mitchell-Lama mortgages.

This will leave approximately $800 million of notes in the hands of the New York banks and pension systems, and I expect that over the next few months negotiations with respect to the disposition of those notes can be successfully achieved among the City, the MAC and those note holders.

When MAC was created two years ago, the Governor assigned essentially four missions to us.

The first was to keep the City out of bankruptcy. The second was to refinance all of the City’s short-term debt, amounting to approximately $5 billion at the end of May 1975, on a long-term basis.

Third was to help to bring the City back to a balanced
budget within the 3-year financial plan. And last was to help bring the City back to the public markets on its own.

The first two of these mission have essentially been accomplished.

With the refinancing of the publicly-held moratorium notes, MAC will have refinanced something over $4 billion of short-term City notes on the basis of average maturities of about 12 years and an average interest rate of approximately 8 percent.

In addition, MAC helped to raise from the New York City pension systems an additional $25 billion in City bonds to finance the City during 1976-78.

The City's 1978 budget is presently under study by our staff. Our preliminary review indicates that it appears to be balanced in accordance with the terms of the MAC statute. It is, however, balanced precariously. A substantial infusion of federal counter-cyclical aid and other potentially nonrecurring revenues and savings are included in the absence of which, in future years, raises again the spectre of significant deficits after fiscal 1978. In addition, under state law, the City will have to continue phasing out its practice of borrowing to meet certain expense items in its capital budget (more than 600 million of which appear currently) at a rate of about $75 million a year through 1986.

The key uncertainty for Fiscal 1978 is still some $250 million in the City's budget from the resetting of maturities.
on approximately $1.8 billion of MAC bonds held by certain
New York City institutions. Agreement on what we call the
"MAC stretch" has so far not been achieved, but I am hopeful
that over the next month or so negotiations currently taking
place between the City, the banks and the unions will ultimately
be successful.

If this is not the case, the City knows that it will have
to come up with alternative programs equivalent to this amount
prior to its July 1 budget going into effect.

The financing outlook for Fiscal '78 is certainly more
hopeful than it has been for the last two years.

The present commitments from the pension systems,
Together with the current seasonal loan program, should see
the City through its 1978 financing needs.

Under the federal statute the City is required to test the
markets beginning July 1, 1977.

I would expect that, with the cooperation of the
financial institutions, short-term seasonal financing in
moderate amounts should be possible during Fiscal 1978.

Assuming that the Emergency Financial Control Board approved
a balanced budget and in view of the fact that the Control Board
will stay in being until at least December 31, 1978, it should
be possible, in my judgment, both technically and creditwise,
for the City to issue possibly up to $50 million of short-term
notes through normal commercial banking channels as the year
goes on. I expect that negotiations with respect to such
financing between the City and the banks will be starting
shortly.

The key test, of course, will be the City's re-entry into
the long-term bond market. As you know, negotiations carried
on last winter as part of the moratorium refinancing between
the City and the Clearing House Banks broke down on the issue
of long-term fiscal oversight.

In my judgment, this is a resolvable issue. It requires
political will on the part of the City and somewhat more
flexibility on the part of the banks.

It requires everybody's recognition that fiscal oversight
for some extended period of time is an absolute necessity,
but should differentiate control and oversight, at least as
long as the City stays on an even keel.

We have our own views at MAC about the kind of mechanism
that might be appropriate and we will obviously be available
to all parties at the time such negotiations resume.

The mayoral campaign is just beginning to come into full
swing, and, as you know better than I, during such a period,
sanity and clarity of vision are not going to be in abundant
supply in our City, as if they ever were.

It may well be that the negotiations with respect to the
City bond and the fiscal oversight mechanism to go with it
will have to be postponed until the fall.
It is my judgment that during Fiscal 1978 an agreement should be concluded between the City and the banks on the subject, and that some modest financing of the long-term bonds will take place before the end of the fiscal year, in amounts of maybe $200-$250 million.

This then brings us to the period following June 30, 1978. It is obviously difficult to predict what the City will be able to finance at that time.

A great deal will depend on the City's performance in balancings its budget for Fiscal 1978. A credibly balanced budget for Fiscal 1979 will have to be in place, as well as a three-year plan with credible prospects of continued balance.

I remain skeptical about the City's ability, on its own, to raise approximately $4 billion of both seasonal financing and capital financing in Fiscal 1979, no matter what.

In my judgment, the City will either require an extension of the Seasonal Financing Act, possibly on a phasing-down-and-out basis, or some form of federal financing assistance for its long-term capital needs (possibly through the mechanism of an urban bond or guarantees).

New York City is, fortunately and unfortunately, not just one piece of the urban problem. Its size alone in financing creates a unique problem of market access. Its current debt service of $2.3 billion per annum still constitutes a terrible
burden for the City, both from a budgetary and from the point of view of economic development. A refinancing facility, mostly for City bonds, could be very useful. The MAC debt structure, especially if agreement is reached with respect to the MAC stretch, is reasonably satisfactory, and over a period of time, assuming our market performance continues to improve, we should be able to refinance MAC at lower interstates and longer maturities on our own.

The City bond structure, however, amounting to some $6 billion, is plagued by very short maturities and resetting of the City debt on a much longer term basis would be considerable help in enabling us to lower taxes and undertake economic development.

In closing, as we reach the end of MAC's second year of existence, I would say to you that we have come a long way. In our fight to save the City, however, it is only the end of the beginning.

I believe we have helped to create a stable base on which one can now build a solid structure.

How it all ends will depend on the City's willingness to continue its austerity and to rebuild its tax base, on the State and the region addressing themselves successfully to regional problems, such as sky-high energy costs, and on a federal resolution, ince and for all, of the welfare burden which so crushingly hangs on the back of the city.
Thank you.

The Chairman. Thank you for a most interesting and useful statement.
Gov. Carey. Deputy Comptroller Schwartz has a brief
statement to give on behalf of the Comptroller of the State
of New York, Arthur Levitt, if he may be permitted to do so.

The Chairman. All right, sir, go ahead.

Mr. Schwartz. Gentlemen, thank you for the opportunity
to present some of the concerns of my office in connection with
the financial emergency in New York City. The solution to the
emergency may be viewed as having two major aspects. One, the
achievement by the city of a balanced budget for its fiscal
year 1978 and thereafter; and, two, the ability of the city to
reenter the nation's capital markets to obtain the financing
it will need after June 1978.

As you know, New York City has recently submitted its
proposed balanced budget for fiscal year 1978. This budget is
being evaluated by my staff in the light of the requirements
of the New York State Financial Emergency Act of 1975. We
expect to report on our evaluation early in June. Thereafter,
we will report on the city's budget estimates for fiscal years

There appears to be substantial progress toward meeting
the first of the two aspects of the solution to the financial
emergency. Thus it seems appropriate now to focus more sharply
on the second aspect of the solution: that is, how the city will
be able to finance its ongoing operations after Fiscal Year
1978. Using round numbers, during the emergency period this
financing need has averaged about $1 billion a year for long-
term capital budget purposes — exclusive of borrowing to
finance the city's annual deficits, a maximum of $2.3 billion in
recurring seasonal loans, and an annual $800 billion "bridge"
loan between fiscal years. During this period, the long-term
financing is being provided by the city's pension and sinking
funds and by the Municipal Assistance Corporation; the seasonal
requirements are being met by the Federal Government, and the
$800 million bridge loan is being made by New York State.

At this time there is no indication of the extent to which
the city will be able to meet these financing requirements in the
capital markets. It would appear prudent, therefore, to make
provisions for the contingency that the city may not be able to
obtain such financing. It is in this context that I urge
consideration of the federal loan program that would make
available any necessary city financing, but only on a standby
basis. Last February when my comments were solicited on a
draft of the General Accounting Office report "Assessment of
New York City's Performance and Prospects Under Its Three-Year
Emergency Plan," I recommended that the Federal Government
consider enacting such a standby loan program.

The suggestion contemplates that the standby program would
be in effect both for seasonal financing — the current federal
seasonal loan program is scheduled to expire as of June 30, 1978
— and for longer term borrowing needs — basically to finance
the city's capital expenditures and those expense items which are being phased out of the capital budget pursuant to state and local statutes.

I believe that if prospective leaders would feel more confident in buying city obligations with the assurance that the city's full borrowing requirements would be obtained even if the city's aggregate cash needs could not be met in the open market, such a program would provide a more secure basis for the city's financial management over the next few years. Its enactment sufficiently in advance of the end of Fiscal Year 1978 should minimize the extent of its actual use, and it could even result in the standby loan never being used. The program should also result in the city's being able to borrow in the public market at lower interest rates than would otherwise be possible.

In closing, I would like to comment on the burden which New York State has assumed in including within its own seasonal borrowings the annual amount of $800 million for the use of New York City. This recurring loan, which has become a necessary element of the city's financing package, makes the state's own financing more difficult. It increases the state's seasonal borrowing requirements from $3.2 billion to $4 billion and it impacts unfavorably on the state's overall interest costs. Comptroller Levitt recommends that the Federal Government give consideration to removing this burden. Thank you.
The Chairman. Thank you very much.

Gov. Carey. If I may make a parenthetical comment for the record on the Comptroller's statement, we do incorporate in future financial projections and budget expectations for the necessity for carrying on the $800 million advance, but an it is not a loan (really), it's advance on welfare reimbursables for which the city pays the interest, cost of that loan for the record.

The Chairman. Do you do expect to continue that?

Gov. Carey. For that advance. I see no other way.

I would not presume that Congress would undertake that $800 million since the state has proven that it can now carry that burden for the city and the interest is paid by the city on that advance.
The Chairman. Thank you.

Senator Schmitt.

Senator Schmitt. Gentlemen, I appreciate very much this education that I am receiving about New York's problems. They are not completely unknown to me, as many of my constituents are former New Yorkers, many of them moving to New Mexico to not only partake in our sunshine and space, but to escape the taxes, as many of them say.

Do you foresee in the foreseeable future the possibility of a gradual reduction in real estate taxes once you are over this particular short term, hopefully short term emergency?

Gov. Carey. As for the State, I am able to say that with the cooperation of the legislature, we brought about nearly $300 million of personal income tax reduction for the people of the entire state and the first personal income tax reduction in the State on a permanent basis in 57 years in New York State last year.

