MEMORANDUM

September 22, 1980

RE: Multiple Issues of City of New York Serial Bonds for a single object or purpose.

QUESTIONS PRESENTED

Is the City of New York (the "City") permitted under New York State Law to authorize multiple issues of bonds to be delivered at different times for a single object or purpose and to treat such multiple issues as a single indebtedness for purposes of applying the amortization rules set forth in Article 8, section 2 of the Constitution and Section 21.00 of the Local Finance Law?

CONCLUSION

The Local Finance Law (Chapter Thirty-three-a of the Consolidated Laws of the State of New York) contemplates in several places that municipalities like the City may authorize multiple issues of serial bonds to be delivered from time to time for a single object or purpose but the Constitution appears to treat each such issue as a separate indebtedness for purposes of amortization.

DISCUSSION

Although no provision of the Local Finance Law expressly states that municipalities may issue multiple series of bonds at different times to finance a single object or purpose, several provisions of such law recognize, expressly or by implication, that such issuances are permissible.
For example, Local Finance Law Section 31.00 provides, in relevant part, as follows:

"Any municipality, school district or district corporation may adopt one or more bond resolutions or capital note resolutions authorizing the issuance of bonds or capital notes for a specific object or purpose, for which object or purpose serial bonds may be issued. In addition thereto any municipality or school district may adopt one or more bond resolutions or capital note resolutions authorizing the issuance of bonds or capital notes for any class of objects or purposes, for which objects or purposes serial bonds may be issued" Local Finance Law §31.00 (b) (emphasis supplied)

By expressly empowering a municipality to adopt "one or more bond resolutions... for a specific object or purpose", the State legislators through Section 31.00 (b) clearly contemplated that multiple bond issues could be authorized to finance a single object or purpose. Any other reading of this subsection would not be logical.

In addition Section 32.00 (2) of the Local Finance Law requires every bond resolution to contain a statement of the estimated maximum cost of each item of the specific object or purpose of the bonds proceeds and states, in relevant part, as follows:

"Such statement shall also set forth the plan for the financing of the total cost of all of the items of such specific object or purpose or such specific objects or purposes or of the cost of such class or such classes of objects or purposes which shall indicate the sources of the amounts of money which have been previously authorized to be applied to the payment of the total cost of all of such object or purpose or such objects or purposes or of the cost of such class or such classes of objects or purposes and the intended source or sources, other than the proceeds of such obligations, of the balance of the money to be so applied..." Local Finance Law §32.00 (emphasis supplied)
By acknowledging that financing for a single object or purpose may derive from sources other than the bonds then being authorized, this section leaves open the possibility that such financing may come from previously or subsequently authorized bond issues. This possibility is all but made certain by the following passage.

"In lieu of such a statement, the resolution may contain a recital that such information has been set forth in a capital budget or in an appropriation for such specific object or purpose or such objects or purposes or for the class or classes of such objects or purposes or in a previously adopted bond resolution or capital note resolution authorizing the issuance of obligations for such specific object or purpose or such specific objects or purposes, or for the class or classes of such objects or purposes. Such recital shall specifically refer to the most recent capital budget, appropriation, bond resolution or capital note resolution containing such information."
Local Finance Law § 32.00 (emphasis supplied)

Finally, the wording of Section 57.00(c) of the Local Finance Law supports the interpretation permitting the use of multiple bond issues to finance a single object or purpose in providing that "Bonds for one or more specific objects or classes of objects, or a combination thereof, may be sold as a single bond issue." Surely if the New York legislature had intended that bonds for one object or purpose be required to be sold as a single issue, they would have used "must" or its equivalent rather than "may" in drafting the statute. Using the permissive form rather than the mandatory form indicates a deliberate choice that multiple bond issues for a single purpose not be prohibited.
The constitutional provision governing the amortization of debt is set forth in section 2 of Article 8, which provides in pertinent part as follows:

"No indebtedness shall be contracted by any county, city, town, village or school district unless such county, city, town, village or school district shall have pledged its faith and credit for the payment of the principal thereof and the interest thereon. Except for indebtedness contracted in anticipation of the collection of taxes actually levied and un-collected or to be levied for the year when such indebtedness is contracted and indebtedness contracted to be paid in one of the two fiscal years immediately succeeding the fiscal year in which such indebtedness was contracted, all such indebtedness and each portion thereof from time to time contracted, including any refunding thereof, shall be paid in annual installments, the first of which, except in the case of refunding of indebtedness heretofore contracted, shall be paid not more than two years after such indebtedness or portion thereof shall have been contracted, and no installment, except in the case of refunding of indebtedness heretofore contracted, shall be more than fifty per centum in excess of the smallest prior installment.

Notwithstanding the foregoing provisions, indebtedness contracted by the city of New York and each portion of any such indebtedness from time to time so contracted for the supply of water, including the acquisition of land in connection with such purpose, may be financed either by serial bonds with a maximum maturity of fifty years, in which case such indebtedness shall be paid in annual installments as hereinbefore provided, or by sinking fund bonds with a maximum maturity of fifty years, which shall be redeemed through annual contributions to sinking funds established and maintained for the purpose of amortizing the indebtedness for which such bonds are issued."

It should be noted that this provision applies to "indebtedness and each portion thereof from time to time contracted" and that
the first installment of principal is to be paid "not more than two years after such indebtedness or portion thereof shall have been contracted". Section 21.00(b) of the Local Finance Law speaks in terms of "serial bonds" and requires the first installment of such bonds to mature "not later than eighteen months after the date of such bonds or two years after the date of the first bond anticipation note... whichever is earlier."

Although there is a dearth of authority from the debates surrounding the constitutional convention of 1938 (at which Article 8, section 2 was enacted) with respect to the meaning of the phrase "indebtedness contracted", what little authority there is suggests that the term refers to issued debt, i.e., debt that has been delivered against payment therefor. The Chairman of the Committee on State Finance and the author of the proposal containing what is now section 2 of Article 8, Mr. Moffat, stated as follows:

"One question was raised as to phraseology 'contract indebtedness'. Not only is it explained in the note under Section 4, but right through the whole Constitution, in the local finance article, State finance article, other sections, the term 'contract indebtedness' means go out and borrow money...It does not mean, of course---"

Revised Record of the Constitutional Convention of the State of New York: April Fifth to August Twenty-sixth, Volume III, 1938, p. 2508.

Moffat's equation of borrowing money and contracting indebtedness is consistent with the interpretation that the prescriptive
provisions of the Constitution respecting amortization refer to the date on which the debt is issued.

That "contracting indebtedness" does not refer to authorized, but unissued, obligations, seems to have been apparent to the legislature, if the provisions in the Local Finance Law with respect to the preparation of debt statements are any indication. Section 4 of Article 8 of the Constitution provides that no county, city, town or village or school district described in such section "shall be allowed to contract indebtedness" above designated percentages of the average full valuation of taxable real estate. The provisions of the Local Finance Law regarding the preparation of debt statements may be regarded as a legislative interpretation of Article 8, section 4 of the constitution.

Although section 132.00(c) of the Local Finance Law requires municipalities to disclose the amount of authorized but unissued debt, such debt has never been included in the net indebtedness calculated pursuant to section 138.00, the operative figure in determining whether the constitutional debt limitation has been exceeded.

Until 1947, such authorized but unissued obligations were termed "unexhausted borrowings" and were required by section 135.00 to be included in the statement of total debt but were deducted from gross debt pursuant to section 136.00 in determining net indebtedness. In explaining the rationale of this rule, the report of the Municipal Finance Committee in 1942 clearly
understood the word "contracted" to mean issued.

"Subdivision 2 of paragraph a of this section [repealed L.1947, c. 902, §10] requires the municipality or fire district to state the amount of all borrowings that have been authorized in order to afford the state comptroller, municipal officials, taxpayers and purchasers of obligations of such municipality or fire district a clear and comprehensive picture of not only the total amount of indebtedness of the municipality or fire district but also of the indebtedness which the municipality or fire district intends to contract in the near future. Against this item there will be an offset under subdivision 13 of §136.00 of this chapter, relating to deductions of unexhausted borrowings."


A long line of cases indicates that, in New York, indebtedness does not exist until it is issued. In the landmark case of Matter of Hill v. Board of Education, Glenville, 286 App. Div. 332 (3d dept. 1955), affd. mem. 309 N.Y. 945 (1955) the Appellate Division overturned the decision of the lower court enjoining the issuance of bonds by a certain school district. Such district had voted to incur debt at a time when the proposed debt, in addition to the existing indebtedness of the district, would have exceeded the prescribed debt limitation of Local Finance Law §104.00(d). The court noted that "the only bar against the issuance of bonds by a school district would be its debt condition at the time the bonds are to be issued." Id., p. 337.

"This conclusion has support in section 109.00 of the Local Finance Law which requires that a debt statement in the proper form shall be prepared by a school district as of a date not more than thirty days before the sale of bonds, and shall be filed in the office
of the State Comptroller and the office of the school
district clerk not less than three nor more than fifteen
days before such date of sale. There is no provision
for the preparation or filing of such a debt statement
at any other time. This requirement emphasizes the
significance of the issuance date of the bonds."

Id.

The word "issue" was clearly defined by the court to mean
"delivery of such obligations against payment of the purchase
price." Id. See also Zimmermann v. Timmermann, 193 N.Y.
486 (1908) and Brownell v. Town of Greenwich, 114 N.Y. 518
(1889).

Those principles were foreshadowed in the frequently
cited case of Levy v. McClellan, 196 N.Y. 178 (1909), where
the question before the court was whether "existing indebted-
ness" within the meaning of the constitutional debt limitation
included executed contracts for public improvements intended
to be met from an authorized issue of bonds. In reaching an
affirmative conclusion, the court stated as follows:

"Indebtedness is a state of being in debt and a
debt is defined to be 'that which one person is
bound to pay to another'; or an 'obligation'.
It is that which is due by express agreement and
its definition is not affected by the manner, or
condition, upon which it is to be paid. The constitu-
tutional provision is a limitation upon the power
of the county to become indebted; that is to say,
to contract any indebtedness..." Id., p. 200.

Finally, in Cherey v. City of Long Beach, 282 N.Y. 382 (1940),
the Court of Appeals construed the term "contracted" in
relation to indebtedness in a manner consistent with the
interpretation of that term to mean "issued", by stating:
25 April 1980

TO: Felix G. Rohatyn
    Eugene J. Keilin
    Stephen Berger

FROM: Robert F. Vagt

Last night's meeting with Jim Brigham seemed to be prompted by several factors: he wanted to talk before we met with Altman; he had gotten the message that we were not taking the City off the hook with respect to budget-cutting actions; they want to use us (not necessarily a negative) in their dealings with the Feds and the unions. The thrust of his message is that there is a way to close the budget hole. While he declined to let us take a copy of the gap-closing items and numbers, the following is an accurate reconstruction. Some variation of this will appear in the May 9th budget, without the pension item.

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<tr>
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<th>1981</th>
<th>1982</th>
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</thead>
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<tr>
<td>Gap</td>
<td>--</td>
<td>(387)</td>
</tr>
<tr>
<td>Wage settlement (as Transit)</td>
<td>(280)</td>
<td>(677)</td>
</tr>
<tr>
<td></td>
<td>(280)</td>
<td>(1064)</td>
</tr>
<tr>
<td>Non-contributory pensions</td>
<td>92</td>
<td>162</td>
</tr>
<tr>
<td>Eliminate General Reserve</td>
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<td>100</td>
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<tr>
<td>Revenues</td>
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<td></td>
</tr>
<tr>
<td>1980 Base carry-forward</td>
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<td>20</td>
</tr>
<tr>
<td>Real Estate</td>
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<td>40</td>
</tr>
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<td>100</td>
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<td>--</td>
<td>100</td>
</tr>
<tr>
<td>Energy</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>MAC</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>HHC one shots</td>
<td>20</td>
<td>--</td>
</tr>
<tr>
<td>HHC-fund wage settlement</td>
<td>18</td>
<td>59</td>
</tr>
<tr>
<td>Federal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid to distressed cities</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Moynihan Bill</td>
<td>--</td>
<td>201</td>
</tr>
<tr>
<td>Remaining Gap</td>
<td>(38)</td>
<td>(197)</td>
</tr>
</tbody>
</table>
We are not able to fully reconcile the baseline numbers with ours -- hence the difference in the gap. However, both in description and in net deficit (when adjusted for major assumptions) it approximates our "best case" scenario.

Jim requested our specific responses to three questions:

1. What would we recommend they show as a funded labor settlement in the May 9th budget?

2. Would we support the change in statute which would allow the elimination of the requirement for a general reserve of $100 million if replaced by a funded cash reserve equal to 4 or 5 percent of City revenues?

3. What is our position on the City's contributing to the employee share of the pension payment in order to fund a "higher" settlement with fewer dollars?

I would recommend that we meet to discuss this as soon as possible.
The purpose of this memorandum is to suggest that you "Fasten your safety belts", we are about to enter a storm fully as dangerous and unpredictable as any we weathered in 1975.

The basic factors we have to contend with are the same: City, State and Federal governments; City and State pension systems; labor and banks; and public credit markets. Some of the players on the scene are new: new administrations in Washington and New York City; and a changeover at the Federal Reserve. Some of the political realities are different: election year in New York State; election year in the House of Representatives.

At a meeting of our Finance Committee on January 5, 1978, we discussed the complexities of the forthcoming events in order to find a coherent strategy. It was suggested that I reduce these thoughts to writing in order to have a full Board discussion and policy formulation.

Our basic financing policy is still as set out in our memorandum to Governor Carey dated November 21, 1977. It is based on our analysis indicating that the key problem facing the City is long-term financing. The long-term financing needs of the City over the next four years are estimated to be $5.5 billion. This amount would provide for: financing a program of true capital expenditures; bonding out the $800 million State advance; refunding some City and MAC bonds coming due in the next few years; accelerating the elimination of expense items from the City's capital budget, and financing the expense items remaining in the City's capital budget.

Long-term financings sufficient to accomplish these purposes would enable the City to take steps to diminish substantially its need to do seasonal financing. Furthermore, they would furnish significant budgetary relief for the City, and provide a basis for a program of economic development.
MAC believes that these financings are necessary in order to make the City a viable financing vehicle capable of standing on its own without continuing Federal help. Without Federal assistance in the form of long-term loans or guarantees, neither MAC nor the City, alone or together, has the capacity to provide such financing. With appropriate Federal assistance in the long-term financing area, the seasonal financing problem becomes almost irrelevant; however, with only seasonal assistance from the Federal government, the City is likely to be unable to meet its financing needs in the 1979 to 1980 period and bankruptcy at that time, if not earlier, becomes a real possibility. With no financing assistance of any kind from the Federal government the City will run out of cash at mid-year.

A. TIMING -- A critical time problem confronts us. The Treasury has asked for a City plan by January 20, 1978. Based on this City (and presumably State) plan, the Administration will decide on the appropriate Federal role. This Federal role will then be the basis for legislative hearings in the House (Representative Moorhead) beginning February 21, and in the Senate (Senator Proxmire) beginning the latter part of March. Legislation would then be processed in both Houses in the May to June period.

Other actions, operating on their own schedule, will also occur. It is well to bear those in mind since one of the critical problems here will be a timely coordination of the various factors.

The State budget has to be adopted by March 31.

The State Spring borrowing, in the amount of about $4 billion, takes place around April 15, 1978. The Spring borrowing produces, among other things, the $800 million Spring advance to the City.

Labor negotiations will begin early in February. The Transit contract expires March 31, 1978; other major municipal labor contracts expire in June.

The City Pension systems are committed to purchase about $800 million in City bonds in the March-April period. This is the last of their $2.25 billion commitment to June 30, 1978.
11 January 1978
MEMORANDUM/F.G. Rohatyn
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B. SEQUENCE OF EVENTS -- An analysis of the probable sequence of events makes the problems more visible. The Treasury will have to arrive at a position in time to have an Administration position in place between January 20 and the beginning of the House hearings February 21. Realistically, the Treasury, in my judgement, can only adopt one of two approaches:

1. Support some variation of an extension of the seasonal loan program; or

2. Support some variations of long-term financing assistance.

The Treasury will insist, however, prior to committing itself, on hearing from the various parties what they are willing to contribute to the Plan. This may include:

1. City. Budget actions with respect to deficit; acceleration of expense item phaseout from its capital budget.

2. State. Possible additional State aid and/or creation of a special State fund as part of a plan to provide Federal guarantees for bonds; seasonal financing assistance.

3. City Unions. Outline of labor settlement with cost-estimate; possible additional investments by the pension funds, whether long-term or seasonal.

4. State Unions. Possible investments, either long-term or seasonal.

5. Banks. Possible investments, long-term and/or seasonal.

6. State/Legislative. Establishment of long-term fiscal monitor for the City; increase MAC borrowing authority and permit MAC to do capital financing for the City.

C. PROBLEMS -- The first problem is obviously the City-State plan to be submitted by January 20. Although MAC has proposed a City financing plan, the difficulties in developing a four-year City budget plan are enormous. Asking for agreed upon State actions within the framework of such a plan makes it more difficult still. Estimating Federal actions is difficult and totally speculative. We had suggested limiting the plan to a 1979 City budget and financing plan which would include accelerated phaseout of expense items from the capital budget, but, so far, we have not been successful.
Assuming successful resolution of the City-State plan by January 20, we now come to the problem of the Treasury's position. The challenge to negotiating commitments from the various parties during the period from January 20 to February 21 is enormous; it is rendered even more extreme by the fact that the commitments to be made could vary widely depending on the financing plan the Treasury will support. This is true because the choice between seasonal financing and long-term financing has definite budgetary implications. For instance, the financing plan outlined in our November 21, 1977 memorandum, which includes long-term Federal assistance, provides significant budgetary relief for the City which seasonal financing would not permit. It is obvious that the State, the unions, the banks and others will be required to take different positions depending on the Treasury's policy. It is difficult to see how this chicken-and-egg problem will be resolved.

Another which-comes-first problem involves the State Pension Systems. Until the State's Spring borrowing is completed, the State Comptroller is likely to withhold commitments by the State Pension Systems on the ground that they may be needed to finance the State. However, his refusal to give such commitments increases the uncertainty with respect to a City Plan, which in turn increases the possible risk to State public financing. Both Treasury and Congressional committees are insisting on a role for the State Pension Systems. Such a role, prior to April, may be very problematical.

For the City and the municipal unions to have an outline of both a wage settlement and investment commitment within this time frame appears equally difficult. Nor should one take for granted the City Pension System investment scheduled for March-April absent a Federally supported financing plan.

Accordingly, we believe that it will be necessary for the Treasury, after consultation with all parties, to announce that it will propose and support a specific Federal legislative program contingent upon all other parties agreeing to take specified actions to aid in the solution of the City's long-term financing problems.

D. POLITICAL AND ECONOMIC DEVELOPMENTS -- Since mid-December, the prices of MAC bonds have dropped by between 5 and 10 per cent. This price erosion began at the time of the Senate and House hearings and accelerated after the disclosure last week of the letter from Senators Proxmire and Brooke to President Carter. Our most recent $250 million
public offering was severely impacted and no further MAC financing can be envisaged until this whole situation is resolved, probably May-June at the earliest. Although the entire market erosion cannot be laid at the door of the Senate Banking Committee, there is no question that the hostility to New York, culminated by the recommendation to discontinue further aid, had a material impact.

This difficult situation is likely to continue for many months. Differences between the City and State on budgeting matters and between the City and unions on contracts, as well as difficulties with State financings, are all likely. These could take place against a backdrop of Congressional controversy and a deteriorating national economic picture.

It must be remembered that the continued crisis of the dollar abroad has potentially serious repercussions on our financing picture: increased interest rates to protect the dollar, a down-market and cutbacks by foreign central banks in their purchases of United States Treasury securities. The resulting huge amounts of Federal financings, done at higher rates, domestically, could create a dramatically difficult environment for us to cope with.

In planning ahead to avoid events, such as City and even potential State insolencies, of possibly massive negative economic and social impact, considerable margin for error should be built in to cope with the problems outlined above. This is true for time factors as well as estimates of best case -- worst case scenarios. It is most troubling to me that I see no such margins anywhere in these scenarios. On the contrary, the Proxmire-Brooke letter suggests a view of the problem that is so far removed from reality as to require a tremendous struggle and luck for the City to wind up with a program (i.e., seasonal loans) that is inadequate to do the job and that was initiated by a President who told the City to "Drop Dead."

E. MAC'S ROLE -- Under these perilous circumstances it behooves this Board to consider our policy carefully. We have two basic obligations:

1. The protection of our bondholders, owning over $5 billion of securities.

2. The financing of the City to maintain it as a viable social and economic unit.
11 January 1978
MEMORANDUM/F.G. Rohatyn
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I believe that we have built up, over the past three years, a kind of know-how and public credibility based on our independence from political pressures and the fact that we have no axes to grind. We will once more be put to a serious test. We must, at all costs, continue to be totally independent of political considerations while being alive to political realities; we must be willing to be catalysts, bearing in mind that catalysts sometimes turn into lightning rods.

I believe that we should continue to explain and emphasize our belief that only long-term Federal financing assistance will allow us to say that this is our last request of the Federal government. Within that framework we should be as flexible and innovative as possible. If long-term loans are unacceptable, we must try guarantees. The State, and probably the City, should participate in any program to provide Federal guarantees for MAC bonds. In order to limit the precedent, guarantees might be limited to those securities purchased by the City and State pension systems. We might, within the framework of a plan such as we propose, be able to eliminate seasonal requirements entirely. But the basis of the plan has to be long-term financing.

As I indicated above, the political conventional wisdom seems to indicate that enormous struggle will be required to achieve a mere extension of the seasonal loan. It bodes ill for our system to think it cannot come up with any answers other than the least common denominator which everyone knows will not work, but may buy a little time. If that is the ultimate result, the record must clearly show that we did not believe in it. The New York financing problem can be solved; it is not that complicated. It needs leadership from the Administration and political courage on the part of Congress. It will not be done by pretending that a band-aid is therapy.
ANALYSIS
of
New York City Short-term Notes
Owned by the Municipal Assistance Corporation

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<th>Type</th>
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<th>Series 9</th>
<th>September 21</th>
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<td>216,000,000</td>
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<td>$819,230,000</td>
<td>$4,236,165,158</td>
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Total Notes Held
Notes From Payments to City
Sub-total
Total From Exchanges

$4,236,165,158
-2,397,300,158
$1,838,865,000
-1,838,865,000

ANALYSIS
of
Notes Received as a Result of Payments to the City of New York

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$2,397,300,158
**ANALYSIS**

of

Notes Received as a Result of
Exchanges With Investors

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<td>9</td>
<td>819,230,000</td>
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</table>

$1,838,865,000
From the Desk of

Marilyn F. Friedman

DATE 9/12/77

Dear Kathy,

Enclosed is a copy of a memorandum which we've found
the 1088(4)(d) regulations you discussed with John Kastner
two mornings.

Hope all is well if you have
any questions.

Marilyn
Municipal Assistance Corporation  
For The City of New York

MEMORANDUM

Date: 12 September 1977  
To: FILES  
From: MFF  
Re: §3038(b) MAC Act

Following the closings scheduled to take place on September 14, 1977, the calculations for the above referenced test will be as follows:

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<th>$ (in billions)</th>
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<td>City notes outstanding</td>
<td>2.844 MAC prior held</td>
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<tr>
<td>excluding BAN's and seasonal</td>
<td>.187 Public held*</td>
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<tr>
<td>borrowing</td>
<td>.380 MAC acquired</td>
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<td>3.411</td>
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<tr>
<td>debt</td>
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<tr>
<td></td>
<td>9.081</td>
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<tr>
<td>MAC debt equal to City BAN's held by</td>
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<td>MAC</td>
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<td></td>
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<tr>
<td>City notes (other than BAN's) held by</td>
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<tr>
<td>MAC</td>
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* Based on Official Statement
MEMORANDUM

This memorandum summarizes the City's judgment as to the financial practices and conditions appropriate for the public sale of a new City bond.

1. **Debt Service Fund**

   A portion of real estate tax receipts will be deposited in a separate fund under the control of the State Comptroller in an amount sufficient to cover annual debt service. The fund may only be used to pay debt service.

2. **Balanced Budget**

   The Mayor will submit annually and the Board of Estimate and the City Council will adopt a balanced budget, prepared in conformity with defined accounting principles and sound principles of municipal budgeting set forth by the City. Together with the budget, the Mayor will submit a statement of the assumptions of revenue and expense used in its preparation and a certificate stating that such assumptions are reasonable and that operation within the budget is feasible. Any deficit which subsequently arises as a result of revenue shortfalls and uncontrollable expense increases will be budgeted in the following year.

3. **Budgetary Controls**

   The City will establish internal controls to assure conformance with its budget appropriation for controllable expenses, including monthly revenue and obligation plans, quarterly allocations, personal service limitations and encumbrance controls.

4. **Limitations on Short-Term Debt**

   The City will be required to limit total short-term debt outstanding at the end of any fiscal year to a certain amount. In addition, the City
will agree to particular limitations on the use of TANs, RANs, BANs, and budget notes which will provide assurance to investors that short-term debt will be issued only for seasonal and other short-term purposes against identifiable sources of repayment while not unreasonably restricting the City's operating and financing flexibility.

5. **Reserve Fund**

The City will appropriate and pay to a reserve fund an amount which will maintain the reserve fund at a certain percentage of general revenues. This fund will be available to finance unanticipated revenue shortfalls and uncontrollable expenses in excess of budget estimates.

6. **Reporting**

The City will publish monthly, quarterly and annual reports. The annual reports will include both a report on the economic condition of the City and financial statements prepared in conformity with defined accounting principles. Monthly and quarterly reports will be prepared as part of the new Integrated Financial Management System and will include analysis of variances between actual and expected revenues, expenses and cash.

7. **Financial Plan**

The City will publish annually a Financial Plan for each of the following three fiscal years in a format substantially similar to that currently employed.

8. **Independent Audit**

The City will have its financial statements audited by independent public accountants retained by the City. These auditors will also review (but not audit) quarterly reports and will report annually on compliance with debt requirements.
9. **Review by MAC**

MAC will act on behalf of the bondholders to review the City's compliance with all legislative requirements on a regularly scheduled basis. It will review any finding of non-compliance with the City. After such review, if MAC finds that the City is not in compliance it will make its determination public and report it to the Governor. MAC will then have a statutory cause of action to enforce legislative requirements such as a balanced budget or reserve fund. In any such action, MAC will have the burden of proof that non-compliance is material and the standard of proof is proposed to be "reasonableness". This proposal contemplates that the current MAC board would be reconstituted so as to be a board evenly divided between City and State appointees with the chairperson to be elected by the board. MAC will employ an executive director and a professional staff capable of performing required review functions with complete access to the records of the City.
<table>
<thead>
<tr>
<th></th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Distr.</td>
<td>21,975</td>
<td>21,975</td>
<td>21,975</td>
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<td>87,905</td>
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<tr>
<td>2nd Distr.</td>
<td>32,972</td>
<td>21,295</td>
<td>54,267</td>
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<tr>
<td>Total</td>
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<tr>
<td>1st Distr.</td>
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<td>458,917</td>
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<td>2nd Distr.</td>
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<td>94,079</td>
<td>94,079</td>
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<td>Total</td>
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<td>553,096</td>
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<td>1st Distr.</td>
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<td>2nd Distr.</td>
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<td>142,743</td>
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<td>377,347</td>
<td>369,966</td>
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<tr>
<td>Nett loss (earnings)</td>
<td>(123,456)</td>
<td>(123,456)</td>
<td>(123,456)</td>
<td>(123,456)</td>
<td></td>
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<tr>
<td>Cap Reserve (earnings)</td>
<td>(53,456)</td>
<td>(53,456)</td>
<td>(53,456)</td>
<td>(53,456)</td>
<td></td>
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<tr>
<td>Total</td>
<td>(176,912)</td>
<td>(176,912)</td>
<td>(176,912)</td>
<td>(176,912)</td>
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<tbody>
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<td></td>
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</tr>
<tr>
<td>Nett loss (earnings)</td>
<td>(123,456)</td>
<td>(123,456)</td>
<td>(123,456)</td>
<td>(123,456)</td>
</tr>
<tr>
<td>Cap Reserve (earnings)</td>
<td>(53,456)</td>
<td>(53,456)</td>
<td>(53,456)</td>
<td>(53,456)</td>
</tr>
<tr>
<td>Total</td>
<td>(176,912)</td>
<td>(176,912)</td>
<td>(176,912)</td>
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A chart shows held service funding requirements (cont.)
6. Possible Sources

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<th></th>
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<tbody>
<tr>
<td>(1) Annual Requirement of Rs. 1,080</td>
<td></td>
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<tr>
<td>Amount</td>
<td>3,785</td>
<td>3,785</td>
<td>3,785</td>
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<tr>
<td>Cess Dues</td>
<td>1,032</td>
<td>1,032</td>
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<tr>
<td>Total</td>
<td>4,817</td>
<td>4,817</td>
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(2) Miscellaneous

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<tr>
<td>Sd. Premiums</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
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<td>Postpaid Range</td>
<td>0-25,000</td>
<td>0-25,000</td>
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H. Fianancing Capital Reserve Fund Requirements

(i) FY 1977
### A. Debt service included in adopted budget and budget message

<table>
<thead>
<tr>
<th></th>
<th>$49.1</th>
<th>$56.7(a)</th>
<th>$160.0(a)</th>
<th>$152.3(a)</th>
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</table>

### B. Debt service if $819 million is refinanced by issuance on 9/30/77 of MAC 8% second resolution bonds, no principal payments until 1984

<table>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Accrued interest on notes</td>
<td>$22.0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Interest takeout on MAC bonds</td>
<td>81.9</td>
<td>65.5</td>
<td>65.5</td>
<td>65.5</td>
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<tr>
<td>Capital Reserve</td>
<td>49.1</td>
<td>16.4</td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>153.0</td>
<td>81.9</td>
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</tbody>
</table>

Sensitivity: change in debt service for each 50 basis point change in interest rate

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest takeout</td>
<td>5.1</td>
<td>4.1</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>3.1</td>
<td>1.0</td>
<td></td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>8.2</td>
<td>5.1</td>
<td></td>
<td></td>
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</table>

### C. Debt service if $819 million is refinanced by issuance on 10/31/78 of MAC 8% bonds, no principal payments until 1984

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on City notes (b)</td>
<td>57.9</td>
<td>34.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest takeout on MAC bonds</td>
<td>0</td>
<td>76.4</td>
<td>65.5</td>
<td>65.5</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>0</td>
<td>65.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>57.9</td>
<td>176.7</td>
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</tbody>
</table>

Sensitivity: change in debt service for each 50 basis point change in interest rate

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on City notes (b)</td>
<td>2.2</td>
<td>2.2</td>
<td></td>
<td></td>
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<tr>
<td>Interest takeout</td>
<td>0</td>
<td>4.8</td>
<td>4.1</td>
<td>4.1</td>
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<tr>
<td>Capital Reserve</td>
<td>0</td>
<td>4.1</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>2.2</td>
<td>11.1</td>
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</tbody>
</table>

---

(a) Includes accrued interest on $819 million from anniversary date through October 31, 1979, plus debt service on $819 million of 7.5% City serial bonds issued in November 1973 with equal annual principal payments of $102 million payable in fiscal years 1980 through 1987.

(b) Assumes rate on City notes would be increased to 8% beginning 9/30/77.
Refinancing of $1,671 million of First Resolution Bonds ($ in Millions)

<table>
<thead>
<tr>
<th>A. Funding requirements on First Resolution Bonds included in adopted budget and budget message</th>
<th>1978</th>
<th>1979</th>
<th>1980</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$262.0(a)</td>
<td>$122.0(b)</td>
<td>$323.0(b)</td>
<td>$250.0(b)</td>
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</table>

<table>
<thead>
<tr>
<th>B. Existing funding requirements on First Resolution Bonds assuming no stretch (c)</th>
<th>1978</th>
<th>1979</th>
<th>1980</th>
<th>1981</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$503.3</td>
<td>$521.2</td>
<td>$651.1</td>
<td>$397.9</td>
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<table>
<thead>
<tr>
<th>C. Funding requirements on First Resolution Bonds assuming exchange on 8/1/77 of 6% Bonds for 7½% bonds payable 1987 through 1997(c)</th>
<th>1978</th>
<th>1979</th>
<th>1980</th>
<th>1981</th>
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<tbody>
<tr>
<td></td>
<td>$230.3</td>
<td>$322.9</td>
<td>$365.3</td>
<td>$319.1</td>
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</table>

Sensitivity: change in funding requirements for each 50 basis point change in interest rate on $1,671 million.

<table>
<thead>
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<tbody>
<tr>
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<td>$8.4</td>
<td>$8.4</td>
<td>$8.4</td>
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<tr>
<td>TOTAL</td>
<td>$12.6</td>
<td>$10.5</td>
<td>$10.5</td>
<td>$8.4</td>
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</table>

(a) Includes one year stretch by banks and two-year stretch by pension funds and sinking funds.

(b) Includes five year stretch by banks and pension and sinking funds plus refunding principal payments in each fiscal year.