The City is doing everything in its power to reduce the crushing burden of taxation that we now face. But there are constitutional limitations as to what can be done about the real estate tax.

Mr. Rohatyn has been working precisely on that problem with city officials and I think he should speak to that.

Mr. Rohatyn. Senator, one of the problems with respect
City's real estate tax structure is that it is used to pay off City debt. And I alluded earlier to the short maturities in the City debt, as opposed to the MAC debt. If we could re-structure the $6 billion or so of City bonds which are outstanding and which, I think have an average maturity of maybe five years on maybe a 20-year basis, it would permit the City, assuming its nose is held to the grindstone, which is always a somewhat large assumption, but let's make that assumption for the moment, it would enable the City to lower taxes significantly and, in effect make that investment in economic development.

Senator Schmitt: That is the key, I think, is to be able to get the development program.

Mr. Rohatyn. Yes.

Senator Schmitt. Governor, you mentioned and probably rightly so, that welfare reform were two words that were part of the long term key. Not only to the future of New York City, but any other major metropolitan areas.

Are you familiar with Governor Dukakis' experiments in trying to gradually tie welfare to employment programs?

Gov. Carey. Yes. Governor Dukakis has worked strenuously to make changes in that system and relate employables on the welfare rolls to work programs.

We are doing the same thing to the extent we can do so in New York state. Frequently we run into federal regulations in trying to effectuate these programs.
A bureaucratic entanglements and the courts in trying to effectuate these,... I am not talking about the so-called system of putting women to work. We can discuss that at great length as to the employability of mothers of children and whether that really, philosophically or practically, is a way to change the welfare system.

But Governor Dukakis was able, for instance, to reduce the home relief, that is the system for employables, those recipients below age 60, males and so forth, from an extended home relief benefit term of 90 days to 45 days and then eliminate it completely. We don't have that option in New York State, because it was set down constitutionally by one of our State judges.

We are attempting to do many things. State by state, things that could be achieved under the agencies of a federal statute. We are unable to do these because we frequently run into impediments at level with the federal government, or state courts, or impediments of certain constitutional requirements long engrained in the precedents and laws of our states.

Senator Schmitt. In these experiments, yours, do they include trying to actually make a transfer of welfare funds into the employment programs for those individuals that could cross that line?

Gov. Carey. Yes, to the extent that we can segregate out the moneys.
But let no one in any way be misled. We are able to meet need levels and payment levels from the available resources of the City and State. We don't have loose money that we can use to start and originate demonstration projects on work programs. The most recent welfare reform program that we generated in our State was adopted by the legislature for the budget of this year. The program saved over $500 million, many of those savings resulted from GETA funds, which we have available to take people from the State/City-paid home relief category and put them into GETA jobs along with others in the GETA program. That frankly is a Massachusetts experiment really working throughout the Federal Government. We are using that.

Senator Schmitt. Do you see any improvement, let's put it this way, a decrease in the number of young people who are, would be classified as structurally, unemployed that are coming out of your school system, in New York?


Senator Schmitt. Do you see it increasing?

Gov. Carey. I am worried about those who are outside the school system who belong in it, who are not educable at this time. I am worried, as well, about the unemployment that's lasted over a generation. We didn't recover from the recession of 1957, in the southern tier and in the City of
New York. And a generation has gone by and they have not
found jobs.

Frankly, the career opportunity offered in New York City
that the best retirement and least risk is juvenile
crime. Investment is minimal and the rewards are great and the
process is underway. That is costing $6 billion in lost
property and lives across this country. That is where the
money should come from for fiscal relief and welfare
reforms.

Senator Schmitt. You mentioned --

Gov. Carey. That $6 billion is a low estimate, I be-
lieve. Multiply it.

Senator Schmitt. Appreciate those comments; I am very
sympathetic with them.

You mentioned not recovering from the recession of
'57, we have some counties in New Mexico that haven't re-
covered from the depression of the 30s. Hope we can do some-
thing about that.

Gov. Carey. We sent you a great Governor from New
York one time and he helped a little bit.

Senator Schmitt. Yes, he did.

You mentioned the energy problem. I detected in some
representatives of the so-called consuming states, of which
New York could be considered one, a feeling that maybe some
form of price deregulation of new oil or gas, domestically
produced, may start to look more acceptable now that there is clearly not only a price problem but a supply problem. Would you care to comment on that?

Gov. Carey. You don't lose me on that one, Senator. I join Senator Boren of Oklahoma -- Governor Boren of Oklahoma at the Governors' Conference in calling for phasing out of the lid on new gas and new oil because, frankly, I don't pretend to be an oil economist but I know that no product moving through the pipelines and no new product coming into market generally raises the price of the amortization of the price line, and I strongly support deregulation of new supplies. And then apportionment of those supplies so we can get natural gas and fuel domestically that we need to keep our factories working.

Senator Schmitt. I think you would find that under such a situation of just new gas and oil deregulation, that within a few years, I think at the most five, supply would start to increase to the point of where you could anticipate a price reduction in those commodities for some period of time until new energy alternatives became available to you.

Gov. Carey. I am not the expert but you have just given a fine expert from the State of New Mexico to the Federal Government in the person of Mr. O'Leary. I have heard his comments and I believe that his line is the one
that you are enunciating right now.

Senator Schmitt. Well, he's flipped back and forth a little bit, I am afraid. I am not quite sure where he stands on now gas at the present time.

Gov. Carey. I know where he used to stand and I thought it was plausible.

Senator Schmitt. Thank you very much, Governor.

The reason I did not defer to your illustrious citizens, Moynihan and Javits, is, I was assured they had no place else to go.

So, I would yield.

Gov. Carey. My best to Governor Dukakis; he's doing a great job and we expect him in New York very soon.

The Chairman. Senator Moynihan.

Senator Moynihan. I would briefly thank the Chairman for his courtesy in inviting myself and my cherished colleague to this occasion and to welcome the Governor, his distinguished associates.

I have three brief points to make, Mr. Chairman, and I can scarcely pretend they are of the order of question, but rather comments. The first would be addressed to the question which is put so carefully and correctly by Senator Lugar as to, you know, how does one explain to constituencies elsewhere the special needs of our City and indirectly, the State?

I would simply make one plain point.
But first let me say, I don't have any defense of the fiscal practices that led New York City to the verge of bankruptcy. No one does. In our politics there commenced to be something that, reminiscent of what Gibbon in the "Decline and Fall" called the "leakage of reality in the Late Roman Empire." That is a deep business and I don't know if you ever cure it. And I am not going to talk about it, but I will take about one elemental statistic, which is that with 8.9 percent of the population, New York State providing 13.3 percent of the federal revenue. We contribute half again as much as does the -- on a per capita basis.

What I hope, if when we make special claims about special needs, such as welfare, the willingness we have made to accept people from all over the country and provide them minimal standard, that willingness has generated greater costs for us, well, therefore, we need greater participation by the Federal Government, much as desert regions need greater participation of the Federal Government in water conservation development programs. I mean this is what being one nation is all about.

But I would hope that it never reaches the point where New Yorkers have to conclude that the Federal Government is a bad bargain for us. That we really can't afford an active Federal Government. Because we pay half again as much as we get, and when we ask for something that we particularly
need, the notion comes, well, who are you to make such a claim.

On the second point, well, may I note that recently the first welfare reform proposal for the Administration was the Food Stamp proposal.

In a very familiar way New York State receives far less per capita than any other state in the nation, and by way of reform, the Administration proposes that it receive still less. And when asked how much less they said, nobody knew for sure but less. I mean, familiar. On welfare reform I would like simply to say that, I think the Chairman would recognize that if the Federal Government were to assume the costs of local contributions, why, the deficits you mentioned for Fiscal '79, '80, and '81 would disappear. At least they need not be there. They would be more than, much more than covered by a welfare contribution.

I am sure the Governor would join me in acknowledging that President Carter made a solemn and specific commitment that the Federal Government would assume local welfare costs during the campaign, made it in New York in the context of New York. I am sure the Governor would join me in saying that we do not entertain the possibility that this commitment will not be kept.

Gov, Carey. I totally agree with the Senator, on the record.
Senator Moynihan. Lastly, sir, just to say that we think if New York as extravagant, and it is extravagant. it is extravagantly creative, an extravagantly wonderful place and if you haven't be raised on the streets of Man Manhattan, well, you have been deprived, that is all.

But I would like to point out that we use two-thirds, our energy consumption in this great industrial, commercial city is two-thirds that of the national average.

We are not the lowest in the nation and, indeed, I think we learned in the press this morning that since 1976, there has been a four percent decline per capita.

We are careful in our expenditure of physical energy, intellectual energy we continue to be extravagantly wasteful of.

Thank you, Mr. Chairman.
Gov. Carey. Senator, I hate to say it, but the energy conservation which resulted in New York City is endemic to the country. When the factories are not working you don't use much energy. That is the kind of conservation we don't need. That is why the 4 percent drop.

Senator Moynihan. But the main the relationship, ours having a lower per capital use in New York, is the case, is it not?

The Chairman. Well, it's based really -- if the Senator would yield -- it's based on the fact you have a far more energy-efficient transportation system rather than everybody coming to work by automobile in New York City, obviously you don't. You have a mass transit system that is much more efficient.

Senator Moynihan. I thank the Chairman.

The Chairman. Senator Javits.

Senator Javits. Mr. Chairman, thank you very much.

Thank you again for having us here and giving us a chance to speak.

I think the point raised by Senator Lugar which has now been also answered by my colleague, Senator Moynihan, is the most critical, Governor, here in the Congress. We had it in '75 and I am glad that it was raised.

I think it's critical. We are a big revenue producer. We produce about $20 billion a year in the income tax bracket
alone in New York City. But beyond that we are characteristic of the great cities of the United States. And what happens to us is what is going to happen to them.

That is why we weren't allowed to go into bankruptcy. That is an awful big stake for our country. In addition, we are the transportation and communications hub, the services hub, the cultural hub, the medical hub. We simply can't be cut off and allow it to float out to sea. And when because the people of a river city fail to build dikes, their negligence, and in many cases there was a lot of corruption, and the riverbanks overflow the United States Corps of Engineers come to their rescue, it's just as true of the TVA, Mississippi and Ohio Rivers systems, New Orleans Port and Los Angeles water supply and Hoover Dam as it is of New York's financial collapse.