(c) Excludes $250 million offering of June 14, 1977.
## City Debt Service

($ in Millions)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Funded Debt</strong></td>
<td></td>
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<tr>
<td>Interest</td>
<td>504.1</td>
<td>550.6</td>
<td>602.6</td>
<td>615.1</td>
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<tr>
<td>Principal</td>
<td>946.0</td>
<td>878.2</td>
<td>843.1</td>
<td>805.1</td>
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<td>BAN Interest</td>
<td>27.2</td>
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<td>-0-</td>
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<td><strong>TOTAL W/OUT LIMIT</strong></td>
<td>1477.3</td>
<td>1428.8</td>
<td>1445.7</td>
<td>1420.2</td>
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<tr>
<td><strong>Short-term Interest</strong></td>
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<tr>
<td>Seasonal</td>
<td>105.6</td>
<td>119.7</td>
<td>110.0</td>
<td>110.0</td>
</tr>
<tr>
<td>RAN's &amp; TAN's</td>
<td>25.0</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>130.6</td>
<td>119.7</td>
<td>110.0</td>
<td>110.0</td>
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<tr>
<td><strong>TOTAL DEBT SERVICE</strong></td>
<td>1607.9</td>
<td>1548.5</td>
<td>1555.5</td>
<td>1530.0</td>
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</table>
City Payment to MAC

- February 2, 1978 interest payment (51.6)
  October 1977 (25.0)  January 1978 (25.8)  FY 1978 $ 51.6

- August 2, 1978 interest payment (51.6)
  April 1978 (25.8)  June 1978 (25.6)  FY 1973 $ 51.6

- February 2, 1979 principal payment to Banks (86.2)
  April 1978 (21.5)  June 1978 (21.6)  FY 1978 $ 43.1

Sub-Total $136.3

Capital Reserve

- Calendar Year 1978 interest payments by MAC (103.2)
  50% (CY 1977 & CY 1978) x 103.2 = 51.6
  Less: On Hand (CY 1977) 60.4
    Principal: 34.3
    Interest: 26.1

October 1977 payment to Capital Reserve

Sub-Total $137.5

Less: Portion of Principal Payments for April (36.3) and June (36.4) 1977 not required 72.8

Total Cost $ 64.7

Assumptions

- Pension Funds and Banks agree after June 30
- Pension Funds agree to multi-year stretch
- Banks agree to one-year deferment, with 1978 principal to be paid in 1987
- April and June 1977 payment to MAC to be used in FY 1978
- Reinvestment by Pension Funds of $50 million in FY 1977 (budget assumed $60 million)
WITHOUT THE MAC STRETCH  
FY 1973

City Payments to MAC

- Feb. 2, 1973 principal payments (145.5)
  April 1977 (36.3) } FY 1977
  June 1977 (36.4) } FY 1977
  Oct. 1977 (36.4) } FY 1978
  Jan. 1978 (36.4) } $ 72.8

- Feb. 2, 1979 principal payments (154.1)
  April 1978 (38.5) } FY 1973
  June 1978 (38.5) } FY 1973
  Oct. 1978 (38.5) } FY 1979
  Jan. 1979 (38.6) } $ 77.0

- Feb. 2, 1978 interest payments (50.1)
  Oct. 1977 (25.0) } FY 1978
  Jan. 1978 (25.1) } $ 50.1

- Aug. 2, 1973 interest payments (45.8)
  April 1973 (22.9) } FY 1978
  June 1978 (22.9) } $ 45.8

Sub-Total $245.7

Capital Reserve

- Calendar Yr. 1978 principal payments by MAC (145.5)
  50% (CY 77 & CY 78) x 145.5 = 72.8
  Less: On Hand (CY 77) 34.3
  Oct. 1977 payment to Capital Reserve $ 38.5

- Calendar Yr. 1973 interest payments by MAC (95.9)
  50% (CY 77 & CY 78) x 95.9 = 47.9
  Less: On Hand (CY 77) 26.1
  Oct. 1977 payment to Capital Reserve $ 21.8

Sub-Total $ 69.3

GRAND TOTAL $306.0
### DAC Debt Service Expenses
(HAMP and Pershing Holdings)

**FY 1978**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($ in millions)</th>
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<tbody>
<tr>
<td>Without the Stretch</td>
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<tr>
<td>With the Stretch</td>
<td>64.7</td>
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<tr>
<td>Savings</td>
<td>241.3</td>
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<tr>
<td>Included in Expense Budget FY 1978</td>
<td>253.1</td>
</tr>
<tr>
<td>Additional Cost</td>
<td>11.8</td>
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</table>
Re: Proposed addition to Section 203 of MAC First General Bond Resolution

(3) Notwithstanding any other provision or restriction contained in this Section 203 or elsewhere in this Resolution, the Corporation by Series Resolution may authorize, cause to be authenticated and deliver Refunding Bonds, as refunding bonds as such term is used in the Act as amended to the date of delivery of such Refunding Bonds, in exchange for Outstanding Bonds of one or more Series or portion thereof including any maturity or portion of a maturity (the "Refunded Bonds"), with the consent of the Holder or Holders thereof, whether or not the Refunded Bonds are then redeemable and without regard to the redemption provisions thereof, provided that (i) the Corporation determines such to be in furtherance of fulfilling its Corporate purpose, (ii) the Refunded Bonds are upon the exchange thereof cancelled or deemed cancelled and no longer Outstanding and (iii) the Trustee receives the documents required by Section 202.

(4) The Bonds being refunded pursuant to this Section 203 shall not be deemed Outstanding for the purposes of the documents required by Section 202 deliverable pursuant to this Section 203.
Proposed Amendment to §902 of MAC General Resolution

902. Extension of Payment of Bonds and Coupons.

Except as hereinafter permitted, the [The] Corporation shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the coupons or claims for interest by the purchase or funding of such Bonds, coupons or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such coupons or claims for interest shall be extended, such Bonds, coupons or claims for interest shall not be entitled in case of any default under this Resolution to the benefit of this Resolution or to any payment out of any assets of the Corporation or the funds (except funds held in trust for the payment of particular Bonds, coupons or claims for interest pursuant to this Resolution) held by the Trustee or any Paying Agent, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended coupons or claims for interest. The foregoing notwithstanding, the Corporation may, when the Board determines such to be in fulfillment of the Corporation's corporate purposes, extend or assent to the extension of the maturity of
any of the Bonds or the time of payment of any of the coupons or claims for interest, with the consent of the Holder thereof, and any action so taken shall not be considered as violative of the provisions of this Section 902 provided that [add §202 type test]. Nothing herein shall be deemed to limit the right of the Corporation to issue Bonds of a Refunding Issue as provided in Section 203 and such issuance shall not be deemed to constitute an extension of maturity of Bonds or the time of payment of any of the coupons or claims for interest.
MEMORANDUM

Date : 29 June 1977

To : Bill Scott, Jack Bigel

From: Gene Keilin

Re : Deferral and Swap Proposals

I enclose the memo and proposals sent to the Teachers' Retirement System trustees today. I will be in touch with you when I return from vacation on July 11.

Enclosures

EJK:ba
IMPORTANT

A meeting is scheduled for April 28, 1976 at 3:00 P.M. at Paul, Weiss, Rifkind, Wharton & Garrison, for all interested parties. See page 12 of the enclosed memorandum. Please advise us whether you will be able to attend that meeting or, if not, whether you will send a representative in your place.

You may leave word on this point with Gladys Velez (644-8789), who is secretary to Judith Thoyer.

JRT
TO: Persons Listed on Schedule I  
Attached hereto

FROM: Paul, Weiss, Rifkind, Wharton & Garrison  
Hawkins, Delafield & Wood

Subject: Procedures to  
Effectuate the  
Provisions of  
Paragraph 5 of  
the Amended  
and Restated  
Agreement

This memorandum, which revises and supersedes our memorandum dated January 29, 1976, will set forth the procedures which Paul, Weiss, Rifkind, Wharton & Garrison, and Hawkins, Delafield & Wood, as General Counsel and Bond Counsel, respectively, to the Municipal Assistance Corporation For The City of New York (the "Corporation"), in consultation with Carter, Ledyard & Milburn, counsel to United States Trust Company of New York, as Trustee (the "Trustee") under the First General Bond Resolution of the Corporation adopted July 2, 1975 (the "Resolution"), propose to effectuate the requirements of Paragraph 5 of the Amended and Restated Agreement made as of November 26, 1975 (the "Agreement") among the Corporation and certain of the New York City Commercial Banks (the "Banks"), the New York City Pension Funds (the "Pension Funds") and the New York City Sinking Funds (the "Sinking Funds").

Differences between the procedures proposed herein and in the proposed Supplemental and Series Resolutions referred to herein and those contained in the January 29 memorandum and the Series Resolutions adopted by the Corporation on January 26, 1976 are the result of our receipt and evaluation of numerous comments of counsel to various of the Banks,
Pension Funds and Sinking Funds and our reevaluation of certain legal problems posed by the consummation of the transactions contemplated by Paragraph 5.

The procedures with respect to Bonds of the Corporation held by the Banks will first be discussed in full, and then procedures with respect to Bonds of the Corporation held by the Pension Funds and the Sinking Funds will be discussed. The final section of the memorandum contains a discussion of an amendment to the Resolution that Bond Counsel and General Counsel, in consultation with counsel to the Trustee, have determined to be necessary to carry out the provisions of Paragraph 5.

**BONDS HELD BY BANKS**

**Paragraph 5(a) - Series C, D, E, H and J Bonds**

Paragraph 5(a) of the Agreement provides that commencing February 1, 1976, each of the Series C, D, E, H and J Bonds of the Corporation held by the Banks (the "Bank Series Bonds") will, notwithstanding the terms of such Bank Series Bonds, bear interest at the rate of 6% a year and mature on February 1, 1986, subject to redemption, in part, on February 1 of each of the years 1977 through 1985 in the respective principal amounts calculated to provide for level debt service on such Bank Series Bonds to February 1, 1986. In order that the Trustee will have the authority to make the payments to the holders of the Bank Series Bonds pursuant to the terms of the
Agreement, the Board of Directors of the Corporation has authorized the Finance Committee to adopt a Supplemental Resolution (the "Supplemental Resolution") applicable to each Series Resolution pursuant to which the issuance of Bank Series Bonds was authorized. The Supplemental Resolution will provide for the payment of the Bank Series Bonds pursuant to the terms of Paragraph 5 and will contain a separate payment schedule for each Bank in order that each Bank will be assured of substantially level debt service on each series of Bank Series Bonds which it holds. The Supplemental Resolution will further provide that each Bank may, at its election, retain its Bank Series Bonds as stamped bonds or exchange them for new bonds, as discussed below.

Although each of the Banks, by executing the Agreement, has already agreed to accept the new maturity of and interest rate on its Bank Series Bonds, to become effective, the Supplemental Resolution must receive the formal consent of the holders of the outstanding bonds of each series of Bank Series Bonds. Such consent will be solicited from the Banks pursuant to Article 11 of the Resolution.

Subdivision (iii) of Paragraph 5(a) provides that the Bank Series Bonds shall be stamped by such Banks with a stamp reading: "Principal of and Interest on this Bond are payable in accordance with an Agreement dated as of the 26th day of November 1975 among the Municipal Assistance Corporation for The City of New York and certain Pension Funds,"
Sinking Funds and Banks. Transfer of this Bond is restricted by the terms of the aforementioned Agreement." (We have included the second sentence of the stamp in order to give more precise notice to a potential transferee of the restriction on the transferability of the stamped bonds as may be required by the Uniform Commercial Code.) After the Corporation prepares and distributes a stamp bearing such legend to each of the Banks, each of the Banks will stamp its Bank Series Bonds (including each of the appurtenant coupons, if the Bonds are not first exchanged for registered bonds as described below), and will deliver to the Corporation and the Trustee a certificate signed by an appropriate officer of such Bank (i) stating that all of the Bank Series Bonds (and coupons, if appropriate) held by such Bank have been properly stamped pursuant to the provisions of Paragraph 5(a) of the Agreement, (ii) stating that each such stamp has been made in red ink and is clear and legible and (iii) setting forth a list of the serial numbers, grouped by maturity, and the principal amount of each of the Bank Series Bonds and stating that such list is a true and complete list of Bank Series Bonds held by such Bank. We will circulate a form of such certificate shortly.

The Bank Series Bonds are currently in coupon form. In order to simplify the stamping procedure and the payment of interest on the stamped bonds, we suggest that
the Bank Series Bonds in coupon form be exchanged for Bank Series Bonds in fully-registered form prior to affixing the stamp. (You will note that we are requiring the transfer from coupon to registered form of the Series A and B Bonds held by the Banks, as is explained below.) Fully-registered Bank Series Bonds would be issued to each Bank adopting the proposal in principal amounts equal to the principal amounts of each maturity of each Series of Bank Series Bonds currently held by such Banks in exchange for each such currently held Bank Series Bonds in coupon form. In this connection, it would be appropriate to enter into Home Office Payment Agreements with each Bank desiring the same, which would provide that payments of interest will be made by means of Federal Funds transfers.

If any Bank is not willing to go along with the procedure suggested above, it may retain its Bank Series Bonds in coupon form. In such case, because coupons are fully negotiable, each coupon attached to Bank Series Bonds that are to be retained as stamped bonds will be required to be separately stamped. Because of the difficulty of ensuring that no stamped bond in coupon form will be transferred except as specified pursuant to subdivision (iv) of Paragraph 5(a), as described below, each of the Banks which elects to hold stamped bonds in coupon form will be required to execute an agreement indemnifying the Corporation, the Trustee and the Paying Agents.
against any losses incurred as a result of a transfer of any Bank Series Bond or coupon not in accordance with subdivision (iv) of Paragraph 5(a).

Each of the Banks retaining its Bank Series Bonds as stamped bonds in coupon form will require additional coupons to evidence interest payments in those years after the original maturity dates of the Bank Series Bonds. The Corporation will work out an appropriate procedure for supplying such coupons.

Subdivision (iv) of Paragraph 5(a) provides that no Bank Series Bonds will be transferred, assigned or delivered by any Bank unless first exchanged for a newly issued bond of the Corporation. The Corporation has given instructions to the Trustee not to transfer on its books any Bank Series Bond to any person, including the current holder of such Bank Series Bond, unless a new bond is issued reflecting the new interest and maturity dates of the Bank Series Bonds.

In order to accommodate those Banks that wish to receive newly-issued bonds rather than retain the Bank Series Bonds as stamped bonds, the Supplemental Resolution will provide for the exchange at the outset of Bank Series Bonds for new bonds which will mature and bear interest as provided in Paragraph 5(a). The Supplemental Resolution will also provide for the later exchange of Bank Series Bonds bearing the stamp described above for new bonds so that the Banks may transfer, assign or deliver their Bank Series Bonds in accordance with the provisions of subdivision (iv) of Paragraph 5(a).
The Supplemental Resolution will provide that each of the Banks may get their new bonds in either coupon or registered form. The Supplemental Resolution will also provide that all new bonds will be issued as serial bonds having maturities calculated to provide for substantially level debt service as provided in Paragraph 5(a).

Paragraph 5(b) - Series A and B Bonds

Paragraph 5(b) contains an agreement by each of the Banks to exchange Series A and B Bonds of the Corporation held by such Banks for an equal principal amount of newly issued bonds of the Corporation bearing interest at the rate of 6% a year and maturing on February 1, 1986, subject to mandatory sinking fund payments calculated to provide for level debt service from February 1, 1977 to February 1, 1986.

The first proviso in Paragraph 5(b) states that in the event that the consent of the requisite holders of 1975 Series A or B Bonds is obtained to a revised amortization schedule providing for the level debt service payments described in the preceding paragraph, then such Series A and B Bonds held by the Banks shall be treated as and shall be deemed to be Bank Series Bonds pursuant to the provisions of Paragraph 5(a).

General Counsel and Bond Counsel to the Corporation have determined that the consent referred to in the preceding paragraph of the non-Bank holders of Series A and B Bonds is unnecessary because, pursuant to Section 1001(1) of the Resolution, the Corporation has adopted, and authorized the Finance
Committee to complete, a new Series Resolution providing for the adjustment of the Series A and B Bonds held by the Banks pursuant to the provisions of Paragraph 5(a). Because the consent of the non-Bank holders of Series A and B Bonds is not necessary, the Series A and B Bonds held by the Banks are, pursuant to Paragraph 5(b), to be treated as Bank Series Bonds. The effect of this conclusion is that the stamping procedure described above will be available for the Series A and B Bonds held by the Banks. However, Series A and B Bonds must be exchanged for fully-registered bonds before the stamping procedure is used. The reason for this requirement is that, unlike the other Bank Series Bonds, the Series A and B Bonds are not held entirely by the Banks. At such time as coupons would be presentable for payment, there would be confusion created by the fact that some of the coupons being presented by "public" holders would be payable at a different rate of interest than those presented by the Banks. The likelihood of the wrong amount being paid with respect to a coupon is considerably greater here than in the Bank Series Bonds in which each series is held only by Banks and all of the coupons of bonds of those series represent restructured interest. Moreover, as each of the three Paying Agents for Series A and B would have to adopt procedures for separating the stamped coupons from unstamped coupons, the entire payment procedure could be slowed down considerably to the detriment of the "public" bondholders.
To carry out the treatment of the Series A and B Bonds as Bank Series Bonds, the Series Resolution will provide for the issuance of bonds containing the new terms or the issuance of bonds in the original form (after transfer into fully-registered form) to be stamped as contemplated by Paragraph 5(a). The new Series Resolution will also provide the new bonds will be serial bonds having maturities calculated to provide for substantially level debt service pursuant to the provisions of Paragraph 5(a).

Counsel to certain of the Banks have indicated interest in taking advantage of a procedure similar to that specified in the second "proviso" clause in Paragraph 5(a) pursuant to which a Bank may continue to hold its Series A term bonds provided that such bonds would bear interest at the rate of 6% per annum, commencing February 1, 1976, and that the sinking fund and redemption provisions with respect to such bonds would remain unchanged. The Corporation has determined it will allow any Bank to continue to hold its Series A term bonds in accordance with the terms of this clause. Counsel to any Bank interested in adopting this proposal should notify us in order to discuss the procedures which will be required to carry out such an arrangement.
BONDS HELD BY PENSION FUNDS AND SINKING FUNDS

Paragraph 5(a) provides that each of the Pension Funds and Sinking Funds may at its election agree with respect to any of the bonds of the Corporation it holds (the "Fund Bonds") that commencing February 1, 1976, such Fund Bonds will, notwithstanding the terms of such Fund Bonds, bear interest, mature and be subject to redemption in accordance with terms identical to those specified in Paragraph 5(a) with respect to the Bank Series Bonds.

Because the Fund Bonds are treated pursuant to Paragraph 5(a) in the same manner as Bank Series Bonds, the Board of Directors of the Corporation has authorized the Finance Committee to adopt a Supplemental Resolution which will provide for the payment of the Fund Bonds pursuant to the terms of Paragraph 5(a). As in the case of the Supplemental Resolution discussed above in connection with the Bank Series Bonds, the Supplemental Resolution will contain a separate debt repayment schedule providing for substantially level debt service with respect to each series of Fund Bonds held by each of the Pension Funds and Sinking Funds.