That is the reason.

That is why we are here and that is why we have every right to have confidence that we are not here in vain. And this is the way in which the matter was handled in '75, and we have certainly shown by our performance that we don't take United States aid lightly.

How to do it, Governor, you and Mr. Rohatyn, who has rendered such unbelievable service far beyond the call to duty to our city, will be counseling with us and we will ourselves, how to do it.

I just don't think there is any way, even as sent in the
President’s promise, it’s quite proper for Senator Moynihan and the Governor to remind us of that, but it is in the highest interests of our nation and that is our case and that is what we have got to make stick here and you’re helping us to do it.

Senator Schmitt. Will the Senator yield?

Coming from a Western state, my thoughts are very much in line with Senator Lugar’s. We do have to answer those questions.

Senator Javits. Absolutely.

Senator Schmitt. It isn’t sometimes quite enough to draw the comparisons, valid as they are, that you and Senator Moynihan have with respect to what one might call negligence sometimes or just need of Western communities in the state.

What is going to be the critical factor for us to be able to explain to our constituents, that this is all right and proper, what the Federal Government does with respect to New York, is a growing and very visible improvement in the management of New York City.

I am encouraged by what I hear today, I hope that we will continue to be encouraged in this respect, because if we can go back to our constituents and talk with confidence that the corner has been turned and that the management techniques that are going to be applied now and in the future in New York City are in fact going to remove the problem, then I think you will see Western support start to grow.

Senator Javits. Well, thank you very much, Senator.
And I agree with that thoroughly. We have got to perform. We are in this shape, even though the equities I think are with us for federal help, and we have got to demonstrate that we are doing more than fully our share.

The American people believe in self-help and mutual cooperation, with great emphasis on both.

Thank you very much for your contribution, and I am pleased at the debate, it's the only way that you get any real action. I am not a bit resentful or unhappy or feel that, well, why should we have to explain?

We have to explain every step of the way, that is our duty and our pleasure.

Governor, one more question. It is a fact, is it not, that there still remains some things which can be done on the part of the Federal Government which are not directly in the current of direct help to New York?

For example, one thing that strikes me very forcibly is what is happening with the drug enforcement administration. We are getting and the Comptroller General points that out, General Accounting Office, rather, and the Comptroller General points that out. Mr. Staats, in his very, very distinguished report for which as one New Yorker I am extremely grateful, dated May 2nd, 1977. That New York, for example, gets out of about half a billion dollars in drug enforcement administration funds, et cetera, from various pocketbooks, 3 percent.
Now, right on its face it's unreasonable and ridiculous. New York is impacted the most of any city in the United States with drug addiction. It's just inconceivable that the claim of New York, and that claim is entirely valid, of about a third to 40 percent of the drug addiction produces 3 percent of the federal funds, and that ain't hay, that's big money. That's about $160 million as against 14.

Makes quite a difference. So, Governor, taking now heart from this report which bears out the contentions of the state and the city, may we expect the state to move vigorously into that area in terms of its representation to the United States and to these federal agencies, where the money goes as I understand it from them and could represent an important fact that the state is very strongly behind the city in that matter?


I totally agree that the money should go be distributed according to the way in which school aid funds are distributed to where the potential beneficiaries live.

We are not confining it to drug abuse alone. Our state has taken the lead, expensively but we think it's a wise investment in combating alcohol abuse. And our attempt to contain growth of alcohol abuse and toxic substance abuse among teenagers and small children is extensive and expensive on our part, but we are doing it.

We can't do more, frankly, because it's a major problem,
we cannot underwrite out of our state and local funds. But when I tell you that a low estimate of the number of hard drug addicts a few years back showed there were over 150- or 200,000 on the stuff in New York City. I'm not talking about alcohol now, I'm just talking about drugs. That is almost 10 times the number of persons in our police force in the total force.

We can't win with the odds of that kind against our police force in New York City. And those are, frankly, each one, a potential criminal because they can't afford the acquisition of hard drugs and they do turn to crime.

So if they are going to fight crime in this country, as every leader in our Executive Branch has always proclaimed, the way to do it is to help us contain the drug problem by putting the money where heavily the addicts are.

Senator Javits. Thank you, sir.

One or two other things and I should be through.

The report of the Comptroller General also charts another area where it feels the state can help the city. Now, Governor, I realize that the state is doing fantastically by the city. I am not in any way being critical. But it may be that some state action is to be considered, not necessarily monetarily but perhaps of a requirement character.

The statement, does New York State's program respecting the eligibility for Medicaid and services inherent in Medicaid, the statement of the Comptroller General is that New York State
program is considered the most liberal of any program in terms of eligibility standards.

Then it goes on to point out the enormous share of the cost which is borne by New York, and suggests a formula requiring the state to provide a greater share of the non-federal match would relieve New York City of much of the financial burden of a program, the cost of which it cannot control since benefits and eligibility standards are established by the state.

It is that latter that I would like to fix the Governor's attention on as the money may not be available.

Gov. Carey. No, Senator, in a recent budget adopted by the State, we for the first time provided what we call over-burden funds to the counties in the additional amounts of $12 million this year to pick up a heavier share of Medicaid-welfare costs in those counties.

Not the city, in the counties. Did we differentiate between the cities and the counties to the detriment of the city? No, what we said was, those counties which bring the eligibility rate down below about 6 percent will get a benefit and reimbursement that will cost the state $12 million.

In other words, the historical 25 percent share they were bearing will be reduced and we are doing that. So we have taken action along the lines suggested by the Comptroller General.
As to what we can do additionally, I pointed out we were moving toward standardization and takeover of local probation and procedural costs, we moved on the court reform program, picked up the cost of the courts even though the states under an austerity program and we went up to 75 percent from 50 percent in the subsidization of the City University.

These are the things the city is doing. Please keep in mind in this whole discussion that a mythology that I used to indulge when we talked about formulas is a dangerous one. The mythology that New York is a great, wealthy state much higher than the national average. That was true in the '30s, when we were 30 percent higher than the national average in terms of median income. Today, at best, we are about 11 to 12 percent higher than the national average in terms of per capita income.

I am not going to make the argument that per capita income should be matched against cost of living, that is historic. When we take out the transfer payments that we have in New York State, veterans' benefits, aid to the elderly, handicapped, the infirm, that is not productive income. That is bare subsistence income. It doesn't contribute to our economy.

If you take that out, New York is at the national average in terms of per capita income. Therefore, as Senator Moynihan has said, we can't afford to subsidize the country any longer.
We want to be a good customer, that is the best argument I can give to the gentleman from Indiana, Mr. Lugar. We want to be a productive customer and historically in the private sector private enterprise a manufacturer takes good care of his customer's potential to make sure that he doesn't lose that customer during a time of credit difficulty.

That is wise policy in the private sector and it's wise policy for the Federal Government. Don't kill off the market of the Northeast or of New York State and New York City. We want to buy. We have bought historically. We can only buy if we are at work, employing ourselves, and not living off transfer payments.

But I do want to explode the mythology that the great wealthy State of New York can subsidize anywhere else in the country or indeed the Middle East.

But we do have a great resource, Senator Moynihan said, and the talent of our people, it's still there, can be developed Senator Javits. I'm sure of that.

My time's up, Governor, and I thank you. I assume you will carefully examine the report of the Comptroller General to see where the State of New York can help as well even further.

The Chairman. Gentlemen, what we are talking about is whether or not the seasonal loan in effect which, we are anticipating whether or not he seasonal loan should be extended. That is going to be a real issue before the Congress.
You make a very powerful argument it should be extended and the President has indicated he's made up his mind on it. I don't think the Congress has.

In my judgment, the Congress now would be opposed to it. I say that although it's been a good deal for the Federal Government, it's made money on it.

The benefits to the Federal Government have been about $20 million over the cost of the interest because it's been paid back to the Federal Government.

Furthermore, it is a seasonal loan, it was paid back in full last year, it's going to be paid back in full this year.

Then, of course, the loan will continue through 1977 and the first half of next year.

Nevertheless, I think that the attitude on the part of Congress makes some sense, because of the strong feeling that we should not permit any city in this country to feel the Federal Government will be a lender of last resort and not matter what they do the Federal Government is going to step in and provide us guarantee or seasonal loan or some kind of relief or standby loan or whatever.

If we provide that standby loan for New York, then it seems to me we are in a position that we are being required to provide the standby loan for other cities.

Where do we draw the line? If you do that you lose your discipline. You just have to have, it seems to me, some sort
feeling on the part of cities as well as states that they have
to say no, they have to be willing to stand up against tough
pressure to increase pensions and increase the pay and increase
all kinds of things they would like to have in the city, but if
they do, then they are going to be in trouble.

Senator Javits. Would the Chairman yield momentarily?
The Chairman. Yes.

Senator Javits. I hope the Chairman will not mind if I saw I think, sure, you have got to be tough and make hard decisions, et cetera. But I don’t see as discouraging the prospect in the Congress as the Chairman in view of the distance which New York has come and the sacrifices which it has obviously made.

I really, with all respect, think that there is a better chance to get help for New York from the Congress than that appraisal would indicate.

I think our colleagues are showing in respect to their consideration the formull and realizing that the pendulum has swung too heavily against our older cities and the northern part of our country, that they understand a thing or two beyond the parochial view.

I am really hopeful, Mr. Chairman, that you will look into this question further yourself and have a little confidence in the fact that we do realize when people have sacrificed and strained, and that we are not quite as closed on that proposition as was indicated.

The Chairman. Well, yes, the reason I made the statement is because I wanted to set the scene for questioning Mr. Rohatyn on whether New York City can get back fully in the credit market after 1978.

You have expressed caution about that. You have
expressed some concern, some feeling, it probably cannot.

But let us start with two or three things I would like to ask you about.

Mr. Rohatyn, you note in your statement that negotiations between the city, the banks, and pension fund earlier this year over repayment of the moratorium notes broke down. They broke down over the issue of establishing a long-term fiscal overseer for the city as a successor to the state’s Emergency Financial Control Board which goes out of existence as I understand it December 31st, 1978.

You say you believe that establishing something of this sort is an absolute necessity for getting back into the long-term market; is that correct?

Mr. Rohatyn. Yes, Senator, I do.

The Chairman. Is it also needed for the city to do any short-term seasonal financing after fiscal ‘78?

Mr. Rohatyn. I think the City has that, Senator, in that the Emergency Financial Control Board will be in existence through any foreseeable short-term financing maturities because it will stay in existence, I believe, until December 31st, 1978.

Any seasonal financing that the city will do will expire by nature expire January 30, ’78.

So you do have that mechanism.

The Chairman. I am talking about that that expires after

Mr. Rohatyn. I don't think that is --

The Chairman. Will that be compromised by the absence of this kind of overseer?

Mr. Rohatyn. Short-term financing? It should not be technically. If the financial institution is willing to cooperate, and I think they should be.

The Chairman. Then you say we have our own view at MAC about the kind of mechanism that might be appropriate for providing some long-term fiscal oversight of New York City. What are your views on that question? How should it be done?

Mr. Rohatyn. First of all, Mr. Chairman, we question, really, the need on the long-term basis to have two budding bureaucracies in effect, MAC, and another review board in being for twenty years to compete with each other on how to criticize the city.

I think that MAC has a number of statutory powers which could be added to, and which could then in effect create a son of MAC, if you will, to stay in being for twenty years, and to perform that function.

We also feel that there is a difference in the powers that that board might be given during a period of fiscal balance during which the power of that board might be limited to in effect review and comment and public disclosure and the
kind of trip wire mechanism whereby once the city goes into
deficit by more than say 2 or 3 percent of its budget, the
MAC would be in effect given the statutory power to require
the city to cut its budget by an amount determined by it,
obviously within priorities set by the elected officials.

But in effect a stop-go mechanism, whereby, as the
city is in balance, the power is one of review and disclosure,
once a trip wire is triggered and the city goes out of
balance, the board has the power to require budget reduction.

Gov. Carey. Senator, if I may, Mr. Rohatyn really
deserves the credit for the MAC acronym and he just mentioned
son of MAC. But let us be careful because whatever the
instrumentation would be, it wouldn't be Mac the Knife. But
it might well be Mac the Midwife which helps the city to
deliver.

The Chairman. Then that would have to be daughter of MAC.


Senator Schmitt. Mr. Chairman, I have neglected, if I
may interrupt to say that Senator Garn had some questions that
he would like the witnesses to answer.

The Chairman. Without objection, if the Governor would
permit, we will submit some questions to you for the record.

We are concerned about the MAC stretch. Suppose to save
the city $250 million in fiscal '78. Pension fund went along
with it finally in '77, the banks did not. Neither party has
yet agreed for '78. What has been delaying any agreement
on that issue? Why are you hopeful that the negotiation with
the banks and pension funds will succeed?

Mr. Rohatyn. Well, as I understand it, what is
delaying the issue right now is that the MAC stretch has
been conditioned by the banks upon a simultaneous settlement
of the banks' and the city's litigation with respect to their
1085 cases, their liability cases in terms of the disclosures
in previous offerings.

I am personally rather skeptical that that issue will be
settled by June 1st which is when we have told the city we
would like to see either the MAC stretch in being or
alternative programs submitted.

The Chairman. When do you expect final agreement on it?

Mr. Rohatyn. I am not at all sure that that won't
take some time, Senator. But I believe, and this is my
personal belief I am giving you, that a resolution has to be
found between the banks and the city and the pension systems
on at least maybe the first year of the stretch regardless
of the settlement of these lawsuits.

The Chairman. What other problems need to be resolved
in order for the city to get back into the credit markets?

For example, I understand the banks hold $548 million
in short-term city notes which they agreed to extend in '75
when the Moratorium Act was passed. However, when the Court
of Appeals overturned the moratorium, the banks petitioned
the Court to require that the notes be repaid as well.

Petition was denied without prejudice to further action.

Have the banks taken any further action to obtain
repayment of those notes?

Mr. Rohatyn. No, sir. The banks are in the same
position as the pension systems and I believe the pension
systems together with the banks hold about 800 million of
those notes.

It is my judgment that those notes will ultimately --
there will be a negotiation and those notes will be converted
into some kind of city bond or MAC bond and the disposition
of that issue will not be a particularly burdensome problem.

The Chairman. It has been charged that New York City
clearinghouse banks sold off about $2.5 billion in New York
City securities in '74 and early '75 without informing their
customers that they knew the city was heading into a default
situation.

There is a lawsuit pending on that matter and
investigation by the SEC and State Office of Legislative
Oversight Analysis.

Could that situation pose a problem for New York City's
efforts to get back into the private credit markets in fiscal
'78 and beyond?

Mr. Rohatyn. You mean the existence of an ongoing
investigation, Senator?

The Chairman. Yes, sir.

Mr. Rohatyn. Well, I would expect that a financial report on the investigation ought to be forthcoming reasonably soon.

I don't believe that that issue itself is going to be a problem in terms of the city reentering the market. That issue really gets wrapped back into the issue of the legal lawsuits that the city and banks are trying to resolve in connection with the MAC stretch. But I don't think that particular issue poses a problem in terms of —

The Chairman. As you know, the credit agreement per pursuant to the seasonal financing requires quote the city use its best efforts on an average July 1st, '77, this year, only three, five, or six weeks away, to meet the seasonal borrowing needs of the city without resort to federal loans.

Last year the city came in for a Treasury loan of $500 million on July 1st. Right after they had paid it back in full. This year's needs are expected to be about the same.

Will the city try to go to the market and raise that $500 million in late June or early July as the credit agreement directs?

Mr. Rohatyn. Well, the city, as far as I know, Senator, certainly intends to negotiate with the banks with respect to that issue very, very soon. Whether they can succeed in
getting the banks' agreements to participate in that kind of financing as of July 1st is something that --

The Chairman. Right now I am talking about going to the market.

Mr. Rohatyn. They can't go to the market without having the banks on board on this issue.

The Chairman. If they get the banks on board --

Mr. Rohatyn. If they get the banks on board, it is no problem. If they don't get the banks on board, they won't be able to do it.

In my judgment --

The Chairman. See if I understand that. You are saying if they get the banks on board they will be able to go to the market and you won't have to borrow $500 million from the federal government after July 1st?

Mr. Rohatyn. I am sorry, I didn't say they would eliminate any need for federal financing. I think if they get the banks on board in terms of creating a mechanism for seasonal, for commercial participation in the seasonal financing loans beginning July 1st, they may in effect be able to lay off some of those loans on the banks and private sector but not in toto.

Again I question whether they will be ready to do that by July 1st.

The Chairman. If the banks are not on board, what is
the prospect?

Mr. Rohatyn. Then I think the prospect is very dim.

The Chairman. You wouldn't be able to go to the market for any part of this?

Mr. Rohatyn. That's right. But the banks really, once the EFCB has signed off on the budget, which is a precondition, there seems to be professionally no technical or credit problem in having the commercial sector participate in the seasonal loan.

The Chairman. Then you think there is a pretty good chance the banks will be cooperative and, when would you be able to go to the credit markets for some of this?

Mr. Rohatyn. Again, I am giving you personal judgments. I believe that the banks will probably still for some period of time attempt to tie this particular issue, the issue of short-term seasonal financing, with the whole issue of the city bond and long-term overview.

As I said earlier, I believe that for a whole variety of reasons this may not be an issue that can be resolved before the fall because of the election race that is currently taking place.

The Chairman. Then you say in the fall you will be able to go --

Mr. Rohatyn. I would certainly think that would be the latest.
The Chairman. CAU has suggested if the city is not able to reenter the credit markets in fiscal '79, then MAC would be a potential source of funds for the city. Provided its debt limit were raised accordingly.

Since the states are responsible for the responsibilities for their cities, as I have pointed out earlier, MAC would appear to be the logical vehicle for financing the city to the extent it cannot do so on its own.

Are you developing any contingency plans for enabling MAC to perform that role, if necessary, after June 30, '79?

Mr. Rohatyn. We are currently, Senator, looking at our own debt limits and our coverage and our future, the city's future requirements.

Obviously we may well go back to the states and ask for some lifting of our debt limit, provided, however, that we will stay within our coverage tests.

We do not want to go below a two-to-one overall coverage and the one and a half-to-one coverage on the sales tax. For our first resolution bonds now.

We have second resolution bonds where we have somewhat more leeway.

We will, first, try very hard to get our ratings back from both agencies. We are going to do some financing at the end of the month or at the beginning of next month to help the city out of its problems as a result of this problem they have
with Mitchell-Lama.

We will probably go back to the state and ask for some
lifting of our debt limit.
The Chairman. I am going to run over my time to ask for two more questions because I think it is important to put these into sequence if Senator Javits permits.

Senator Javits. I have nothing.

The Chairman. You have done a marvelous job, I think the whole country, as well as the City and State of New York owes you thanks for the fine job you have done, for restructuring the federal burden and your work as head of the debt system, but it's been charged that you have been too generous in the terms you have offered investors at high expense to the City.

I realize you don't want to take a chance on failure but the recent MAC exchange offer for moratorium did sell out for $400 million, that is not too surprising when you were offering 9-3/4 tax-free interest rates, meaning a yield for a 50 percent income bracket of about 20 percent.

Furthermore, you record $8 million in fees paid for marketing the swapover. What is your defense against the charge that that is excessive?

Mr. Rohatyn. Well, Senator, may I just take two minutes and take you through how we did the excahnge offer and then you will see that I don't need any defense.

I do need to go back to the private sector soon but that is a different issue.

We wanted to sell $500 million of MAC bonds publicly
and we felt in December we were told we could do it at 9 percent. We went to the banks and we went to our investment bankers and scheduled them to underwrite an issue. The banks said, gee, we are very sorry; we can't underwrite your issue as long as the constitutional case has not been decided in the Court of Appeals.

We went to the investment bankers who said, gee, we don't think that case is very bad but we can't underwrite your bonds as long as the banks won't.

We went to the Court of Appeals and asked them to accelerate the case and they said, gee, we are very sorry; we can't do it.