The Supplemental Resolution will contain substantially similar terms with respect to the Fund Bonds as it does with respect to the Bank Series Bonds. Accordingly, each of the Pension Funds and Sinking Funds must elect whether to exchange its bonds for new bonds or to retain its bonds as stamped bonds,
as explained above with respect to the Bank Series Bonds. The new bonds, when issued to the Pension Fund and Sinking Fund, will be serial bonds.

Paragraph 5(b) provides that to the extent that a Pension Fund or Sinking Fund does not elect to have its Fund Bonds treated according to the procedures specified in Paragraph 5(a), such Pension Fund or Sinking Fund will exchange its Fund Bonds for newly-issued bonds of the Corporation. Because as described above, the Corporation is offering to the Pension Funds and the Sinking Funds, as well as the Banks, the right to receive new bonds pursuant to Paragraph 5(a), the provisions of Paragraph 5(b) do not do any more than restate the option to choose new bonds pursuant to Paragraph 5(a).

AMENDMENT OF THE FIRST GENERAL BOND RESOLUTION

Section 902 of the Resolution contains a prohibition against the extension of the maturity of any bonds or the time of any payment of interest on any bonds issued pursuant to the Resolution. As each of the Banks, Pension Funds and Sinking Funds holds certain bonds whose maturities are to be extended pursuant to the provisions of Paragraph 5 of the Agreement, an amendment to the Resolution with respect to Section 902 will be required.

The amendment will take the form of a Supplemental Resolution. Drafts of the Supplemental Resolution, when ready, will be available to the Banks, Pension Funds and Sinking Funds
upon request. In compliance with the provisions of Section 1102 of the Resolution, the Supplemental Resolution, or a summary thereof or reference thereto, will be mailed to holders of the Bonds and published in newspapers, all as specified in such Section.

CONCLUSION

If you have any questions with respect to this memorandum, please call any of the following:

Judith R. Thoyer - 644-8782
Allen L. Thomas - 644-8712
Frederick R. Cummings - 644-8166
Donald J. Robinson - 952-4713
Richard L. Sigal - 952-4764
John J. Keohane - 952-4806

We would like to hold a meeting at which counsel for each of the Banks, Pension Funds and Sinking Funds would be present in order to discuss any questions with respect to the procedures outlined herein and any other related matters so that we may all complete the process of implementing the transactions contemplated by Section 5 of the Agreement. We have set this meeting for Wednesday, April 28, 1976 at 3:00 P.M. at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, 345 Park Avenue.

Shortly after the meeting, we would expect that each of the Banks, Pension Funds and Sinking Funds would notify the Corporation of its decision on the following issues:
1. Whether it will stamp its currently held bonds or receive new bonds;

2. (a) In the event it elects to retain its bonds as stamped bonds, whether or not it will retain its coupon bonds for any series (other than Series A or B, which will have to be changed to registered form) or whether it will change such coupon bonds for registered bonds prior to stamping; or

(b) In the event it elects to exchange its bonds for new bonds at the outset, whether it will receive such bonds in coupon or registered form.

3. Whether it elects the alternative on Series A Bonds described on page 9 hereof.
SCHEDULE I

BANKS

Joseph Doyle, Esq. (First National City Bank)
Shearman & Sterling
53 Wall Street
New York, New York

James Baechle, Esq. (Bankers Trust Company)
Bankers Trust Company
280 Park Aven
New York, New York

Richard McClung, Esq. (United States Trust Company of New York)
Robert Grew, Esq.
Carter, Ledyard & Milburn
Two Wall Street
New York, New York

Roy Haberkern, Esq. (The Chase Manhattan Bank, N.A.)
Milbank Tweed Hadley
& McCloy
One Chase Manhattan Plaza
New York, New York

Richard Powell, Esq. (Marine Midland Bank – New York
H. Rodgin Cohen, Esq.
The Bank of New York
Sullivan & Cromwell
48 Wall Street
New York, New York

Edward Levine, Esq. (National Bank of North America)
Cole & Deitz
40 Wall Street
New York, New York

Richard Smith, Esq. (Morgan Guaranty Trust Company of New York)
Davis Polk & Wardwell
One Chase Manhattan Plaza
New York, New York

Stephen Swartz, Esq. (Irving Trust Company)
Charter New York
Corporation
One Wall Street
New York, New York
David Gray, Esq.
Simpson Thacher & Bartlett
350 Park Avenue
New York, New York

Richard Simmons, Esq.
Cravath, Swaine & Moore
One Chase Manhattan Plaza
New York, New York

Mr. John Lee
The New York Clearing House
100 Broad Street
New York, New York

PENSION FUNDS AND SINKING FUNDS

Mr. Sol Lewis
Third Deputy Comptroller
Room 707
Municipal Building
New York, New York

Kenneth Hartman, Esq.
Office of Third Deputy Comptroller
Room 707
Municipal Building
New York, New York

William Wood, Esq.
Office of Third Deputy Comptroller
Room 707
Municipal Building
New York, New York

(Manufacturers Hanover Trust Company)
(Chemical Bank)
cc: Mr. Herbert Elish
Municipal Assistance Corporation
Two World Trade Center
New York, New York

Mr. James Keegan
Municipal Assistance Corporation
Two World Trade Center
New York, New York

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New York, New York

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New York, New York

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James M. Dubin, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison
345 Park Avenue
New York, New York
CC: Mr. Herbert Elish  
Municipal Assistance Corporation  
Two World Trade Center  
New York, New York

Mr. James Keegan  
Municipal Assistance Corporation  
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Mr. John S. Tamagni  
Lazard Freres & Co.  
One Rockefeller Plaza  
New York, New York

Mr. Melvin L. Heineman  
Lazard Freres & Co.  
One Rockefeller Plaza  
New York, New York

Mr. Park Benjamin  
Lazard Freres & Co.  
One Rockefeller Plaza  
New York, New York

Robert Crew, Esq.  
Carter, Ledyard & Milburn  
Two Wall Street  
New York, New York

Mr. Malcolm J. Hood  
Vice President  
United States Trust Company  
130 John Street  
New York, New York
MEMO TO: Mr. Felix G. Rohatyn
FROM: Melvin L. Heineman
RE: MAC/NYC

October 23, 1975

I. MAC Paper Held By N.Y. Clearing House Banks

Following is a list of MAC paper purchased by the New York Clearing House Banks by year of maturity (in millions of dollars):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>$125,375</td>
<td>Total $400,285</td>
</tr>
<tr>
<td>1978</td>
<td>$133,275</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>$141,275</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>1981-5</td>
<td>$20,000 in each year</td>
<td>Total $500,000</td>
</tr>
</tbody>
</table>

These figures exclude data on Series A and B, as well as Series M which the New York Clearing House Banks did not participate in. Although we have no breakdown of maturities, the New York Banks purchased at least an additional $433,290,000 of Series A Bonds. Assuming substantial purchases of the $275,000,000 issue, the New York Clearing House Banks own in excess of $1 billion of MAC paper.

By way of information, New York savings banks can be identified as having purchased $169,420,000 of Series A, B and M Bonds.

2. Maturities of MAC Securities Within 3 Years

Following are the amounts of MAC securities maturing within the next three years (in millions of dollars):

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Series</th>
<th>Holder</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/14/76</td>
<td>$250,000</td>
<td>Sub. Notes</td>
<td>State</td>
<td>$250,000</td>
</tr>
<tr>
<td>2/1/77</td>
<td>41,240</td>
<td>A</td>
<td>Public</td>
<td></td>
</tr>
<tr>
<td></td>
<td>78,525</td>
<td>C</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31,410</td>
<td>D</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12,660</td>
<td>E</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,375</td>
<td>G</td>
<td>State Pension</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,140</td>
<td>H</td>
<td>Bank of New York</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,360</td>
<td>I</td>
<td>City Pension</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500</td>
<td>L</td>
<td>City Pension</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,000</td>
<td>M</td>
<td>Exxon</td>
<td>$182,570</td>
</tr>
<tr>
<td>2/1/78</td>
<td>43,920</td>
<td>A</td>
<td>Public</td>
<td></td>
</tr>
<tr>
<td></td>
<td>83,240</td>
<td>C</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>33,925</td>
<td>D</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13,415</td>
<td>E</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,055</td>
<td>G</td>
<td>State Pension</td>
<td></td>
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<tr>
<td></td>
<td>3,325</td>
<td>H</td>
<td>Bank of New York</td>
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<td></td>
<td>6,930</td>
<td>I</td>
<td>City Pension</td>
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<td></td>
<td>4,500</td>
<td>N</td>
<td>City Pension</td>
<td>$192,680</td>
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...
Maturities of MAC Securities (cont'd):

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Series</th>
<th>Holder</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/1/79</td>
<td>$46,995</td>
<td>A</td>
<td>Public</td>
<td></td>
</tr>
<tr>
<td></td>
<td>88,235</td>
<td>C</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>35,295</td>
<td>D</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14,220</td>
<td>E</td>
<td>Clearing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,415</td>
<td>G</td>
<td>State Pension</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,525</td>
<td>H</td>
<td>Bank of New York</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7,575</td>
<td>I</td>
<td>City Pension</td>
<td>$200,260</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$825,510</td>
</tr>
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</table>

3. City Paper Held By City Pension and Sinking Funds

Following are the holdings of New York City notes by the City pension and sinking funds as of October 1, 1975 (in millions of dollars):

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Amount</th>
<th>Purpose</th>
<th>Holder</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/1/75</td>
<td>$30,000</td>
<td>URN</td>
<td>Pension</td>
</tr>
<tr>
<td>1/13/76</td>
<td>200,000*</td>
<td>BAN</td>
<td>Sinking</td>
</tr>
<tr>
<td>5/28/76</td>
<td>220,000</td>
<td>BAN</td>
<td>Pension</td>
</tr>
<tr>
<td>6/11/76</td>
<td>51,500</td>
<td>BAN</td>
<td>Pension</td>
</tr>
<tr>
<td>8/15/76</td>
<td>37,703</td>
<td>HDC</td>
<td>Pension</td>
</tr>
</tbody>
</table>

* - $35,000,000 of said amount may be legally restricted.

Of the $339,203,000 owned by the City pension funds, the ownership is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>$31,810</td>
</tr>
<tr>
<td>Police</td>
<td>60,170</td>
</tr>
<tr>
<td>Bd.of Ed.</td>
<td>5,500</td>
</tr>
<tr>
<td>Teachers</td>
<td>60,270</td>
</tr>
<tr>
<td>City Empl.</td>
<td>181,453</td>
</tr>
</tbody>
</table>

$339,203

Neither the pension nor the sinking funds own any City notes beyond the 8/15/76 maturity, but both own an aggregate of $339,700,000 principal amount of long-term low-coupon City bonds, primarily maturing in the 1980's.

4. City Paper Committed to be Rolled Over

The New York Clearing House Banks have committed to rollover $550,000,000 of New York City notes due from October 1, 1975 to June 30, 1976 for one year from date of maturity at an interest rate of 7 1/2%.

Referring to the Official Statement of the Series B issue, the City has provided approximately $1.6 billion for redemption and payment of interest on City bonds maturing by June 30, 1976, some portion of which may be owned by the New York City Clearing House banks.

...
5. **Summary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-Term MAC Paper Held by Banks on Negot. Issues</td>
<td>$400,285</td>
</tr>
<tr>
<td>Total MAC Paper Maturing on or before February 1, 1979</td>
<td>825,510</td>
</tr>
<tr>
<td>Short-Term NYC Paper Held by Pension and Sinking Funds</td>
<td>539,203</td>
</tr>
<tr>
<td>City Paper Committed to be Rolled Over by Clearing House Banks</td>
<td>550,000</td>
</tr>
</tbody>
</table>

M.L.H.
This memorandum was prepared at the direction of the Governor by the legal staffs of Municipal Assistance Corporation For the City of New York ("MAC") and the Governor's office and contains the Financial Plan and Legislative Program proposed by MAC in order to provide cash to The City of New York (the "City") during the period from September 1, 1975 through June 30, 1976 for use by the City in meeting its payroll and other operating expenses and in paying short-term obligations as they mature during such period.

This memorandum is in four parts:

A. Summary of cash deficits of the City.

B. Outline of Financial Plan.

C. Outline of Legislative Program.

D. Draft of proposed legislation.
A. Summary of City Cash Deficits*  
(Including repayments of maturing indebtedness)

<table>
<thead>
<tr>
<th>Balance of Fiscal Year</th>
<th>Cash Deficit (dollars in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1975</td>
<td>$906</td>
</tr>
<tr>
<td>October</td>
<td>711</td>
</tr>
<tr>
<td>November</td>
<td>397</td>
</tr>
<tr>
<td>December</td>
<td>798</td>
</tr>
<tr>
<td>January 1976</td>
<td>1,364</td>
</tr>
<tr>
<td>February</td>
<td>638</td>
</tr>
<tr>
<td>March</td>
<td>863</td>
</tr>
<tr>
<td>April</td>
<td>207</td>
</tr>
<tr>
<td>May</td>
<td>112</td>
</tr>
<tr>
<td>June</td>
<td>(209) surplus</td>
</tr>
</tbody>
</table>

* Estimated as of August 22, 1975.
B. Outline of Financial Plan.

1. Assumptions. The assumptions on which the MAC's Financial Plan is based are as follows:

   (i) Based on current estimates, the City must receive, from sources outside its normally available sources, approximately $2,000,000,000 during the months of September, October and November 1975, approximately $800,000,000 during December 1975 and more than $3,000,000,000 for the balance of its fiscal year, exclusive of intra-year borrowing.

   (ii) MAC is unable to sell to the public or to Clearing House Banks a sufficient amount of its Bonds or Notes to provide to the City the funds necessary in order to avoid default by the City on its payroll, debt and other obligations becoming due during the balance of this fiscal year.

   (iii) The Legislative Program referred to elsewhere in this memorandum is necessary in order to facilitate the raising of any significant amount of additional funds.

   (iv) Each element of the Financial Plan is conditioned upon the availability to the City, pursuant to the Financial Plan, of at least $2,000,000,000 during the next three months and, unless otherwise agreed, no commitment with respect to any element of the Financial Plan will be binding unless and until firm commitments have been received with respect to not less than $2,000,000,000 for the three month period September through November 1975.
2. Sources of Cash. MAC, after consulting with various State and City officials, has identified the following potential sources of the required funds. No commitments have been received with respect to any of the following items.

(i) State of New York: $750,000,000. The State would sell publicly, through its normal underwriting syndicate, $750,000,000 principal amount of Tax Anticipation Notes ("TANS"), which would mature within one year as required by law. The proceeds of such TANS would be used as follows:

(a) $250,000,000 would be used to purchase notes of MAC maturing within one year. The MAC notes would be payable out of the MAC revenue stream, but their claim on that revenue stream would be subordinated to that of the "Bonds", "Notes" and "Other Obligations" under the MAC General Bond Resolution. Accordingly, they would not fall within the MAC coverage requirements. Based on historic Sales Tax collections, adequate money will be available, after other MAC debt service, to repay such notes on a timely basis: (Dollars in Thousands)

<table>
<thead>
<tr>
<th>Historic Collections</th>
<th>Less MAC Debt Service</th>
<th>Equals am't available for add'l notes (and subsequent payment to City)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept., Oct. $173,000</td>
<td>$40,757 (Oct. 12)</td>
<td>$133,243* (Oct. 15)</td>
</tr>
<tr>
<td>Nov., Dec., Jan. 201,000</td>
<td>40,757 (Jan. 12)</td>
<td>160,243 (Jan. 15)</td>
</tr>
<tr>
<td>Feb., March, Apr. 207,000</td>
<td>78,866 (Apr. 12)</td>
<td>129,134 (Apr. 15)</td>
</tr>
<tr>
<td>May, June 193,000</td>
<td>78,866 (June 30)</td>
<td>114,134 (June 30)</td>
</tr>
<tr>
<td>July, Aug., Sept., Oct. 186,000</td>
<td>78,866</td>
<td>77,666** (Oct. 12)</td>
</tr>
</tbody>
</table>

* Not to be diverted to pay MAC notes issued to State.

** Capital Reserve Fund.
Accordingly, the aggregate amount available (January 15, April 15 and June 30) is $403,511,000.

(b) $250,000,000 would be used to purchase long-term Bonds of MAC.

(c) $250,000,000 would be used to purchase Revenue Anticipation Notes ("RANS"), or TANS, of the City. The City's RANS or TANS would mature within one year and would be secured by an agreed upon offset against the first state aid otherwise payable to the City after any default by the City on such RANS or TANS and second by the collateral assignment of all Mitchell Lama mortgages held by the City. (Such repayment would be subject to any prior lien for MAC debt service pursuant to the proposed increase in MAC revenue streams -- see page 11.)

(ii) City Sinking Funds: $180,000,000. It is proposed that approximately $180,000,000 of the sinking funds with respect to long-term City debt not now invested in short-term City obligations be liquidated in an orderly manner and that, pursuant to new State authorizing legislation, these funds be invested in long-term MAC Bonds.

(iii) Prepayment of Real Estate Taxes: $150,000,000. The City is currently undertaking, pursuant to the "Rudin Plan", collection of prepaid real estate taxes. It is anticipated that this program would produce approximately $150,000,000 for the City.

(iv) Bank Rollover: $156,000,000. New York Clearing House Banks have previously committed to purchase approximately
$50,000,000 of 3-year, 6% MAC Bonds on September 11, 1975, subject to the City not being in default at the time of such purchase. In addition, such banks have previously committed to purchase one-year, 7-1/2% City notes in an amount equal to the City notes held by them maturing between October 1, 1975 and June 30, 1976 (estimated at an aggregate $550,000,000). It is estimated that such "rollover" will equal $17,000,000 in October, $59,000,000 in November and $30,000,000 in December 1975. Each such rollover is conditioned upon the City not being in default at the time of such rollover.