In the meantime, the City's plan to refinance the billion dollars was beginning to fall apart because the Mitchell-Lama program was lagging.

We called our investment bankers back in to advise us on the rate we would have to put on an exchange offer, since we didn't have underwriting available to us at the time.

The public marketplace seemed to indicate that around 9-1/2 percent by then, since we had lost the December market, was probably a doable proposition.

Our investment bankers said, we would have to put at least a 10 percent rate on offering in order to have a chance of success. We asked them if they would be willing to act as our agents in that kind of an exchange offer.
Even though we weren't willing to pay that rate. They said, no, they would not be willing to do that unless we paid at least 10 percent, and also put us on notice that if we failed in our exchange offer, the state's financing which was coming up three weeks later would be put in jeopardy.

With that they wished us luck and left the room.

I called the Governor and told him the notice that we had been put upon and also told him that it was our advice that we would not do 10 percent.

But to be on the safe side, since we couldn't afford a failure even though the market might indicate 9-1/2 percent we would go to 9-3/4 percent. But that we would shorten the period during which we couldn't call the bonds from five to three years so as to shorten the period during which these bonds would be a burden to the City.

Since we didn't have an underwriting group that was willing to work with us, we took the commissions that we would have paid the underwriters and, in effect, allocated them to the broker/dealers who would being the notes in.

The Governor who was both charming and courageous, told us that if our judgment was to go at 9-3/4 percent, he would stand by us, although he'd be put on notice that if we failed the State would fail. And so we closed our eyes and held our nose and jumped out of the airplane and it was a very lonesome, cold and wintry feeling out there because everybody walked
away from us. We did get --

The Chairman. Turned out to be a great success.

Mr. Rohatyn. It turned out to be a great success, Senator. We didn't have any alternatives but success. Because if we had failed the whole edifice would have come down. It may be we paid a half-percent more than we should have, we didn't have the luxury of making a lot of studies. We didn't have the luxury of waiting for the Court of Appeals to come in with its opinion.

The Chairman. Those $8 million in fees, in retrospect, do you think that was necessary?

Mr. Rohatyn. Absolutely, Senator. I have absolutely no qualms about that. We would have paid more than $8 million in fees if we would have had an underwriting group which we didn't have.

Gov. Carey. If I may comment in retrospect, the reason MAC was created and MAC did what it has done so fantastically under Mr. Rohatyn's leadership and with the other members of MAC on board, was that the City disappeared from the credit market. Failed to penetrate the credit market with full faith and credit notes of its own in the April period of 1975. At that time it was seeking buyers at 11 percent and over and had no takers. So the 9-3/4 MAC bonds should be viewed in that historical concept.

Mr. Rohatyn. The point I am trying to make, Senator, is,
we are prey to an irrational credit market. Anything that is related to New York or MAC is for the last two years, has had to pay in my judgment usurious rates.

But we have no control over the market. One of the arguments it seems to me for federal involvement in access to markets is that it is unconscionable for us to have had to have paid these kinds of interest rates when we have obviously good credit.

The Chairman. That's right, good credit and 9-3/4 tax-free.

Mr. Rohatyn. It is scandalous, Senator, I agree. But we had absolutely no choice.

The Chairman. One other item. According to your first annual report MAC spent $2.9 million in lawyer's fees between June 10, 1975 and June 30, 1976, one year. Most of this in connection with debt issuance and service. That amounted to almost half of your $6.1 million first year budget.

During that period of time, major corporations in the City were giving their top executives time, usually free of charge, to help the City out of its financial problems. Close to $3 million in lawyer's fees sounds like a lot of money to me. Are these lawyers getting rich at the expense of a city with its back to the wall and while 60,000 city workers are being laid off? What was the reason for the, what seems like extraordinarily high legal fees?
Mr. Rohatyn. Senator, the inflation in legal expenses is catastrophic.

But again, all our legal fees are pre-audited by the State Comptroller and pre-approved by the State Comptroller before we pay them. The lawyers are charging us rates --

The Chairman. Has the State Comptroller ever turned down legal fees being too high?

Mr. Rohatyn. Yes, sir, and we have renegotiated them downward.

The Chairman. When?

Mr. Rohatyn. During the year.

The Chairman. Involving this particular item?

Mr. Rohatyn. Involving parts of these items that are in our expense report, yes, sir.

The Chairman. So, that it would have been higher still it hadn't been for the State --

Mr. Rohatyn. Yes, sir. I will be glad to join any crusade, Senator, in terms of lowering legal fees and reducing the amounts of time we spend with batteries of lawyers.

Gov. Carey. If I might, Mr. Chairman, as a member of the profession [no longer actively practicing], I do think that Senator Javits, distinguished member of the Bar of New York State, would agree, you can hire losing lawyers for a lot less. We couldn't afford to lose these cases.

I have never seen such ingenious and, frankly, innumerable
matters of litigation were generated because of the very existence of MAC. And the case law has overloaded our Court of Appeals and we have had to expedite decisions. I am not making a plea for justification of legal fees in high amounts; but very frankly, if we went out shopping for bargain lawyers we might have lost some of those cases. We had good representations. We had to pay for it.

Mr. Rohatyn. I would like to support that statement, Senator. Paul Weiss has done, we have three sets of lawyers.

Senator Javits: Who are they?

Mr. Rohatyn. Paul Weiss, general counsel for MAC. Hawkins Delafield who are bond counsel. Then we pay for he counsel for the trustee of our bonds, I believe that is White and Case. Then, occasionally we have had to, as part of the negotiations with our underwriters pick up part of their expenses. It is -- I believe our general overhead at MAC is some $500,000.

The Chairman. Do these lawyers ever do this pro bono public company?

You have had some marvelous executives working for you here for virtually nothing. I know that.

Do lawyers ever do that?

Mr. Rohatyn. Well, the lawyers, Senator, I believe are taking the position that they are doing it at less than
market rates, and that some of them are doing it on an
individual basis, pro bono, that is the best answer I can
give you.

Senator Javits. Mr. Chairman --

Gov. Carey. All those fees are actually taxable income
in New York State.

(Laughter.)

Senator Javits. I would suggest -- we got some of our
money back. I think I understand the situation, having
myself headed a large law firm, in terms of the hours spent.
Therefore, I would suggest to the Chair that, as a rough
measure of value, we have some estimate of the number of hours
spent by the various firms at the various echelons of charge,
that is, juniors and senior lawyers, partners.

The Chairman. Good idea.

For the record, could you give us that?

Senator Javits. I think that will be helpful to the City
and the State because in a case like this, it is a fact that
an enormous number of people have to be put on it for very
considerable periods of time including weekends and nights,
and it gets very highly pressured.

So, I think that is really the most -- and I am sure that
is what Levitt audited.

Mr. Rohatyn. The Comptroller audited the charges and
hours.
The Chairman. I have more questions but the hour is late. We have another witness coming up, Mr. Lowe.

We want to thank you very much.

I understand neither Senator Javits nor Senator Moynihan have other questions.

Again, a superb performance, Governor, Mr. Rohatyn and gentlemen. We appreciate very, very much your help to the Committee.

You have made a fine record.

Senator Javits. I might say a superb performance by the Chair as well.

Senator Moynihan. May I endorse that view, sir? You are tough on us in the nicest possible way.

We appreciate it.
On December 21, 1976 I last appeared before this Committee with what I described as a "positive outlook" regarding the City of New York's ability to eliminate its operating deficit as required by the Financial Emergency Act, and its ability to improve its mechanisms for financial planning and management.

At the same time I stated that the most critical factors contributing to the New York City's economic recovery were those which existed outside of the control of State and City government.

These basic propositions -- that New York City government is adhering to its statutory obligations, and that the vibrancy of all our cities remains a matter to be addressed at the national level -- are as true today as they were five months ago.

Today, I return to tell you that while the sense of emergency which characterized New York City's financial affairs for the past two years appears to have subsided, the economic well-being of New York City is still far from assured.

For while New York City...
For while New York City has been shown to be credit-worthy through its prompt repayment of loans under the Seasonal Financing Act, and while steps have been taken to restore investor confidence, New York City still faces tremendous difficulties.

New York City’s performance during this fiscal year will show that it has lived within the financial plan.

It has developed what appears to be a balanced budget for the coming year.

That budget, when incorporated into the financial plan by the Emergency Financial Control Board, will represent a continuation of the joint City and State effort to restore New York City’s fiscal integrity.

This effort has been monumental.

It represents the fulfillment of a promise which I made to you when New York City first obtained its Seasonal Financing aid that New York State would require the New York City government to do what was necessary in order to restore its credit worthiness.

New York City has repaid all of its federal Seasonal loans as scheduled, and will continue to do so.
This extraordinary partnership of State, City and Federal government, has brought New York City and its residents from the dark and gloomy days of less than two years ago when the first message sent to New Yorkers from the national capital was that no help would be made available.

But as the Congress then accepted a part in reaching a solution, you now also share credit for the success to date in alleviating New York City's most immediate financial problems.

It would not, however, serve any of us to pretend that the outlook for New York City is entirely optimistic or that there are not major hurdles to be overcome.

Central to New York City's fulfillment of its obligations to the Federal and State Governments is its responsibility to adopt a balanced budget for the coming fiscal year.

The Control Board will not accept the proposed budget without first subjecting it to careful review.

There are significant...
There are significant portions of the budget which rely upon uncertain funding sources, including a federal contribution in the form of countercyclical assistance, and a restructuring of outstanding Municipal Assistance Corporation obligations that must be in place before the Control Board incorporates the budget into the Financial Plan.

If this is not the case, New York City officials have committed themselves to revise its budget to reflect any necessary adjustments.

We have been assured by New York City officials that as difficult as this contingency may be, they are prepared to undertake their responsibility to amend the budget should the circumstances so require.

The financial crisis has posed many difficulties. But while New York City has made great progress in balancing its budget, the urgency and priority of financial reform has left many citizen needs in New York City largely unattended.

New York City is pioneering in developing a management information system, which will provide a uniform data base and accounting codes, responsibility center budgeting, expanded information capabilities and better controls on accounting practices.

But these are...
But these are technical tools.

New York City must still address basic governmental questions concerning management strategy and service delivery needs and goals, so that in the end, it can continue to meet the needs of its citizens.

In this regard, New York State has shown the lead in gaining control of its own financial difficulties while preserving and improving service delivery.

Although it received far less attention nationally than the fiscal plight of New York City, the State of New York, in 1975, faced its worst fiscal crisis since the Depression.

As a result of expenditure patterns which had developed over the previous years, when I entered office in 1975, I found the State and its agencies to be in an extremely precarious fiscal position.

The Urban Development Corporation was in extreme financial difficulty.

Many State agencies had inadequate resources to fund soaring expenditures.

The State was unable to meet its borrowing needs in the private markets.

This crisis in State financing coincided with the financial collapse of the City of New York.

During the past...
During the past two years, we have been successful in both re-establishing a sound financial structure for the State and, at the same time, making enormous contributions to the alleviation of New York City's financial crisis.

The State of New York has stabilized the operations of its troubled agencies, has produced balanced budgets, and has, this spring, been able to finance its seasonal borrowing needs at extraordinarily low rates of interest.

It has done so through tight constraints on wage and salary increases and successful new programs to contain costs, particularly in the area of health and social services.

In the process, New York State by saving money itself has been able to contain social service costs for its localities.

New York State has challenged the myth that citizens can measure the services they receive by the amount of money government spends.

New York State restored its fiscal health, and it did so without the assistance of the federal government.

This is an achievement of which the State can be justifiably proud.

The fiscal recovery...
THE FISCAL RECOVERY OF THE STATE, WHILE DRAMATIC, IS STILL DEPENDENT ON A FRAGILE BALANCE OF IMPROVED MANAGEMENT PRACTICES, TIGHT CONTROL OVER THE VERY MARGINAL PROJECTED GROWTH IN STATE EXPENDITURES, AND SUCCESSFUL EFFORTS TO STIMULATE THE DEVELOPMENT OF THE STATE'S ECONOMY.

I AM COMMITTED TO MAINTAINING THAT BALANCE.

IN ORDER TO DO SO, IT IS ESSENTIAL THAT WE RECOGNIZE THAT THE STATE WILL NOT BE IN A POSITION TO PROVIDE LARGE AMOUNTS OF ADDITIONAL ASSISTANCE TO ITS LOCAL GOVERNMENTS.

TO DO SO WOULD RISK WHAT HAS ALREADY BEEN ACHIEVED ON A STATE-WIDE BASIS.

INSTEAD, THE SOLUTIONS TO THE LONG TERM FINANCIAL PRESSURES DRAINING THE RESOURCES OF LOCAL GOVERNMENT MUST BE ADDRESSED NATIONALLY.

BUT EVEN WHILE THE STATE STRUGGLED TO AVOID FINANCIAL DISASTER, IT FOUND IT NECESSARY, AND SUCCEEDED, IN PROVIDING EXTRAORDINARY ASSISTANCE TO NEW YORK CITY, TO YONKERS, AND TO OTHER FINANCIALLY TROUBLED COMMUNITIES.

FOR EXAMPLE, NEW YORK STATE...
For example, New York State has assumed the cost of programs formerly financed by New York City including a greatly increased contribution to the City University and to the operation of the Court System.

It has provided $800 million in annual advances of State aid to the City.

I have also urged upon our Legislature reforms in the State-wide education funding formula.

Some of these were enacted, although the changes do not provide as much support to urban districts as I proposed.

Efforts to develop a cost containment package for Medicaid and other health related costs have also been successful and have financial benefits for New York City.

These reforms, undertaken at my urging, are a demonstration of New York State Government's commitment to a just and fair treatment for all local governments.

Even with this rapid expansion of State Assistance which has taken place in the past two years, New York City must still face the bleak prospects contained in its own revenue forecasts, which when projected forward for the next three years show that while the current financial emergency is being managed, great problems lie ahead.

New York City's own...
New York City's own forecasts, and those made by others show that absent relief from some of the costs now borne by local government, such as welfare, local resources will be insufficient to maintain the current level of governmental services.

In addition, New York City also faces the challenge of obtaining a truly balanced expense budget -- one which removes all expense budget items from the capital budget. New York State law requires that this be done over a period of ten years and to date, New York City's progress has been satisfactory.

New York City will also attempt borrowing in the private money markets shortly, an effort required by the Federal Credit Agreement.

Despite its accomplishments, New York City must still be concerned that the attitudes of the private market may keep the doors closed to private financing.

However, there are many developments from outside New York City which provide encouragement. Recovery in the national economy has helped New York City, though the city still lags behind the national norm.

At present, national...
At present, national unemployment for April is 6.9%, while unemployment in New York City for the same period is 10.1%.

The Congress' sense of priorities about the need to address Urban America's problem has resulted in greater assistance to local governments.

I would be remiss if I did not express my appreciation to the Congress for its active role in developing more positive governmental policies for the urban areas of our nation.

The economic stimulus programs enacted by Congress in recent years, which provided considerable aid to urban areas, are tangible demonstrations that the Congress recognizes the need to ensure that all segments of American society share in the gradual process of economic recovery.

Yet in spite of this, New York City faces its own very significant problems.

It is a City with a large needy population. It is also a City with an eroding tax base with which to provide for basic needs.

As the recent...
As the recent GAO study of the long term fiscal outlook of New York City reported to you, the pressures on New York City are those forced upon it by an ever shrinking resources base.

And whatever solutions we shape by way of management reform must be augmented and complimented by programs from Washington which deal with our systemic problems.

The GAO report considered several policy options for the Federal government which would ease the financial strains on urban areas, particularly those in the hardpressed Northeastern region.

It explores, for example, various methods for federal assumption of the cost of welfare programs, the impact of a variety of more activist Federal health policies, and the possibility of increased countercyclical funding of aid programs.

The report also discusses the precedents at the Federal level for intensive regional economic assistance programs of the kind which could be the underpinning of the economic revival of the Northeast.

All these options...
All these options suggested by the GAO merit close study by Congress.

There is no grand design which will maintain New York City's position as a unique and vital urban center. But certainly one problem at the root of New York City's fiscal crisis and central to the fiscal problems of New York State and other urban areas is the failure of the federal government to adequately address the problem of welfare reform.

Local and state governments do not have the necessary resources to continue the present pattern of funding welfare costs.

Even with the most successful cost containment programs, the burden of welfare funding is gradually pushing governments throughout the country toward financial crisis.

Only a federal assumption of an increased portion of the costs of welfare will allow a stabilization of local and state budgets which will enable those governments to concentrate on providing the other basic services for which they have primary responsibility.

Just as all...
JUST AS ALL OF OUR URBAN AREAS WILL BENEFIT FROM WELFARE REFORM TO RELIEVE THEM OF THIS CRUSHING BURDEN, THEY ARE ALSO IN NEED OF OTHER FORMS OF FEDERAL HELP.

ALL OF OUR URBAN AREAS WILL NEED FEDERAL ASSISTANCE IN CONTROLLING HEALTH CARE COSTS; ALL OF OUR CITIES NEED MORE FEDERAL HELP TO STEM THE TIDE OF URBAN DECAY; ALL OF OUR CITIES WILL NEED ECONOMIC AND JOB DEVELOPMENT PROGRAMS TO STABILIZE THEIR TAX BASE.

AND FINALLY, WHEN MUNICIPALITIES FIND THE PRIVATE CAPITAL MARKETS CLOSED, THEY WILL NEED TO HAVE A MECHANISM AVAILABLE WHICH ALLOWS THEM TO OBTAIN FINANCING AT RATES THAT ARE NOT USURIOUS.

WE DO NO LESS FOR FOREIGN COUNTRIES -- WE SHOULD DO AS MUCH FOR OUR OWN PEOPLE.

NEW YORK CITY IS PARTICULARLY ABLE TO MAINTAIN ITS HISTORIC POSITION IF IT CAN DEPEND UPON A REASONABLE SHARE OF FEDERAL ASSISTANCE.

FOREIGN INVESTORS HAVE BEGUN TO RECOGNIZE THAT THE CITY PRESENTLY HAS AN EXTENSIVE AND HIGHLY TRAINED LABOR POOL, A CONCENTRATED AND WELL-DEVELOPED SET OF SERVICE INDUSTRIES, AND A COMPREHENSIVE AND SOPHISTICATED TRANSPORTATION NETWORK WHICH IS ECONOMIC AND ENERGY-EFFICIENT.

THIS SYSTEM WOULD ...
THIS SYSTEM WOULD BE GREATLY ENHANCED WITH AN EQUITABLE SHARE OF FEDERAL MASS TRANSIT ASSISTANCE.

I CANNOT CONCLUDE WITHOUT DRAWING TO YOUR ATTENTION THE CONSIDERABLE PROGRESS WHICH HAS BEEN MADE IN DEVELOPING PLANS FOR RESTORING THE BASIC ECONOMY OF NEW YORK CITY -- PLANS WHICH WILL BE REALIZED THROUGH THE COOPERATIVE EFFORTS OF NEW YORK CITY, THE STATE AND THE FEDERAL GOVERNMENT.

NEW YORK CITY HAS REORGANIZED ITS AGENCIES RESPONSIBLE FOR ECONOMIC DEVELOPMENT AND HAS CREATED A DEVELOPMENT PLAN WHICH IS NOW IN THE EARLY STAGES OF IMPLEMENTATION.

THE FEDERALLY ASSISTED WESTWAY PROJECT WILL BOTH PROVIDE JOBS IN THE IMMEDIATE FUTURE AND BE A LONG TERM STIMULUS TO THE ECONOMIC REVIVAL OF THE BUSINESS CORE OF NEW YORK CITY.

NEW PLANS FOR THE CONSTRUCTION OF THE CONVENTION CENTER ARE A MAJOR STEP IN REINFORCING NEW YORK CITY'S ROLE AS A CENTER OF TRADE AND TOURISM.

PROGRESS TOWARD THE STABILIZATION OF NEW YORK CITY BOTH FINANCIALLY AND ECONOMICALLY IS A TRIBUTE TO THE CLOSE COOPERATION WHICH EXISTS BETWEEN THE FEDERAL, STATE, AND CITY GOVERNMENTS.