(v) Bank Purchase: $250,000,000. Subject to the receipt of commitments yielding an aggregate of $2 billion, it is proposed that an aggregate of $250,000,000 of long-term MAC Bonds be sold, by underwritten offering or otherwise, to or through the commercial and investment banks that have previously underwritten MAC offerings.

(vi) State Insurance Fund: $100,000,000. It is proposed that up to $100,000,000 now held in the State Insurance Fund, be invested in long-term MAC Bonds.

(vii) City and State Pension Fund Purchases: $750,000,000. It is proposed that the Legislature mandate that the City and State Pension Funds purchase $750,000,000 in long-term MAC Bonds, to be divided among them as may be directed. In addition, it is proposed as part of the legislative package that
the Trustees of all such pension funds be exculpated from all fiduciary liability that might be alleged against them with respect to their purchases of MAC obligations. In addition, it is proposed that the City pension funds roll-over $30,000,000 of City notes held by them that mature in December.
3. **Schedule of Cash Infusions.** Based upon the proposed sources of cash outlined above, the following is a proposed financing plan, the elements and timing of which are subject to change:

(dollars in millions)

<table>
<thead>
<tr>
<th>Month</th>
<th>City requirement</th>
<th>City and State pension funds purchase of MAC Bonds</th>
<th>State purchase of short-term MAC notes</th>
<th>Prepayment of real estate taxes</th>
<th>Bank purchase or underwriting of MAC Bonds</th>
<th>City sinking fund purchases of MAC Bonds</th>
<th>Banks committed purchase of MAC Bonds</th>
<th>State insurance fund purchase of MAC Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>$906</td>
<td>$250</td>
<td>250</td>
<td>150</td>
<td>100</td>
<td>80</td>
<td>50</td>
<td>25</td>
<td>$905</td>
</tr>
<tr>
<td>October</td>
<td>$711</td>
<td>$250</td>
<td>250</td>
<td>100</td>
<td>80</td>
<td>50</td>
<td>45</td>
<td>17 Bank roll-over of City notes</td>
<td>$712</td>
</tr>
<tr>
<td>November</td>
<td>$397</td>
<td>$250</td>
<td>250</td>
<td>90</td>
<td>50</td>
<td>59</td>
<td>30</td>
<td>25</td>
<td>$399</td>
</tr>
<tr>
<td>December</td>
<td>$798</td>
<td>$160</td>
<td>105</td>
<td>30</td>
<td>30</td>
<td>30 City pension funds roll-over of City notes</td>
<td>25 State insurance fund purchase of MAC Bonds</td>
<td>$350</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$2,366</td>
<td></td>
</tr>
</tbody>
</table>
In order to meet estimated cash obligations for the balance of the City's fiscal year of approximately $3,500,000,000, the City must re-enter to capital markets in December or January to borrow for such cash needs.
4. Increase of MAC Authorization and Revenues. In order to permit MAC to fund the Financial Plan outlined above, and to have additional funding available for calendar year 1976 if such funding becomes necessary, an increase in MAC statutory $3,000,000,000 authorization and an additional source of revenues for payment of its debt service and capital reserve requirements will be necessary.

   (i) Current Authorization. MAC is currently authorized to issue an aggregate of $3,000,000,000 in bonds and notes. It has already issued an aggregate of $1,840,000,000 in bonds. Accordingly, it has remaining authorization to issue $1,160,000,000 of bonds and notes. The Financing Plan outlined above calls for the issuance of an aggregate of $1,580,000,000 of additional long-term bonds and notes (under the present General Bond Resolution) and $250,000,000 of short-term notes (under a new note resolution). Accordingly, an increase in the authorized amount of bonds and notes issuable by MAC is necessary.

   (ii) Current Coverage Test. Under its existing General Bond Resolution, MAC may not issue additional bonds or notes secured by its current revenue sources except in compliance with a two times coverage test for debt service with respect to historic sales tax, stock transfer tax and any other taxes dedicated thereto, and a 1.5 times coverage test for debt service with respect to sales taxes only. It is estimated that (assuming an average interest of 11% on additional bonds and notes to be issued) MAC may issue approximately an additional $300,000,000 principal amount of bonds and notes in
excess of its current $3,000,000,000 authorization, in compliance with its coverage tests. Accordingly, it is probable that MAC will need an additional revenue source in order to provide coverage for the bonds proposed to be issued pursuant to the financial plan.

(iii) Additional Revenue Sources. In order to permit MAC to issue bonds in addition to those at present authorized, it is proposed that the MAC authorization be increased from $3,000,000,000 to $5,000,000,000. In order to support such additional authorization it is proposed that the general per capita state aid payable to the City be dedicated to MAC through the creation of a new Municipal Assistance State Aid Fund and a Special Account therein applicable to MAC. Such dedication of per capita state aid would, however, be subject to the existing pledges thereof: $500,000 for the Police Pension Fund, amounts required by the City University Construction Fund and amounts required by the Housing Development Corporation. In order to quantify the amounts of the prior pledges for the City University Construction Fund and Housing Development Corporation, it is proposed that the amount of bonds issuable by such agencies be limited to the amount which, if issued, would require pledges of per capita state aid in an amount equal to not more than twice the maximum amount of the potential pledge under current programs. It is estimated that the maximum pledge of per capita state aid required by City University Construction Fund is now $40,000,000. Under the proposal, such amount would be increased to $80,000,000. It is estimated that the maximum pledge of per capita state aid
required by Housing Development Corporation is now $24,000,000. Under the proposal, such amount would be increased to $50,000,000. Accordingly, assuming aggregate per capita general state aid to the City at $450,000,000 a year, at least $320,000,000 of such per capita state aid would be available for debt service on MAC bonds issued with respect thereto. Any amounts of per capita state aid not needed for MAC debt service would be paid to the City.
C. Outline of Legislative Program.

1. Development of a Financial Plan

A comprehensive financial plan covering the entire period from July 1, 1975 through June 30, 1978 would be developed to demonstrate how the City would achieve the following objectives:

(a) For its fiscal year ending June 30, 1978, the City's budget would be balanced in accordance with the accounting system and procedures prescribed in the MAC legislation, with substantial progress toward that goal to be achieved in each of the fiscal years ending June 30, 1976 and 1977. In accordance with the MAC legislation, progress toward the elimination of expense items (as classified by the new accounting system) from the capital budget would also be required during this period. Short-term debt of the City would also be reduced during this period by not less than $800,000,000.

(b) In addition to the foregoing debt reduction, progress would be begun during this period in reducing the City's outstanding short-term debt, toward the goal of reducing such debt by a total of $2,800,000,000 (in addition
to the above $800,000,000) by the end of the fiscal year ending June 30, 1975.

The development of the financial plan would begin with the preparation by an Emergency Financial Control Board (described under Point 2 below) of monthly revenue estimates for the entire period from July 1, 1975 through June 30, 1978. The revenue estimates would include all sources of income of the City (including funds from projected borrowings, from the state and federal governments, from all operations and from all other sources). The EFCB's revenue estimates would be delivered to the City not later than September 30, 1975.

Based upon revenues as estimated by the EFCB, the City would then be responsible for preparing a financial plan in consultation with the EFCB, for adoption by the City by October 31, 1975. The EFCB would be required to disapprove the plan if it determined that (i) such plan would not achieve the objectives set forth in paragraphs (a) and (b) above, (ii) the City's debt service requirements and other mandated programs would not be satisfied thereby, or (iii) City operations would not be conducted within the cash resources available according to the EFCB's revenue
estimates. In disapproving a financial plan, the EFCB would be empowered (i) to direct the reduction of aggregate expenditures in any period to conform to its revenue estimates and (ii) to direct appropriate increases in expenditures or reserves to assure the availability of funds when and as required for debt service and mandated programs.

Except for debt service and other mandated items, decisions of what expenditures would be made for what purposes and at what times under the financial plan would be made by the City government, not by the EFCB, so long as the above financial limitations were observed. The power of elected City officials to determine the City's spending priorities and preferences would be preserved; within the funds available, and there is no wish or intention to supersede their authority in that area.

If, however, City officials should fail, within the specified time, to develop a financial plan meeting such cash and budgetary limitations and achieving the above objectives, the EFCB would be authorized to adopt the plan.

The financial plan and the powers of the EFCB with respect thereto would extend to all independent public corporations and agencies (such as the Health and Hospitals Corporation, the Board of Education and the Board of Higher Education) which receive their funding from the City, and would cover, separately, both capital and expense budget items for the City and for such agencies and corporations.
The final financial plan would contain such information in such detail as the EFCT may require, including a detailed statement of all estimated revenues and other sources of funds and of all permitted expenditures and monthly cash flow projections. The financial plan would include such information as the EFCT might require to demonstrate to its satisfaction that (i) projected employment levels, collective bargaining agreements and other action relating to employee costs, capital construction and such other matters as the EFCT may specify, are consistent with the provisions made for such obligations in the financial plan, (ii) the program steps to be taken with respect to mandated programs (such as welfare) and independent corporations and agencies (such as the Health and Hospitals Corporation) will limit expenditures to those provided in the financial plan, and (iii) adequate reserves will be maintained to guard against short-falls of revenue and over-runs of expenses.
After initial adoption, the financial plan would be regularly re-examined by the EFCB and the City. Changes in revenue estimates could be made only by the EFCB and, in the event of reductions, the City would be required to effect such reductions in total expenditures as necessary to conform to the revised revenue estimates.

If the City should fail to modify the financial plan after a revision of estimated revenues by the EFCB, the Board would be empowered to amend the plan.

The financial plan as from time to time modified, would, in addition to the restrictions expressed above, further limit the expense budget expenditures of the City and its independent corporations and agencies (except debt service requirements and pension costs) to the levels contained in the expense budget for the fiscal year ending June 30, 1976, subject, however, to (i) increases of up to 2% above the expense budget for the June 30, 1976 year (excluding debt service and pension costs therefrom) if necessary to meet unforeseen contingencies and if sufficient revenues are available as estimated by the EFCB and (ii) further increases if approved by the EFCB as required to meet the impact of substantial inflation after the effective date of this legislation.
The City would be given broader control over the expenditure plans of its independent corporations and agencies so as to fit them within the comprehensive financial plan.

2. The Emergency Financial Control Board

The EFCB would have five members -- the Governor, the State Comptroller (pursuant to his Constitutional authority to supervise the accounts of any political subdivision of the State), the Mayor, the City Comptroller and an appointee of the Governor (with the advice and consent of the Senate). The Board would act by a majority and the Governor would be chairman. Each of such officials would be authorized to designate a representative to attend EFCB meetings in his place and to vote or otherwise act on his behalf.

The EFCB would be responsible for general review of City finances to assure that the fiscal emergency is brought under control and then terminated and that the State's extraordinary financial support to the City (described in a separate presentation) may be phased out. To carry out these responsibilities, the following powers would be given to the EFCB:

(a) As described under Point 1 above, the EFCB would determine estimated City revenues (including all sources of funds) for purposes of the financial plan, would consult in the preparation of the City's financial plan and would have the rights of approval described under Point 1.
(b) The EFCB would receive and have control of disbursements of City funds from the special accounts of the EFRB to be established as provided in Point 4.

(c) The EFCB would be empowered to direct the Special Deputy State Comptroller (i) to review the operations of such City departments and operations (including independent corporations and agencies) as it may determine, (ii) to audit compliance with the financial plan in such areas as it may determine, (iii) to examine the efficiency and productivity of City operations, (iv) to make reports thereon, (v) to recommend to the EFCB such measures relating to the operation and management of the City as he may deem expedient, and (vi) to keep EFCB fully advised of the financial condition of the City and of its future financial needs.

(d) The EFCB would have the right to receive, on such basis, at such times and in such detail, as it might from time to time specify directly or through the Special Deputy State Comptroller, all financial statements, projections and other budgetary data and material of the City (and its independent corporations and agencies) and the right to inspect, copy and audit all books and records of the City (and independent corporations and agencies).

(e) The EFCB would specify the types of City contracts and other obligations for the future payment of funds (including those of independent corporations and agencies) that must be reviewed and approved by the EFCB but only to assure
their economic feasibility within the financial plan, before the City (or its independent corporations and agencies) could enter into such contracts. It is contemplated that the EFCB would limit its review to major contracts, such as collective bargaining agreements affecting more than _______ employees or any other contract involving total liabilities exceeding $________ over the life of such contract.

(f) Without limiting the obligations and limitations imposed by the MAC legislation, the prior approval of the EFCB would be required for all borrowing by the City or its independent corporations or agencies, whether short-term or long-term. The EFCB would consult and coordinate with MAC on these decisions and would receive reports from MAC on its review of City borrowings.

(g) The EFCB would be authorized to issue orders, binding on the City, necessary or appropriate to enable the EFRB to carry out its responsibilities under this legislation.

(h) The EFCB would coordinate with MAC and rely upon its staff and the staff of the State Comptroller (especially that of the Special Deputy State Comptroller) in performing its functions of analysis, review and monitoring of City income and expenditures. The development of a significant staff within the EFCB is not anticipated.

If the City should default on its obligations, the EFCB's control over City finances would be extended and the EFCB would have authority to prepare and adopt a rehabilitation plan for the City intended to permit as orderly a working-out of its financial difficulties as the circumstances would then permit.
3. **Special Deputy State Comptroller for New York City**

A new post of Special Deputy State Comptroller for New York City would be authorized. The State Comptroller would appoint such official and would have the right to replace him.

The Special Deputy State Comptroller would be empowered to perform all powers or duties granted by law to the State Comptroller, and he would assist the EFCB in performing its responsibilities under this legislation.

A supplémental appropriation will be requested to enable the Special Deputy State Comptroller to engage sufficient staff to conduct his review, audit and recommendation responsibilities on a timely basis.
4. Establishment of EFCB Accounts; Deposit of City Funds Therein.

(a) From and after ____________, 1975, all City revenues would be deposited daily into special accounts of the EFCB (including any proceeds of City borrowings and all receipts from operations of independent corporations or agencies, but excluding any revenues otherwise required to be deposited by specific federal law or regulation or exempted by EFCB order). In order to respect the rights of holders of currently outstanding notes and bonds of independent authorities who have issued obligations to the public, the funds of such authorities, or other funds whose control or disposition is limited by bond resolutions, would not be transferred to the EFCB accounts.

As contemplated, these new special EFCB accounts would substantially correspond to the accounts now maintained by the City Finance Administration or the City Comptroller or the independent agencies or corporations. Deposits of funds into these EFCB accounts would be handled in substantially the same manner as funds are now deposited in the existing accounts of the City Finance Administration or the City Comptroller or the independent corporations or agencies and temporary investment of funds in the EFCB's special accounts would be handled by the staffs of such bodies.

(b) Funds would be disbursed from the EFCB's accounts only within such limits and for such purposes and by
such procedures as the EFCB would have prescribed in order to assure that such expenditures are, in the judgment of the EFCB, being made in accordance with the financial plan as then in effect. It is contemplated that the staffs of the City Finance Administration and the City Comptroller and of the independent corporations and agencies would handle the mechanics of disbursement.
of such funds from the EFCB accounts in substantially the same manner as at present, except that, before such disbursement, the approval of the EFCB would be required. The EFRB would be authorized to adopt such procedures as it from time to time deems necessary or desirable to assure that disbursement and application of funds conform to the financial plan.

(c) The State Comptroller would on a quarterly basis provide the EFCB with a statement of the City's debt service requirements for the following quarter and the EFCB would be responsible for reserving in special "Debt Service Repayment Account" of the EFCB sufficient funds to meet such requirements as they mature.

(d) If at any time the EFCB should determine that there were or would be insufficient funds in its accounts to pay all expenditures contemplated by the financial plan, such funds would be held and disbursed in such amounts as first to assure payment in full of all debt service obligations, next to such other purposes as might be entitled to priority over other liabilities pursuant to constitutional, statutory or binding contractual obligations, and the balance would be allocated for payment as specified by the City government for expenditures in accordance with the financial plan. In event of the failure of the City to specify, the EFCB could withhold payment of any of such other liabilities or could direct their payment pro rata.
(e) The Special Deputy State Comptroller would perform such pre-audit and post-audit reviews of disbursements from EFCB's special accounts as he might determine or as he might be directed by the EFCB or the State Comptroller.

5. Specific Limitation on City Expenditures

The following specific limitation on City expenditures would be enacted, to continue through the emergency period (or such other period as specifically provided below):

(a) All or any part of increases in salary or wages to City employees (including employees of independent corporations and agencies) which have taken effect since June 30, 1975 or which would take effect after that date pursuant to collective bargaining and other analogous contracts or requiring such salary increases as of July 1, 1975 or any subsequent date, shall be suspended. All or any part of increased payments for holiday and vacation differentials, shift differentials, salary adjustments according to plan and step-ups or increments which have taken effect since June 30, 1975 or which would take effect after the date pursuant to collective bargaining agreements and other analogous contracts requiring such increased payments as of July 1, 1975 or any date thereafter shall, in the same manner, be suspended. For purposes of computing the pension base of retirement allowances, the suspended salary or wage increases
and the other suspended payments referred to above shall not be considered as part of compensation or final compensation or annual salary earned or earnable. The foregoing suspensions shall be effective for the first pay period ending on or after September 1, 1975 and shall continue for one year thereafter and, if found necessary by the EFCB, to achieve the objectives of the financial plan, may be continued further for all or part of the duration of this fiscal emergency.

(b) The foregoing provisions of paragraph (a) shall not be applicable to public employees covered by a collective bargaining agreement or a public employee not covered by a collective bargaining agreement where the collective bargaining representative or such unrepresented employee, by an instrument in writing, has agreed to a deferment of salary or wage increase which has been certified by the Mayor on or before , 1975, or certified by the EFCB after , 1975, as being an acceptable and appropriate contribution toward alleviating the City's fiscal crisis. The EFCB, if it finds that the fiscal emergency has been alleviated or for any other appropriate reason, may authorize by written order that the suspensions or deferments of salary or wage increases or of other increase payments shall, in whole or any specified part, be terminated.
6. Remedies for Violation of Provisions for Management of City Finances

City officials (including officials of independent corporations or agencies) violating the foregoing provisions for management of City finances would be subject to:

(a) A statute making it a criminal offense for any City official (i) to permit the expenditure of funds in excess of amounts authorized or for purposes other than those certified, or (ii) knowingly to present or cause to be presented to the EFCB or the Special Deputy State Comptroller or to MAC inaccurate financial information (including projections or estimates), or to fail to correct any such information upon learning that it was or has become inaccurate; and

(b) Removal from office by the Governor for failure to comply, or to require compliance by his subordinates, with the foregoing requirements relating to the management of City finances.

7. Increasing Availability of Funds to the City

Recognizing that in the current investment climate the City may not be able to market its own securities as soon as had been anticipated at the time of the original MAC legislation, the following proposals would be enacted:
a. State and city pension funds would be directed to invest designated amounts in MAC bonds.

b. Increase and Extension of MAC Borrowing Authorization

MAC's authority to issue obligations would be increased from $3 billion to $4 billion and the maximum maturity period for which MAC is authorized to issue securities would be extended from 15 to 20 years from the date of the original issue. It is recognized that, by reason of MAC's General Bond Resolution, an increase in MAC's revenue stream to support this increase in its borrowing capacity may be required before bonds could be issued by MAC in excess of $3 billion. General per capita State aid to the City (subject, however, to existing liens on such aid) would be directed to MAC, in substantially the same manner as the stock transfer tax fund is now directed, effective April 1, 1976.

c. Authorization to Apply City Notes in Payment of City Securities

As an added inducement to purchase City notes, holders of such notes issued after the effective date of the proposed legislation would be able at or after the maturity of such notes, to surrender such notes, with accrued interest thereon, for credit dollar-for-dollar, against any City taxes owed by such holder. (The sales taxes and stock transfer taxes now allocated as a revenue stream for MAC bonds are of course State taxes and would not be subject to such application of City notes.)
d. **Broaden Authorized Use of MAC Bonds**

To increase further the marketability of MAC obligations (a) section 98-a of the State Finance Law would be amended to enable banks to secure certificates of deposit with MAC bonds and (b) MAC bonds would be expressly authorized as investments for all state funds and state and city retirement systems.

8. **Stay of Claims; Rehabilitation Plan for City; Authorization for Filing Federal Bankruptcy Petition**

In view of the immediacy of the potential default and the range of actions that must be taken to meet this situation, legislation is also proposed to provide an orderly manner of dealing with claims if default should occur and to give the City and the EFCB time to develop, and to submit to a state court for approval, a plan for the rehabilitation of the City without the immediate pressure of numerous lawsuits. In event of default the City or the EFCB would also be authorized to file any appropriate petition under the federal bankruptcy laws.
D. Draft of Proposed Legislation.

STATE OF NEW YORK

S. A.

1975-1976 Special Session

SENATE-ASSEMBLY

September 4, 1975

IN SENATE - Introduced by COMMITTEE ON RULES - read twice and ordered printed, and when printed to be committed to the Committee on Rules

IN ASSEMBLY - Introduced by COMMITTEE ON RULES - read once and referred to the Committee on Ways and Means

AN ACT

to amend the unconsolidated laws, in relation to creating the New York State emergency financial control board; to amend the executive law, in relation to the appointment of a special deputy comptroller for the city of New York; to amend the local finance law, in relation to unpaid municipal debts; and to amend other laws, in relation to the financial emergency of the city of New York

The People of the State of New York, represented in Senate and Assembly, do enact as follows:
Section 1. Legislative Findings and Statement of Purposes.

It is hereby found and declared that a financial emergency exists in the city of New York. The city is unable to obtain the funds needed by the city to continue to provide essential services to its inhabitants or to meet its obligations to the holders of outstanding securities. Unless such funds are obtained the city will soon (i) fail to pay salaries and wages to employees and amounts owed vendors to the city, (ii) fail to pay amounts due to persons receiving assistance from the city and (iii) default on the interest and principal payments due the holders of outstanding obligations of the city.

If such failures and defaults were to occur, the effect on the city and its inhabitants would be devastating: (1) unpaid employees might refuse to work; (2) unpaid vendors might refuse to sell their goods to the city; (3) unpaid recipients of public assistance would be unable to provide themselves with the basic necessities of life; and (4) unpaid holders of city obligations would seek judicial enforcement of their legal rights as to city revenues. These events would effectively force the city to stop operating as a viable governmental entity and create a clear and present danger to the health, safety and welfare of its inhabitants.
The difficulties of finding solutions to such events would be compounded by the likelihood that the city, as well as the municipal assistance corporation for the city of New York, would be foreclosed from seeking funds in the public markets. The elimination of the public markets as a source of funds would leave the city with no foreseeable way to refund its outstanding short-term indebtedness. Thus, the city might be unable for an extended period to cure defaults on its outstanding obligations and that event could almost permanently destroy the fiber of the city. The status of the city as the financial capital of the nation and of the world and as the headquarters of American and international commerce would be severely shaken. Just as significantly, the exodus from the city of corporate and individual taxpayers would increase, thereby having the effect of imposing a greater burden on the remaining taxpayers.

It is a matter of substantial and imperative state concern that the city not fail to meet its obligations and thereby suffer the above consequences. Such a failure could require the state to provide costly financial assistance to the city to ameliorate the emergency conditions that would
result. Aside from the avoidance of that expense, it is the concern of the state that the above-described events not occur, because the city represents a major part of the state. In addition to being the state's largest city, the city is the commercial, financial, cultural, communications and transportation center of the state. If the city were unable, because of the lack of funds, to function in its normal manner, the economy of the state would, therefore, be drastically harmed.

A failure by the city to meet its obligations would also affect the state's own ability to raise funds in the public markets. Defaults by the city would adversely affect the ability of all public issuers to market securities to meet their cash requirements. To the extent the state and other public issuers would be able to market their securities at all, the interest rates would significantly exceed those which otherwise would be paid. This effect has already been clearly demonstrated since the urban development corporation defaulted on its obligations in January 1975. Notwithstanding that such default was soon cured as the result of state action, other public authorities, such as the housing development corporation and the dormitory authority, have been unable to market their
securities or have been required to pay much higher interest rates than ever before and numerous municipalities, school districts and sewer districts throughout the state have been similarly affected.

This situation is a disaster and creates a state of emergency. To end this disaster, to bring the emergency under control and to respond to the overriding state concern described above, the state must undertake an extraordinary exercise of its police and emergency powers under the state constitution, and exercise controls and supervision over the financial affairs of the city of New York, but in a manner intended to preserve the ability of city officials to determine programs and expenditure priorities within available financial resources.

To forestall the effects on the city and the state of a failure by the city to meet its obligations, the state has developed, in coordination with the municipal assistance corporation for the city of New York and certain private financial institutions located in the city, a financial program designed to infuse the city with funds needed by it during the next several months. This financial program is only a short-term means of helping the city to meet its obligations during this emergency period. For longer range
success, the city must restore investor receptivity to the obligations of the city.

The program embodied in this act provides the necessary statutory changes to permit the financial assistance required by the city of this time, including the mandated investment of a portion of the funds of the state and city retirement systems in obligations of the municipal assistance corporation for the city of New York, and provides for (i) the creation of a state board with some city representation to review, control and supervise the financial management of the city, (ii) the adoption, with the approval of such board, of a financial plan that will provide the basis for a return of the city to sound financial condition, (iii) control by such board over the disbursement of city funds, under which debt service requirements will be met as a first priority, and (iv) review and audit of city operations by such board to assure that sound management practices are observed or restored and that operations are conducted in accordance with the financial plan. In addition, the program requires the purchase of an aggregate of $750,000,000 of the securities of the municipal assistance corporation for the city of New York by pension and retirement systems for public employees of the state of New York and of the city of New York. The purpose of this requirement is to provide the city with a certain source of revenues in the immediate future.
This legislative program is intended to accomplish the objectives described above and thereby to insure the continuity of governmental operations in the city and to provide the means by which the present emergency can in time be overcome, the city restored to financial health and this intervention by the state brought to an end.

Furthermore, in view of the present danger that the city may fail to meet its obligations, it is equally imperative that steps be taken at this time, in advance of any such failure, to ameliorate to the extent possible the disastrous consequences of any such failure by the city (or by any other municipality) by providing a framework to lessen the impact on a municipality (and thereby to lessen the impact on the state itself) of a failure by such municipality to meet its obligations; to insure the continuity of governmental operations therein during the period of any default, and to provide the means by which such defaults may in time be overcome. To that end, the exercise of the police power of the state is appropriate to accomplish four additional objectives during the period that an emergency exists for a municipality: first, to provide a municipality with prior notice of the intention of any person to take action against it on a contractual obligation; second, to authorize the courts to issue a stay of any such actions while a municipality attempts to develop a financial plan to cure any defaults; third, to permit such a financial plan providing for the payment in
full of all obligations of a municipality to be submitted
to, and approved by, a court of this state; and, fourth,
to authorize a municipality of this state, or an emergency
financial control board created for such municipality, if
necessary, to seek the benefits of any federal statute now
or hereafter enacted to provide relief to financially em-
barrassed municipalities.
Section 2. A new article is hereby added to the unconsolidated laws to read as follows:

Article

NEW YORK STATE FINANCIAL EMERGENCY ACT FOR NEW YORK CITY

TITLE I

SHORT TITLE; LEGISLATIVE FINDINGS AND STATEMENT OF PURPOSES; DEFINITIONS; PROHIBITION ON BORROWINGS AND EXPENDITURES EXCEPT IN COMPLIANCE WITH THIS ACT; POWER OF CITY TO DETERMINE THE EXPENDITURE OF AVAILABLE FUNDS; NEW YORK STATE EMERGENCY FINANCIAL CONTROL BOARD; ADMINISTRATION OF BOARD; FUNCTIONS OF BOARD; DEVELOPMENT OF FINANCIAL PLAN; ESTABLISHMENT AND APPLICATION OF EMERGENCY FINANCIAL CONTROL BOARD FUND; PUBLIC EMPLOYEES' WAGE FREEZE; PROHIBITIONS; PENALTIES; TERMINATION

Section 1. Short title.

Section 2. Definitions.

Section 3. Prohibition on borrowings and expenditures except in compliance with this act.

Section 4. Power of city to determine the expenditure of available funds.

Section 5. New York State Emergency Financial Control Board.

Section 6. Administration of the Board.

Section 7. Functions of the Board.

Section 8. Development of the financial plan.
Section 9. Establishment and application of emergency financial review board fund.

Section 10. Public Employees' Wage Freeze.

Section 11. Prohibitions; penalties.

Section 12. Termination.
§ 1. Short Title.

This title shall be known and may be cited as the "New York State Financial Emergency Act for New York City."
§ 2. Definitions.

As used in this title, the following words and terms shall have the following meanings unless the context shall indicate another or different meaning or intent.

1. "Comptroller" means the comptroller of the state of New York.

2. "City" means the city of New York.

3. "Mayor" means the mayor of the city of New York.

4. "City comptroller" means the comptroller of the city of New York.

5. "City Finance Administration" means the finance administration of the city of New York.

6. "Covered Organization" means any public agency, fund, organization, authority or public benefit corporation or institution which receives or may receive monies, directly or contingently, from or through the expense or capital budgets of the city of New York.

7. "Board" means the governmental agency created by section five of this title.

8. "Special deputy comptroller means the special deputy comptroller for the city of New York created by section forty-one-a of the executive law."
9. "Municipal assistance corporation for the city of New
York" means the corporate governmental agency created by
section three thousand thirty-three of the public author-
ities law.

10. "Special accounts" means the special bank accounts of the
emergency financial control board provided for under sec-
tion nine of this title.

11. "Short-term obligations" means tax anticipation notes, bond
anticipation notes, revenue anticipation notes, budget
notes and urban renewal notes.
12. "Revenues" mean all taxes, federal and state aid, rents, fees, charges, payments and other income and receipts paid or payable to or for the account of the city or any of the covered organizations, other than the

13. "Financial plan" means the financial plan of the city and the covered organizations to be developed pursuant to section eight of this title.

14. "Emergency period" means the period of time from the effective date of this act until the date when the board determines that the expense budget of the city shall have been in balance for at least one fiscal year in accordance with the accounting methods prescribed for such budget by the state comptroller pursuant to subdivision two of section three thousand thirty-eight of the public authorities law.

15. "Debt service repayment account" means the special account established pursuant to subdivision four of section nine of this title.

16. "Fund" means the emergency financial control board fund established pursuant to subdivision one of section nine of this title.

17. "Available funds" means at any date the amounts in the fund which are then available to be applied to the
purposes stated in clause (iii) of subdivision five of section nine. After provision has been made for the application of amounts in the fund for the purposes stated in clauses (i) and (ii) of such subdivision five.
§ 3. **Prohibition on borrowings and expenditures except in compliance with this act.**

Neither the city nor any covered organization shall borrow or expend any monies, or in any way, directly or indirectly, expressly or implicitly, engage its credit during the emergency period except in compliance with the provisions of this title.
§ 4. Power of city to determine the expenditure of available funds.

Nothing contained in this title shall be construed to limit the power of the city to determine, from time to time, the purposes for which expenditures are to be provided, and the amounts of such expenditures, in the financial plan, within available funds.
§ 5. Creation of the New York State Emergency Financial Control Board.

There is hereby created the New York state emergency financial control board. The board shall be a governmental agency and instrumentality of the state and it shall have such powers and functions as are set forth in this title. The board shall continue for a term expiring six months after the end of the emergency period.
§ 6. Administration of the Board.

1. The membership of the board shall be the governor, the state comptroller (pursuant to his authority to supervise the accounts of any political subdivision of the state), the mayor, the city comptroller [and a member appointed by the governor with the advice and consent of the senate.] Such appointed member shall serve at the pleasure of the governor. The governor shall be the chairman of the board and the governor or his representative shall preside over all meetings of the board. The board shall act by majority vote of the entire board with each member having one vote. The board shall maintain a record of its proceedings in such form as it may determine, but such record shall reflect the members of the board attending each meeting and all votes taken by the board.

2. Each member of the board shall be entitled to designate a representative to attend, in his place, meetings of the board and to vote or otherwise act in his behalf. Written notice of such designation shall be furnished to the board by the designating member prior to any meeting attended by his representative. Any representative shall serve at the pleasure of the designating member.

3. Notwithstanding any inconsistent provisions of law, general, special or local, no officer or employee of the
state, or political division of the state, any governmental entity operating any public school or college or other public agency or instrumentality or unit of government which exercises governmental powers under the laws of the state, shall forfeit his office or employment by reason of his acceptance or appointment as a member, representative, officer, employee or agent of the board nor shall service as such member, representative, officer, employee or agent of the board be deemed incompatible or in conflict with such office or employment.

4. The board may delegate to one or more of its members, or their representatives, or officers, employees or agents, such powers and duties as the board may deem proper, except any duties inconsistent with the duties and functions prescribed by any other office or position any such person may hold.
§ 7. Functions of the Board.

1. In carrying out its responsibilities to review, control, and supervise the fiscal, budgetary and borrowing practices of the city and the covered organizations the board shall perform the following functions:

   a. As set forth in section eight, the board shall (i) determine, in connection with the development of the financial plan, estimated revenues for the city and the covered organizations, (ii) consult with the city and the covered organizations in the preparation of the financial plan, (iii) prescribe the form of the financial plan and the supporting information required in connection therewith, and (iv) exercise the rights of approval, disapproval and modification with respect to the financial plan, as set forth in such section eight.

   b. As set forth in section nine, the board shall establish and adopt procedures with respect to the deposit of revenues of the city and the covered organizations in the fund and the disbursement of monies from the fund.

   c. The board shall, from time to time and to the extent it deems necessary in order to accomplish the purposes of this title, direct the special deputy comptroller to (i) review the operations, management, efficiency and productivity of such departments, bureaus, commissions and agencies
of the city and the covered organizations as the board may determine, and make reports thereon to the board; (ii) audit compliance with the financial plan in such areas as the board may determine; (iii) recommend to the board such measures relating to the operations, management, efficiency and productivity of such departments, bureaus, commissions and agencies of the city and the covered organizations as the special deputy comptroller deems appropriate to accomplish the purposes of this title; and (iv) provide such information to the board as will keep it fully advised of the financial condition and needs of the city and the covered organizations.

d. (i) The board shall receive from the city and the covered organizations and from the special deputy comptroller, and shall review such financial statements and projections, budgetary data and information, and management reports and materials as the board deems necessary to accomplish the purposes of this title.

(ii) The board shall inspect, copy and audit such books and records of the city and the covered organizations as the board deems necessary to accomplish the purposes of this title.

e. With respect to all contracts or other obligations to be entered into by the city or any covered organization after ______________, 1975 requiring the

...
payment of funds by the city or any covered organization, except:

(i) The board shall issue regulations prescribing the categories of contracts and other obligations required to be reviewed by the board, prior to their execution by the city or the covered organization, for compliance with the financial plan. Such categories shall be determined in the discretion of the board.