MY OFFICE, THE...
My office, the staff of the Emergency Financial Control Board, and the City administration have worked long hours to ensure the success of the efforts to first rescue the City and then set it on a firm course toward the future.

The continuation of these joint efforts should be a source of great encouragement to us all.

I can say as Governor of New York State that I welcome the progress we have made together during this most critical phase of New York City's financial emergency. If we have learned anything from this experience it is that just as our problems are interdependent, so must be the solutions to them.

I look forward to the continued cooperation of the Congress in meeting the needs of the people of New York State and New York City.
I am happy to be here to share with you my perceptions of the progress that has been made toward stabilizing the financial condition of New York City.

Since the onset of the financial emergency in the Fall of 1975, the movement toward recovery has been a joint effort among New York City, New York State, the Federal government, and numerous private parties.

The success to date has been dependent on that cooperation.

I am confident that we will be able to rely on the continued cooperation of all parties through the remainder of the financial emergency period and in the subsequent crucial period of transition.

During the last year...
During the last year, the City has made substantial progress toward reducing its operating deficit, as required in its financial plan, and toward improving its mechanisms for financial planning and management.

Barring an unfavorable impact upon the operating budget resulting from the recent State Court of Appeals decision concerning the moratorium, there is reason to be optimistic about the City's ability to control its own operating expenses during the coming years.

The major source of difficulty in the area of expenditure control which still confronts the City concerns some of the municipal agencies not under the direct control of the Mayor, particularly the Health and Hospitals Corporation and the Transit Authority.

Failure to develop...
Failure to develop financial plans for these organizations with balanced budgets, will inhibit the effectiveness of the City's overall plan to eliminate its budget deficit by fiscal 1978.

This basic positive outlook must, of course, be tempered by a realization that events outside of the control of City and State government could occur which would have a major negative effect on the City's financial progress.

The moratorium decision has substantially increased the complexity of the solutions needed to maintain fiscal soundness through 1978.

You should be assured that every effort is being made to solve the problem of retiring the debt that had been placed in moratorium without jeopardizing the efforts to balance the City's budget in fiscal 1978.

Felix Rohatyn is sitting here with me.

As Chairman of the Municipal Assistance Corporation, he is an active participant in discussions dealing with these important questions.

The progress that has...
The progress that has been made to date cannot be the basis for assuming that any of the parties whose cooperation has been essential in the past may now withdraw from the spirit of cooperation without destructive consequences.

Certainly the State of New York will keep its commitment to do everything possible within the limits of its resources to assist the City.

In a more general way we have every hope that the Federal government will also employ its resources to facilitate the financial stability and well-being of American cities.

In your recent letter to me, Senator Proxmire, you expressed concern for the financial stability of the City after June, 1978, when the Federal seasonal loan program is scheduled to expire.

I share this concern.

I do not believe...
I do not believe it can reasonably be expected that the City will make a magical transition from financial distress in fiscal '77 to unshakable financial health in fiscal '78, absent other activities, such as a greater Federal recognition of the nation's overall urban ills.

The Federal government together with all other institutions, public and private, must be willing and ready to consider actions in the months and years ahead which will ease the burdens of New York City and other cities throughout our country.

The precise form of cooperation needed from the Federal government cannot be defined at this time, but there can be little doubt that a program of continued involvement is essential -- and will be especially pertinent to the question of this City's access to markets after the successful conclusion of the current three-year plan.

You raised a...
You raised a question in your letter announcing this hearing regarding your committee's recommendation that the State take steps "so that the State can lend to the City if it is unable to meet all of its credit needs in the private market after June 30, 1978."

While we all recognize that the New York State government must continue to play a leading role in New York City's fiscal recovery in the period following July 1, 1978, it must be remembered that the budget of New York State is smaller than that of the City.

The State has not shirked in its duty so far and we do not intend to begin passing the buck now or in the future.

Mr. Chairman, I wish to submit for the record at this point the full views of Mr. Arthur Levitt, Comptroller of the State of New York on this question.

Mr. Levitt...
Mr. Levitt, as you know, is both well known and highly regarded in government and in the investment community.

His opening comments set the tone, however, as Mr. Levitt observes:

"I have two serious objections to amendment of the State constitution, as proposed by the Senate Banking Committee, to permit issuance of State bonds to finance loans to New York City.

"First, it would undermine one of the main bulwarks protecting the State against future pressures for overextension of its credit.

"Second, it would have the immediate effect of making much more difficult, perhaps impossible, the State's annual borrowing for its own operations and for scheduled regular aid to its local governments.

"I am confident that responsible leaders of the investment community would agree with this appraisal.

"I urge strenuous efforts to persuade the Committee and its chairman, Senator Proxmire, to reconsider the proposal."

Mr. Chairman...
Mr. Chairman, the State has been making full use of its available legal powers and financial resources in its efforts to stabilize New York City's financial situation.

The State has created a new financing agency for the City (MAC); it has created a board to review and approve the City's efforts to balance the budget (EFCB); it has advanced State funds for the preservation of higher education (CUNY); it has taken over the costs of operating the courts on an increasing basis over the next four years; it has advanced $800 million in State reimbursables; it has altered the administration of many of its own programs to facilitate the City's recovery and to accommodate the City's needs.

However, New York State must be prudent in protecting its own access to the private capital markets if it is to continue to play a central role in the cooperative efforts being exercised on behalf of the City.

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The ability of the State to carry the load of assistance to the City by itself on July 1, 1978, must be realistically appraised here in Congress just as it is being studied in the bond markets and by private financial institutions throughout the country.

We have already learned that New York State's debt incurring capacity is not limitless.

Our recent experience with the Urban Development Corporation, and other "moral obligation" bond issuing mechanisms, has caused a thorough re-evaluation (by the bond market community) of the State's capacity to incur debt.

The March 1976 report of the commission appointed to review the Urban Development Corporation and other debt incurring authorities and corporations found that "The present credit crisis in New York State has arisen in large part because the public debt of the State, its agencies and authorities has been allowed by its leaders to grow more rapidly than the State's ability to support that debt."

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"While the State's economy was slowing down during the past decade, these leaders were permitting debt accumulation to speed up instead of putting on brakes.

"Optimism clashed with reality and responsibility was the victim."

Your committee also recognized the situation facing the State of New York both because of the City's financial problems and due to an entirely separate series of problems relating directly to the State.

This Committee in its May 16, 1976, report found that:

"New York State has encountered unusual difficulty in marketing its obligations this year, despite a balanced budget, a history of high bond ratings, and no tradition of financial gimmickry.

"The State's problems have stemmed largely, though not wholly, from its association with the City's financial problems.

"If New York..."
"If New York State finds it hard to escape those associations, how can New York City escape its own history?"

In this regard, the credit rating of New York State bonds has substantially reflected existing circumstances.

In April of this year, the ratings on bonds of the State were lowered from A-1 to A by Moody's Investor Service.

Tax and revenue anticipation notes of the State were given a MIG-2 rating by the Service, which was lower than previous ratings.

The effect of this cannot be overstated.

Most importantly, it must serve as a caution to those who do not see limitations upon the State's own options.

These options are further limited because New York State is itself facing a challenging budget problem for its fiscal year 1978.

As I outlined...
As I outlined a few days ago, unless the State takes corrective actions which I will recommend in the forthcoming State Budget, the deficit will approach $1 billion.

It will not surprise anyone that among the major reasons for this deficit are overruns in welfare and medical assistance costs, problems which should properly be faced and resolved here in Washington.

In designing my 1978 budget I am going to be required to place severe limitations on expenditures, in many instances economies.

Throughout this procedure, it is my intent not to compound the City's fiscal problems.

To the extent that State funds are constrained, care will be taken to insure that fiscal burdens are not transferred to the City.

The continuing operation of the State government requires that it have access to the capital markets.

As potential investors...
As potential investors analyze the credit of the State, a major factor is the existing constitutional limitation prohibiting the State from extending its credit to public and private corporations.

A constitutional amendment lifting this limitation about which the letter from Senator Proxmire inquires might well close the private capital markets to the State at this crucial time unless accompanied by the creation of equally strict legislative and governmental limitations.

Any action along this line will substantially impair the State's credit further.

This could prevent the State from placing any meaningful role in the City's recovery after July 1, 1978, which is a result exactly opposite the one which we all seek.

Related to this, the investment community has shown itself to be increasingly concerned about State involvement with local community problems.

This is equally true whether the community involved is Yonkers, Buffalo, Albany, Hempstead, or New York City.

Even if the state...
Even if the State had the power to borrow on behalf of New York City or any other locality, the ability of the State of New York to borrow for this purpose is questionable.

New York State's debt structure has risen dramatically over the past decade.

From 1965 to 1975, New York State's total debt increased from $3.8 billion to $12.6 billion as the prior Administration of the State went on what only could be characterized as a credit rampage.

And largely as a result of the nature of paper issued, moral obligation instead of full faith and credit, the State's annual debt service cost over the same period went from $38 million to $244 million.

Mr. Chairman, I respectfully suggest it is this sad condition I have been laboring to put in check -- I certainly seek no new open-ended debt for the people of New York.

For a broader...
For a broader view of New York State's fiscal condition, I submit for the record an analysis of the State's long term fiscal outlook by Professor Roy Bahl of the Maxwell School.

During the months ahead, Mr. Chairman, I look forward to working with you, other Federal officials and representatives of New York City to continue the joint efforts which have been so successful up to this point in time.
FOR RELEASE: IMMEDIATE, TUESDAY, DECEMBER 21, 1976

TESTIMONY OF GOVERNOR HUGH L. CAREY BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, DECEMBER 21, 1976, 11 A.M.

I am happy to be here to share with you my perceptions of the progress that has been made toward stabilizing the financial condition of New York City. Since the onset of the financial emergency in the fall of 1975, the movement toward recovery has been a joint effort among New York City, New York State, the federal government, and numerous private parties. The success to date has been dependent on that cooperation. I am confident that we will be able to rely on the continued cooperation of all parties through the remainder of the financial emergency period and in the subsequent crucial period of transition.