(ii) Prior to entering into any contract or other obligation subject to review of the board under its regulations, the city or the covered organization shall submit a copy of such contract or other obligation to the board accompanied by an analysis of the projected costs of such contract or other obligation and a certification that performance thereof will be in accordance with the financial plan, all in such form and with such additional information as the board may prescribe. The board shall promptly review the terms of such contract or other obligation and the supporting information in order to determine compliance with the financial plan.

(iii) The board shall, by order, disapprove any contract or other obligation reviewed by it only upon a determination that, in its judgment, the performance of such contract or other obligation would be inconsistent with the financial plan and the city or covered organization
shall not enter into such contract or other obligation.

(iv) If the board approves the terms of a reviewed contract or other obligation, the city or covered organization may enter into such contract or other obligation upon the terms submitted to the board. Failure of the board to notify the city or covered organization within thirty days after submission to it of a contract or other obligation that such contract or other obligation has been disapproved shall be deemed to constitute board approval thereof, unless the board shall have notified the city or covered organization that it requires additional time, not exceeding thirty additional days, to complete its review and analysis.

f. The board shall review the terms of all proposed long-term and short-term borrowings by the city and any covered organization to be effected during the emergency period but after __________, 1975 and no such borrowing shall be made unless approved by the board. The board shall consult and coordinate with the municipal assistance corporation for the city of New York with respect to borrowings of the city and any covered organization and shall receive reports from the municipal assistance corporation for the city of New York on its review of borrowings by the city.
g. The board shall receive quarterly reports from the comptroller setting forth the debt service requirements on all bonds and notes of the city and the covered organizations, to be paid during the following quarter.

h. The board shall issue, to the appropriate officials of the city and the covered organizations, such orders as it deems necessary to accomplish the purposes of this title. Any order so issued shall be binding upon the official to whom it was issued and failure to comply with such order shall subject the official to the penalties described in section twelve of this title.

i. The board shall coordinate with the municipal assistance corporation for the city of New York and the special deputy comptroller with respect to the performance of its review and monitoring of the revenues and expenditures of the city and the covered organizations.

2. Following any default by the city on its outstanding bonds or notes, and so long as such default has not been cured, the board, in addition, may take any action that it is authorized to take pursuant to title 6-A of article II of the local finance law, and may direct the city to take any action that the city is authorized to take under that law.

1. Pursuant to the procedures contained in subdivision two of this section, the City, in conjunction with the City, shall develop, and may from time to time amend, a financial plan for the City and the covered organizations which, due to debt, reserves or other, operating, funds from the City's operating fund, with respect to the fiscal years of the City ending June thirtieth, nineteen hundred seventy-six, June thirtieth, nineteen hundred seventy-seven and June thirtieth, nineteen hundred seventy-eight.

The financial plan shall conform to the requirements of subdivision three of this section and shall constitute a program by which the city will achieve the following objectives:

a. For its fiscal year ending June thirtieth, nineteen hundred seventy-eight, the City's expense budget will be balanced in accordance with the accounting system and procedures prescribed in subdivision two of section three thousand thirty-eight of the public authorities law, with substantial progress toward that goal to be achieved in each of the fiscal years ending June thirtieth, nineteen hundred seventy-six and June thirtieth, nineteen hundred seventy-seven. In accordance with subdivision five of section three thousand thirty-eight of the public authorities law, progress toward the elimination of expense items from the capital budget will
also be required during the period during which the financial plan is in effect. Outstanding short-term obligations of the city will also be reduced during this period by not less than eight hundred million dollars from the amount outstanding on \( \text{determined date of this act} \) and

b. In addition to the foregoing debt reduction, progress will be begun during the period during which the plan is in effect in reducing the city's outstanding short-term obligations, toward the goal of reducing such debt by a total of two billion, eight hundred million dollars (in addition to the eight hundred million dollars referred to in paragraph (a) of this subdivision) by the end of the fiscal year ending June thirtieth, nineteen hundred eighty-five.

2. The financial plan shall be developed and adopted, and may from time to time be modified, in accordance with the following procedures:

a. Not later than September thirtieth, nineteen hundred seventy-five, the board shall develop and deliver to the city estimates of revenues of the city and the covered organizations for each month of each fiscal year during which the plan is in effect.

b. Based upon the revenues estimated by the board pursuant to paragraph (a) of this subdivision, the city shall
prepare the financial plan. If the board shall, in its judgment, determine that such financial plan would achieve the objectives set forth in subdivision one of this section, the board shall approve the financial plan, which shall then take effect.

c. The board shall disapprove the financial plan proposed by the city if, in the judgment of the board, such plan

(i) fails to provide for the payment in full of the debt service requirements on all bonds and notes of the city and the covered organizations or fails to fund adequately programs of the city and the covered organizations mandated by state or federal law;

(ii) fails to provide that operations of the city and the covered organizations will be conducted within the cash resources available according to the board's revenue estimates;

(iii) fails to achieve the objectives set forth in subdivision one of this section; or

(iv) in addition to the foregoing limitations, provides for aggregate expenditures (other than amounts required to pay debt service and pension costs) from the expense or capital budget of the city or the expense budget of any covered organization for any of the years during which the plan is
above the level contained in the expense budget originally adopted by the city or by such covered organization for the fiscal year ended June thirtieth, nineteen hundred seventy-six. The board may, upon the request of the city, allow (a) an increase to meet unforeseen contingencies (which increase shall not be cumulative) in the expense budget of the city or of a covered organization for any fiscal year during the emergency period equal to two percent of the expense budget originally adopted by the city or by such covered organization for the fiscal year ending June thirtieth, nineteen hundred seventy-six, or (b) such further increases as the board may approve as required to meet the impact of substantial inflation after the effective date of this act, but in either such case only if the board determines that increased revenues are available in an amount equal to the requested increase in expenditures.

d. In disapproving the financial plan proposed by the city the board may direct that

(i) expenditures or reserves to assure availability of amounts required for debt service requirements on all bonds and notes of the city and the covered organizations, or expenditures required for adequate funding of programs of the city and the covered organizations mandated by state or federal law, be increased to the levels required to provide
for their payment in full; or

(ii) the aggregate expenditures in any period shall be reduced to conform to the revenue estimates of the board prepared pursuant to paragraph (a) of this subdivision or to achieve the objectives set forth in subdivision one of this section.

e. In the event that the city shall, for any reason, fail to adopt a financial plan approved by the board by October thirty-first, nineteen hundred and seventy-five, the board may formulate and adopt the financial plan, such financial plan to become effective on its adoption.

f. After the initial adoption of the financial plan, the revenue estimates prepared by the board pursuant to paragraph (a) of this subdivision and the financial plan shall be regularly re-examined by the board in consultation with the city and the covered organizations. Changes in such revenue estimates shall be made only by the board. In the event of reductions in such revenue estimates, the city shall modify the financial plan to effect such reductions in total expenditures as may be necessary to conform to such revised revenue estimates and if the city fails to make such modifications, the board may formulate and adopt such modifications, such modifications to become effective on their adoption.

g. The city may, from time to time, modify the
expenditures specified in the financial plan, subject to the approval of the board. The board shall approve such modifications unless, in the judgment of the board, such modifications would constitute grounds for disapproval of the financial plan pursuant to paragraph (c) of this subdivision.

3. The financial plan shall be in such form and shall contain such information for each year during which the financial plan is in effect as the board may specify, shall include the city and all the covered organizations and shall, in such detail as the board may from time to time prescribe, include statements of all estimated revenues and of all expenditures and cash flow projections of the city and each of the covered organizations.

4. The financial plan shall, except to the extent waived by the board with respect to any limited period, include any information which the board may request to satisfy itself that (i) projected employment levels, collective bargaining agreements and other action relating to employee costs, capital construction and such other matters as the board may specify, are consistent with the provisions made for such obligations in the financial plan, (ii) the city and the covered organizations are taking whatever action is necessary with respect to programs mandated by state and federal law to ensure that expenditures for such programs
are limited to and covered by the expenditures stated in the financial plan, and (iii) adequate reserves are provided to maintain essential programs in the event revenues have been overestimated or expenditures underestimated for any period.

5. The covered organizations shall submit to the city and the board such information with respect to their proposed expenditures and revenues for each year during which the financial plan is in effect as the city or the board shall determine, for inclusion in the financial plan proposed by the city. Notwithstanding any other provision of law limiting the authority of the city with respect to any covered organization, the city shall (except for debt service or for programs otherwise mandated by law) have the power to determine the expenditures to be allocated to any covered organization in the financial plan and any modifications thereto.
§ 9. Establishment and application of emergency financial review board fund.

1. There is hereby established a fund designated the emergency financial review board fund. Commencing 1975 and for the duration of the emergency period, all revenues received or to be received by the city or any covered organization (other than a covered organization that shall have outstanding on the effective date of this act bonds or notes held by the public) shall, unless exempted by order of the board, be revenues of the fund and shall be received for the account of the board, except to the extent expressly prohibited by law of the United States of America or where inconsistent with the terms of any bonds or notes issued by any covered organization and outstanding on the effective date of this act. Commencing 1975 and for the duration of the emergency period, unless exempted by order of the board, all accounts established or thereafter established by the city or the covered organizations (other than a covered organization that shall have outstanding on the effective date of this act bonds or notes held by the public) shall thereafter be accounts of the fund except where otherwise expressly prohibited by law of the United States of America or where inconsistent with the terms of any bonds or notes issued by any covered organization and outstanding on the effective date of this act. All such accounts of the board shall have such captions and entries as the board shall determine to be necessary to credit the foregoing revenues and receipts to the fund.
2. The deposit of revenues into the fund and the investment or deposit of monies therein shall be made in accordance with and pursuant to procedures established by the board.

3. In order to assure compliance with the financial plan, the board shall from time to time adopt procedures controlling the disbursement of monies from the fund.

4. Within the fund there is hereby established a special account designated the debt service repayment account. The board shall from time to time direct, in accordance with procedures adopted by the board, the deposit in the debt service repayment account of such amounts as the board shall, in its discretion, determine to be a sufficient reserve to meet the debt service requirements of the city and the covered organizations whose monies are included in the fund on all of their bonds and notes as they mature.

5. If at any time the board determines that the amount then held in the fund or the amount estimated by the board to be held in the fund is or will be insufficient to meet the expenditures in the amounts and at the times required by the financial plan, the board shall require disbursements from the fund to be made in the following order or priority unless otherwise required by law of the United States of America: (i) the payment of amounts from the fund to the debt service repayment account to maintain therein the amount required by subdivision 4 of this section, (ii) the payment of other liabilities having statutory or contractual priority over remaining liabilities of the city and the covered
organizations whose monies are included in the fund, and (iii) the payment of other obligations on an allocated basis as specified by the city for expenditures in accordance with the financial plan provided that, in the event that the city failed to so specify, the board may withhold payment of any of such other obligations or may direct their payment pro rata.

6. The board shall cause to be performed such pre-audit and post-audit reviews of the fund and disbursements therefrom as it may determine.
§ 10. **Public Employees' Wage Freeze**

1. Increases in salary or wages of public employees of the city of New York (including employees of the covered organizations) which have taken effect since June 30, 1975 or which will take effect after that date pursuant to collective bargaining agreements or other analogous contracts requiring such salary increases as of July 1, 1975 or as of any date thereafter are hereby suspended. All increased payments for holiday and vacation differentials, shift differentials, salary adjustments according to plan and step-ups or increments for public employees of the city (including employees of the covered organizations) which have taken effect since June 30, 1975 or which will take effect after that date pursuant to collective bargaining agreements or other analogous contracts requiring such increased payments as of July 1, 1975 as of any date thereafter are hereby, in the same manner, suspended. For the purposes of computing the pension base of retirement allowances, the suspended salary or wage increases and the suspended other payments shall not be considered as part of compensation or final compensation or of annual salary earned or earnable. The suspensions provided herein shall be effective for the first pay period ending on or subsequent to September 1, 1975 and shall continue until one year thereafter and, upon determination of the board that the continuation of such suspensions, to a date specified by the board, is necessary in order to achieve the objectives of the financial plan, such suspensions shall be continued
to the date specified by such board, which date shall in no event be later than the end of the emergency period.

2. This section ten shall not be applicable to public employees covered by a collective bargaining agreement or a public employee not covered by a collective bargaining agreement where the collective bargaining representative or such unrepresented employee has agreed to a deferment of salary or wage increase, by an instrument in writing which has been certified by the mayor on or before September 1, 1975, or certified by the board after September 1, 1975 as being an acceptable and appropriate contribution toward alleviating the fiscal crisis of the city. The board may, if it finds that the fiscal crisis has been sufficiently alleviated or for any other appropriate reason, direct that the suspensions of salary or wage increases or suspensions of other increased payments shall, in whole or in part, be terminated.
§ 11. Prohibitions; Penalties

1. From November 1, 1975 through the end of the emergency period (i) no officer or employee of the city of any of the covered organizations shall make or authorize an obligation or other liability in excess of the amount available therefor under the financial plan as then in effect; (ii) no officer or employee of the city or any of the covered organizations shall involve the city or any of the covered organizations in any contract or other obligation or liability for the payment of money for any purpose required to be approved by the board unless such contract has been so approved or deemed to be approved as provided in paragraph (e) of subdivision one of section seven and unless such contract or obligation or liability is in compliance with the financial plan as then in effect.

2. No officer or employee of the city or any of the covered organizations shall take any action in violation of any valid order of the board or shall fail or refuse to take any action required by any such order or shall prepare, present or certify any information (including any projections or estimates) or report for the board or any of its agents that is false, incomplete or misleading, or, upon learning that any such information is false, incomplete or misleading, shall fail promptly to advise the board or its agents thereof.

3. In addition to any penalty or liability under other law, any officer or employee of the city or any of the covered organizations who shall violate subdivisions one or two of this
section shall be subjected to appropriate administrative discipline, including, when circumstances warrant, suspension from duty without pay or removal from office by order of either the governor or the mayor; and any officer or employee of the city or any of the covered organizations who shall knowingly and willfully violate subdivisions one or two of this section shall, upon conviction, be fined not more than $ or imprisoned for not more than years, or both.

4. In the case of a violation of subdivision one or two of this section by an officer or employee of the city or any of the covered organizations, the mayor or the head of such covered organization shall immediately report to the board all pertinent facts together with a statement of the action taken thereon.
§ 12. **Termination**

Six months after the end of the emergency period, the existence of the board and all other provisions of this act not theretofore terminated shall terminate.
Section 3. The executive law is hereby amended by adding thereto a new section 41-a to read as follows:

§ 41-a. Special Deputy Comptroller for the City of New York.

1. In addition to the deputies otherwise authorized by law, the comptroller shall appoint a special deputy comptroller for the city of New York. Such deputy may be removed or replaced by the comptroller and shall receive an annual salary to be fixed by the comptroller within the amounts appropriated therefor. Such deputy may perform any of the powers or duties of the comptroller and he shall assist the emergency financial control board created under section of article of the unconsolidated laws in carrying out and exercising the responsibilities assigned and powers granted to such board under such title.

2. Six months after the termination of the emergency period defined in section two of article of the unconsolidated laws, the authorization for the special deputy comptroller for the city of New York contained in subdivision one of this section shall terminate.
Section 4. The local finance law is hereby amended by adding thereto a new section 24.10 to read as follows:

§ 24.10. Tax receivable notes.

The city of New York may issue tax anticipation notes which are tax receivable notes. As used in this section, the term "tax receivable notes" shall mean tax anticipation notes issued pursuant to section 24.00 of this title, which shall, upon maturity, at the election of the holder thereof or exclusively if so provided in such notes, be receivable at full face value and in lieu of cash in payment of any tax of the city of New York, any installment of estimated tax of the city of New York, or any interest or penalties thereon, as shall be designated by the comptroller of the city of New York at the time such tax receivable notes are issued. Tax receivable notes received in payment of any such tax or installment of estimated tax shall be cancelled by the officer receiving the same, as of the date of their receipt.
Section 5. Section ninety-eight-a of the state finance law as amended by chapter one hundred sixty-nine of the laws of 1975 is hereby amended to read as follows:

§ 98-a. Investment of general funds, bond proceeds, and other funds not immediately required

Any moneys in the general fund of the state or moneys received from the sale of any bonds or notes issued by the state, any moneys in any fund or account of the state, heretofore or hereafter established, the investment of which is not otherwise authorized and which are not immediately required may be invested by the comptroller. Such moneys may be invested only in obligations of the categories specified in subdivisions one to five, both inclusive, and subdivisions seven, fourteen, fifteen, sixteen and seventeen of section ninety-eight of this chapter, maturing or redeemable at the option of the holder within two years of the date of such investment or in a certificate of deposit of a bank or trust company in this state. Any certificate of deposit shall be fully secured by the issuer thereof depositing with the comptroller stocks, bonds, or notes of any county, town, city, village, fire district or school district of this state issued pursuant to law and maturing within five years from the date of issuance of such certificate of deposit, bonds or notes or direct or guaranteed obligations of the United States of America or its agencies or of the state of New York or bonds and notes issued for any of the corporate purposes of the municipal assistance corporation for the city of New York in an amount equal to the amount of such certificate of deposit. Any bonds, notes or certificates of deposit purchased with moneys of the general fund shall be available always to pay any lawful appropriation in force. Any bonds, notes or certificates of deposit purchased with moneys received from the sale of any bonds or notes issued by the state shall be available always for the purposes or purpose for which such bonds or notes were issued. Any bonds, notes or certificates of deposit purchased with moneys of any other funds shall be available always for the purpose for which such fund was created. Unless otherwise required by law, income received on any moneys invested pursuant to this section shall be credited to the fund or funds from which such moneys were invested, provided, however, that income received from the investment of moneys of the local assistance fund, the state purposes fund and the capital construction fund may be credited in whole or in part to one or more of such funds to the extent necessary to reimburse first instance appropriations for interest on temporary obligations issued on behalf of the fund or funds to be credited. Notwithstanding any other provision of this section or of any other special law, all moneys available and retained on deposit for the payment of lottery prizes may be invested in obligations by the comptroller as herein provided, except that such obligations need not mature.
or be redeemable at the option of the holder within two years of the date of such investment. Income received from such investments may be used for the payment of prizes awarded and made payable in more than one payment, including prizes awarded and made payable throughout the lifetime of the lottery prize winner.
Section 6. Section one hundred seventy-nine of the retirement and social security law is hereby renumbered to be section one hundred eighty, and Article 4-A of such law is hereby amended to insert therein a new section one hundred seventy-nine, to read as follows:

§ 179. Investments in municipal assistance corporation securities; indemnification.