During the last year, the City has made substantial progress toward reducing its operating deficit, as required in its financial plan, and toward improving its mechanisms for financial planning and management. Barring an unfavorable impact upon the operating budget resulting from the recent State Court of Appeals decision concerning the moratorium, there is reason to be optimistic about the City's ability to control its own operating expenses during the coming years. The major source of difficulty in the area of expenditure control which still confronts the City concerns some of the municipal agencies not under the direct control of the Mayor, particularly the Health and Hospitals Corporation and the Transit Authority. Failure to develop financial plans for these organizations with balanced budgets, will inhibit the effectiveness of the City's overall plan to eliminate its budget deficit by fiscal 1978.

This basic positive outlook must, of course, be tempered by a realization that events outside of the control of City and State government could occur which would have a major negative effect on the City's financial progress. The moratorium decision has substantially increased the complexity of the solutions needed to maintain fiscal soundness through 1978. You should be assured that every effort is being made to solve the problem of retiring the debt that had been placed in moratorium without jeopardizing the efforts to balance the City's budget in fiscal 1978. Felix Rohatyn is sitting here with me. As Chairman of the Municipal Assistance Corporation, he is an active participant in discussions dealing with these important questions.

The progress that has been made to date cannot be the basis for assuming that any of the parties whose cooperation has been essential in the past may now withdraw from the spirit of cooperation without destructive consequences. Certainly the State of New York will keep its commitment to do everything possible within the limits of its resources to assist the City. In a more general way we have every hope that the federal government will also employ its resources to facilitate the financial stability and well-being of American cities.

In your recent letter to me, Senator Proxmire, you expressed concern for the financial stability of the City after June, 1978, when the federal seasonal loan program is scheduled to expire. I share this concern. I do not believe it can reasonably be expected that the City will make a magical transition from financial distress in fiscal 77 to unshakable financial health in fiscal 78, absent other activities, such as a greater Federal recognition of the nation's overall urban ills. The federal government, together with all other institutions, public and private, must be willing and ready to consider actions in the months and years ahead which will ease the burden of New York City and other cities throughout our country. The precise form of cooperation needed from the federal government cannot be defined at this time, but there can be little doubt that a program of continued involvement is essential—and will be especially pertinent to the question of this City's access to markets after the successful conclusion of the current three-year plan.
You raised a question in your letter announcing this hearing regarding your committee’s recommendation that the State take steps “so that the State can lend to the City if it is unable to meet all of its credit needs in the private market after June 30, 1978.”

While we all recognize that the New York State government must continue to play a leading role in New York City’s fiscal recovery in the period following July 1, 1978, it must be remembered that the budget of New York State is smaller than that of the City. The State has not shirked in its duty so far and we do not intend to begin passing the buck now or in the future.

Mr. Chairman, I wish to submit for the record at this point the full views of my auditor, Levitt, Comptroller of the State of New York on this question. Mr. Levitt, as you know, is both well known and highly regarded in government and in the investment community. His opening comments set the tone, however, as Mr. Levitt observes:

“I have two serious objections to amendment of the State constitution, as proposed by the Senate Banking Committee, to permit issuance of State bonds to finance loans to New York City. First, it would undermine one of the main bulwarks protecting the State against future pressures for overextension of its credit. Second, it would have the immediate effect of making much more difficult, perhaps impossible, the State’s annual borrowing for its own operations and for scheduled regular aid to its local governments.

“I am confident that responsible leaders of the investment community would agree with his appraisal. I urge strenuous efforts to persuade the Committee and its chairman, Senator Proxmire, to reconsider the proposal.”

The State has been making full use of its available legal powers and financial resources in its efforts to stabilize New York City’s financial situation. The State has created a new financing agency for the City (MAC); it has created a board to review and approve the City’s efforts to balance the budget (EFCC); it has advanced State funds for the preservation of higher education (CUNY); it has taken over the costs of operating the courts on an increasing basis over the next four years; it has advanced $500 million in State reimbursables; it has altered the administration of many of its own programs to facilitate the City’s recovery and to accommodate the City’s needs.

However, New York State must be prudent in protecting its own access to the private capital markets if it is to continue to play a central role in the cooperative efforts being exercised on behalf of the City. The ability of the State to carry the load of assistance to the City by itself on July 1, 1978 must be realistically appraised here in Congress just as it is being studied in the bond markets and by private financial institutions throughout the country.

We have already learned that New York State’s debt incurrence capacity is not limitless. Our recent experience with the Urban Development Corporation, and other “moral obligation” bond issuing mechanisms, has caused a thorough reevaluation (by the bond market community) of the State’s capacity to incur debt. The March 1976 report of the commission appointed to review the Urban Development Corporation and other debt incurring authorities and corporations found that “The present credit crisis in New York State has arisen in large part because the public debt of the State, its agencies and authorities has been allowed by its leaders to grow more rapidly than the State’s ability to support that debt. While the State’s economy was slowing down during the past decade, these leaders were permitting debt accumulation to speed up instead of putting on brakes. Optimism clashed with reality and responsibility was the victim.”

Your committee also recognized the situation facing the State of New York both because of the City’s financial problems and due to an entirely separate series of problems relating directly to the State. This Committee in its May 16, 1976 report found that: “New York State has encountered unusual difficulty in marketing its obligations this year, despite a balanced budget, a history of high bond ratings, and no tradition of financial gimmickry. The State’s problems have stemmed largely, though not wholly, from its association with the City’s financial problems. If New York State finds it hard to escape those associations, how can New York City escape its own history?”
In this regard, the credit rating of New York State bonds has substantially reflected existing circumstances. In April of this year, the ratings on bonds of the State was lowered from A-1 to A by Moody's Investor Service. Tax and revenue anticipation notes of the State were given a MIG-2 rating by the Service, which was lower than previous ratings. The effect of this cannot be overstated. Most importantly, it must serve as a caution to those who do not see limitations upon the State's own options.

These options are further limited because New York State is itself facing a challenging budget problem for its fiscal year 1978. As I outlined a few days ago, unless the State takes corrective actions which I will recommend in the forthcoming State budget, the deficit will approach $1 billion. It will not surprise anyone that among the major reasons for this deficit are overruns in welfare and medical assistance costs, problems which should properly be faced and resolved here in Washington. In designing my 1978 budget I am going to be required to place severe limitations on expenditures, in many instances economies. Throughout this procedure, it is my intent not to compound the City's fiscal problems. To the extent that State funds are constrained, care will be taken to insure that fiscal burdens are not transferred to the City.

The continuing operation of the State government requires that it have access to the capital markets. As potential investors analyze the credit of the State, a major factor is the existing constitutional limitation prohibiting the State from extending its credit to public and private corporations. A constitutional amendment lifting this limitation about which the letter from Senator Proxmire inquires might well close the private capital markets to the State at this crucial time unless accompanied by the creation of equally strict legislative and governmental limitations. Any action along this line will substantially impair the State's credit further. This could prevent the State from placing any meaningful role in the City's recovery after July 1, 1978, which is a result exactly opposite the one which we all seek. Related to this, the investment community has shown itself to be increasingly concerned about State involvement with local community problems. This is equally true whether the community involved is Yonkers, Buffalo, Albany, Hempstead, or New York City.

Even if the State had the power to borrow on behalf of New York City or any other locality, the ability of the State of New York to borrow for this purpose is questionable. New York State's debt structure has risen dramatically over the past decade. From 1965 to 1975, New York State's total debt increased from $3.8 billion to $12.6 billion, as the prior administration of the State went on what only could be characterized as a credit rampage. And largely as a result of the nature of paper issued, moral obligation instead of full faith and credit, the State's annual debt service cost, went from $38 million to $244 million. Mr. Chairman, I respectfully suggest it is this sad condition I have been laboring to put in check--I certainly seek no new open-ended debt for the people of New York.

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During the months ahead, Mr. Chairman, I look forward to working with you, other federal officials and representatives of New York City to continue the joint efforts which have been so successful up to this point in time.
December 6, 1976

The Honorable Hugh L. Carey
Governor of New York
Executive Chamber
State Capitol
Albany, New York 12224

Dear Governor Carey:

The Committee on Banking, Housing and Urban Affairs has scheduled oversight hearings on the New York City Seasonal Financing Act. The hearings will explore New York City's progress toward meeting its Financial Plan and toward resolving the problems posed by the New York State Court of Appeals decision overturning the moratorium on $1 billion in short-term City notes. In this connection, you are invited to appear and testify on Tuesday, December 21, 1976.

The hearing will start at 10:00 A.M. and will be held in Room 5502, Dirksen Senate Office Building. It would be appreciated if you would submit to the Committee by 12:00 noon, Friday, December 17, fifteen copies of your prepared statement. In addition, for Committee and news media purposes, it is requested that you supply one hundred twenty-five copies of your testimony for distribution the day of your appearance. Be assured that your statement will not be released to the news media until your appearance before the Committee. Copies of your statement should be delivered to Ms. Rose Marie Fried, Room 5230, Dirksen Senate Office Building.

Your cooperation with the Committee rules will be greatly appreciated.

With best wishes.

Sincerely,

William Proxmire
Chairman
December 6, 1976

The Honorable Hugh L. Carey
Governor of New York
Executive Chamber
State Capitol
Albany, New York 12224

Dear Governor Carey:

In its Report on the New York City Loan Program, issued on May 17, 1976, the Committee on Banking, Housing and Urban Affairs unanimously recommended that New York State officials begin immediately to take any actions necessary, including amending the State Constitution, so that the State can lend to the City if it is unable to meet all of its credit needs in the private market after June 30, 1978. Otherwise, as the report noted, there is the potential for a New York City bankruptcy in 1978.

The question of the State's role in meeting the City's credit needs would appear to be even more pressing in light of the recent decision of the New York State Court of Appeals overturning the moratorium on repayment of $1 billion in short-term City notes.

Nonetheless, I understand that to date no action has been taken to begin the two year process of amending the State Constitution, and none is planned. If this is the case, it is most disturbing, given the financial problems facing the City in the next two years. Thus I would appreciate your informing the Committee as to what actions New York State has taken or intends to take to
help New York City meet its borrowing needs after the Federal loan program ends on June 30, 1978, should such assistance prove necessary.

Best regards.

Sincerely,

William Proxmire
Chairman

CC: James L. LaRocca
New York State Office