1. It is hereby found and declared that securities of the municipal assistance corporation for the city of New York are reasonable, prudent, proper and legal investments for any fund described in subsection one of section one hundred seventy-six of this article or for any board member, officer, employee, trustee or fiduciary thereof to make on behalf of such fund.

2. Notwithstanding any other provision of law, including the provisions of subsection one of section seventeen of the public officers law, no member of the board, officer, employee, fiduciary of any fund described in subsection one of section one hundred seventy-six of this article shall incur or suffer any liability whatsoever to any person beneficially interested in such system by reason of any investment of the monies thereof in securities of the municipal assistance corporation for the city of New York and each such system shall save harmless and indemnify all members of the
board, officers, employees, trustee, fiduciaries and investment advisors of any fund described in subsection one of section one hundred seventy-six of this article from financial loss arising out of any claim, demand, suit, action or judgment for alleged negligence, waste or breach of fiduciary duty by reason of any investment of any monies of such fund in securities of the municipal assistance corporation for the city of New York provided that such person shall, within five days after the date on which he is served with any summons, complaint, process, notice, demand, claim or pleading, deliver the original or a true copy thereof to the legal advisor of such system. Upon such delivery the legal advisor of such system may assume control of the representation of such person in connection with such claim, demand, suit, action or proceeding. Such person shall cooperate fully with the legal advisor of the system or any other person designated to assume such defense in respect of such representation or defense.
Section 7. A new article is hereby added to the unconsolidated laws to read as follows:

Article

INVESTMENT OF FUNDS BY PENSION AND RETIREMENT SYSTEMS FOR PUBLIC EMPLOYEES

§ 1. Legislative Findings

It is hereby found and declared that the financial emergency of the city of New York, recognized by the state in section 2 of article of the unconsolidated laws, necessitates, as a matter of urgent public policy of the state, purchases of securities of the municipal assistance corporation for the city of New York by the pension and retirement systems for public employees of the city of New York and the state of New York.

This legislature has found, declared and enacted that securities of the municipal assistance corporation for the city of New York are reasonable, prudent and proper investments for all public officers and bodies of this state and all trustees and other fiduciaries under the laws of this state.

§ 2. Purchases of Securities

The trustees of the Teachers' Retirement System of the city of New York, the New York City Employees Retirement
System, the New York City Police Pension Fund, the New York City Fire Department Pension Fund and the Board of Education Retirement System of the city of New York are authorized and directed to take any and all actions necessary or appropriate to cause such funds and systems to purchase an aggregate of $ principal amount of bonds of the municipal assistance corporation for the city of New York, pro rata in accordance with the respective aggregate assets of each of such pension funds and retirement systems as at June 30, 1975. The trustees of the New York State Policemen's and Firemen's Retirement System are hereby directed to purchase an aggregate of $ principal amount of bonds of the municipal assistance corporation for the city of New York, the trustees of the New York State Employees Retirement System are hereby directed to purchase an aggregate of $ principal amount of bonds of the municipal assistance corporation for the city of New York, and the trustees of the New York State Teachers Retirement System are hereby directed to purchase an aggregate of $ principal amount of bonds of the municipal assistance corporation for the city of New York. Each of the purchase required herein shall take place as promptly as possible, but in no event later than December 1, 1975, and shall be on such terms as the comptroller shall approve.

The authorization and the direction of this section two are rescinded if by the date of any such purchase the city of New York has defaulted on any of its outstanding bonds or notes.
Section 8. A new subdivision 6. is hereby added to section three hundred thirty-four of the insurance law to read as follows:

6. The state insurance fund, and all state officers with responsibility for the custody or investment thereof, are authorized and directed to take any and all actions necessary or appropriate to cause such fund to make purchases as soon as possible but in no event later than December 1, 1975, of bonds or notes of the municipal assistance corporation for the city of New York in the aggregate principal amount of __________ million dollars, provided, however, that at the date of any such purchase the city of New York has not defaulted on any of its outstanding bonds or notes.
Section 9. Subdivision two of section three thousand thirty-three of article 10 of the public authorities law is hereby amended to read as follows:

2. Subject to the provisions of any contract with noteholders or bondholders, [T] The corporation shall not issue bonds and notes in an aggregate principal amount exceeding [three] four billion dollars, excluding bonds and notes issued to refund outstanding bonds and notes; provided, however, that if bonds and notes are issued by the New York City stabilization reserve corporation pursuant to title twenty-six of article eight of the public authorities law, the maximum amount of bonds and notes which may be issued by the corporation shall be decreased by the difference between the principal amount of such bonds and notes issued by the New York City stabilization reserve corporation and the principal amount of such bonds and notes held by the corporation.

Subdivision three of section three thousand thirty-three of chapter one hundred sixty-nine of the laws of nineteen hundred seventy-five is hereby amended to read as follows:

3. No note or bond (i) shall mature more than [fifteen] twenty years from the date of the original issue of such note or bond [or] (ii) or shall be issued on a date later than five years after the effective date of this act, unless such note or bond is a renewal or refunding of an outstanding note or bond.
Section 10. Paragraph c. of subdivision seven of section fifty-four of the state finance law is hereby amended to read as follows:

"c. Upon such certification of the amounts payable to counties, cities, villages and towns for town-wide and town outside village purposes, such per capita aid shall be apportioned and paid to the chief fiscal officer of each such locality pursuant to this section on audit and warrant of the state comptroller out of moneys appropriated by the legislature for such purpose to the credit of the local assistance fund in the general fund of the state treasury; provided however that upon such certification of amounts payable to the city of New York, such per capita aid shall be apportioned and paid as follows: (i) five hundred thousand dollars to the chief fiscal officer of the city of New York for payment to the trustees of the police pension fund of such city pursuant to the provisions of paragraph e of this subdivision, (ii) any amounts then required to be paid to the city university construction fund pursuant to the city university construction fund act, (iii) any amounts then required to be paid to the New York city housing development corporation pursuant to the New York city housing development corporation act, and (iv) the balance to the special account
for the municipal assistance corporation for the city of New York in the municipal assistance state aid fund created pursuant to section 92-c of the state finance law."
Section 11. The state finance law is hereby amended by adding thereto a new section to be section ninety-two-e, to read as follows:

§ 92-e. Municipal assistance state aid fund

1. There is hereby established in the custody of the comptroller a special fund to be known as the municipal assistance state aid fund. Within such fund, there is hereby established a special account for each municipal assistance corporation created under article ten of the public authorities law.

2. Such fund shall consist of per capita aid apportioned pursuant to section fifty-four of the state finance law.

3. Such per capita aid apportioned to a city in aid of which a municipal assistance corporation has been created, shall be deposited by the comptroller to the credit of the special account established for the municipal assistance corporation which has been created in aid of such city in order to enable such corporation to fulfill the terms of any agreements made with the holders of its notes and bonds and to carry out its corporate purposes, including the maintenance of the capital reserve fund, and, subject to
the provisions of section fifty-four of the state finance law, the balance, if any, shall be paid to the chief fiscal officer of the city in aid of which such corporation has been created as hereinafter provided.

4. Revenues in any special account in the municipal assistance state aid fund shall be kept separate and shall not be commingled with any other moneys in the custody of the comptroller. All deposits of such revenues shall, if required by the comptroller, be secured by obligations of the United States or of the state having a market value equal at all times to the amount of such deposits and all banks and trust companies are authorized to give security for such deposits. Any such revenues in such fund may, in the discretion of the comptroller, be invested in obligations of the United States or of the state or in obligations the principal of and interest on which are guaranteed by the United States or by the state.

5. Upon receipt by the comptroller of a certificate or certificates from the chairman of a municipal assistance corporation that such corporation requires a payment or payments in order to comply with any agreement with the holders of its notes and bonds and to carry out its corporate purposes, including the maintenance of the capital reserve fund, from the special account established for such
corporation, each of which certificates shall specify the required payment or payments and the date when the payment or payments is required, the comptroller shall pay from such special account on or before the specified date or within thirty days after receipt of such certificate or certificates, whichever is later, to such corporation, as the chairman thereof may direct in any such certificate, the amount or amounts so certified. The comptroller shall from time to time, but in no event later than the fifteenth day of October, January and April and the last day of June of each fiscal year, pay over and distribute to the chief fiscal officer of the city in aid of which such municipal assistance corporation has been created to be paid into the treasury of such city to the credit of the general fund all revenues in the special account established for such corporation in the municipal assistance state aid fund, if any, in excess of the aggregate amount which the chairman of such corporation has certified to the comptroller and which has been previously paid to such corporation as hereinabove authorized. In no event shall the comptroller pay over and distribute any revenues to any person other than the municipal assistance corporation unless and until the aggregate of all payments certified to the comptroller as required by such corporation as of such date in order to comply with
its agreements with the holders of its notes and bonds and to carry out its corporate purposes, including the maintenance of the capital reserve fund, which remain unpaid to such corporation shall have been paid in full to such corporation; provided, however, that no person, including such corporation or the holders of its notes or bonds shall have any lien on such revenues and such agreement shall be executory only to the extent of such revenues available to the state in such special account.

6. All payments of moneys from the municipal assistance state aid fund shall be made on the audit and warrant of the state comptroller.
Section 12. Paragraph 2 of Section 6279 of the education law is hereby amended to read as follows:

(2) The city shall, in addition to any other city financial assistance, annually pay to the fund an amount equal to one-half of the aggregate of all rentals and such other payments due to the dormitory authority from the fund pursuant to any lease, sublease or other agreement entered into between the dormitory authority and the fund for the city fiscal year commencing July first succeeding the filing of the report required to be submitted by the fund pursuant to subdivision seven of section sixty-two hundred seventy-four of this article, which amount shall not exceed eighty million dollars and shall be payable as follows: (a) fifty per-centum on or before the fifteenth day of July; and (b) fifty per-centum on or before the fifteenth day of May of such city fiscal year; provided, however, that such amount shall have been first appropriated by the city to the fund or shall otherwise have been made lawfully available to the fund for such purposes. In the event of the failure of the city to pay the fund, pursuant to the schedule of payments established by this subdivision, all or part of such amounts, the fund shall forthwith make and deliver to the comptroller of the state of New York a certificate stating such amount and the sum, if any, paid by the city to the fund with respect to such amount, and further stating the difference between such amount and such sum, and, after the state comptroller shall have given written notice to the city budget director, such
difference shall be paid to the fund by the state comptroller out of the next succeeding payment of state aid apportioned to the city of New York as per capita aid for the support of local government pursuant to section fifty-four of the state finance law during such city fiscal year. The amount so paid over to the fund shall be deducted from the corresponding apportionment of such per capita state aid otherwise payable to the city of New York, and shall not obligate the state to make or entitle the city of New York to receive any additional apportionment or payment of per capita state aid. The amounts of money required to be paid pursuant to this section shall be determined from the report required to be submitted by the fund pursuant to subdivision seven of section sixty-two hundred seventy-four of this article. Notwithstanding any other provision of law, the city shall have the power to contract indebtedness and to issue its obligations pursuant to the local finance law for the purpose of financing any payment authorized or required to be made by the city by this section. Any such payment shall constitute an object or purpose for which the period of probable usefulness is hereby determined to be five years.
Section 13. Paragraph c. of subdivision one of section six hundred fifty-six of the private housing finance law as last amended by chapter eight hundred fifty of the laws of nineteen hundred seventy-two is hereby amended to read as follows:

"c. No bonds or notes of the corporation shall be issued if upon such issuance (i) the aggregate principal amount of bonds and notes of the corporation then outstanding exceeds [eight hundred million] such amount as would cause the maximum capital reserve fund requirement to exceed fifty million dollars or (ii) the aggregate principal amount of bonds and notes then outstanding for the purpose of financing mortgage loans to owners of existing multiple dwellings exceeds two hundred million dollars or (iii) the aggregate principal amount of bonds and notes then outstanding for the purpose of participating with the city or with one or more organizations mentioned in section fifteen of this chapter in making mortgage loans exceeds one hundred million dollars; provided that, in determining such aggregate principal amounts there shall be deducted (i) all sums then available for the payment of such bonds or notes either at maturity or through the operation of a sinking fund; (ii) the aggregate principal amount of outstanding bonds issued (a) to refund notes and (b) to refund bonds, theretofore issued and
then outstanding; and (iii) the aggregate principal amount of outstanding notes issued to renew notes theretofore issued and then outstanding."
Section 14. Section two hundred seventy-five of the New York city charter is hereby amended to read as follows:

§ 275. Investment of sinking fund moneys.--The comptroller may invest the moneys of the several sinking funds in any of the following securities:

1. Obligations of the city of New York.
2. Obligations of the state of New York.
3. Obligations of the United States or of any agency, subdivision, department, division or instrumentality thereof, or obligations fully guaranteed or insured as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States, acting pursuant to a grant of authority from the congress of the United States.
4. Obligations of the municipal assistance corporation for the city of New York.

b. When it is possible to purchase for any sinking fund other than the transit unification sinking fund any obligations of the city at less than par, other than obligations issued for the purpose of transit unification, the comptroller shall invest such moneys only in such obligations; provided, however, that when it is possible to purchase any obligations, issued for the purpose of transit unification sinking fund, at less than par out of moneys of the transit unification and redeemable from the transit unification sinking fund, at less than par out of moneys of the transit unification sinking fund, the comptroller shall invest such moneys
only in such obligations; and further provided, that when in his judgment it is advisable to invest part of the cash credited to a sinking fund in short-term obligations because of the approaching maturity of an issue of corporate stock to be redeemed from such fund and when no short-term obligations of the city can be purchased at less than par although obligations of longer terms can be so purchased, he may present to the board of estimate a certified statement detailing such circumstances, and the board may thereupon authorize him to purchase from the city at par its short-term obligations or short-term obligations of the United States not exceeding such amount as, together with the estimated amount of cash which stands to the credit of such fund at the time of such maturity, will equal the amount needed for redemption of such corporate stock.
Section 15. Paragraph 6 of Section 3012 of Title II of Article 10 of the public authorities law is hereby amended to read as follows:

6. Anything in this article ten to the contrary notwithstanding, any agreement or agreements with the holders of notes or bonds issued by any municipal assistance corporation created by or pursuant to any title of this article shall contain a clause stating in substance that any provision in this article or in any such agreement or agreements which relate to taxes imposed under article twelve or sections eleven hundred seven or eleven hundred eight of the tax law of the state or to the funds created by sections ninety-two-b [and] ninety-two-d or ninety-two-e of the state finance law shall be deemed executory only to the extent of the moneys available to the state in such funds from time to time and no liability on account thereof shall be incurred by the state beyond the moneys available in such funds.
Section 16. Title III of Article 10 of the public authorities law is hereby amended by adding a new section to read as follows:

§ 2551. Bonds or notes legal investments for public authorities. Bonds and notes of the corporation are hereby declared to be legal investments for monies of public corporations of the state of New York and may be used to secure deposits of monies of such corporations in banks or trust companies authorized to do business in the state of New York.
Section 17. Article two, section twenty-three, two of
the private housing finance law of 1961, as amended, is hereby
amended to read as follows:

The supervising agency shall have exclusive power
to promulgate such supplementary rules and regula-
tions with respect to a municipally-aided project
and company formed to undertake or operate any such
project, as may be necessary to carry out the provi-
sions of this article. No assignment for collateral
or pledge by a municipality of its mortgage interest
in a project to the State or to any political subdivi-
sion thereof shall either affect the power of the
municipal supervising agency granted herein or autho-
rize the commissioner to exercise any powers not
otherwise granted in this article.
Section 18. A new title 6-A is hereby added to article II of the local finance law to read as follows:

Title 6-A

LOCAL OBLIGATIONS: FINANCIAL EMERGENCY; CONDITION PRECEDENT TO CLAIMS; STAY OF CLAIMS; REHABILITATION PLAN FOR MUNICIPALITY

Sec.

85.00. Limitation of provisions; emergency period.

85.10. Presentation of claims; commencement of actions.

85.20. Demand for payment.

85.30. Petition of municipality; temporary stay of claims.

85.40. Rehabilitation plan for municipality; court approval; continuation of stay.

85.50. Vacating stay; permanent injunction.

85.60. Modification of plan.

85.70. Notice to claimants.

85.80. Authority for municipality to file petition under federal statute.

85.90. Judicial review.
§ 85.00. **Limitation of provisions; emergency period.**

The provisions of this title shall be applicable (a) only to a municipality with respect to which the legislature has declared that a state of financial emergency exists, and (b) only during the emergency period specified by the legislature; provided, however, that the provisions of section 85.80 of this title shall apply to any municipality at any time.
§ 85.10. Presentation of claims; commencement of actions.

No action or special proceeding shall be prosecuted or maintained against a municipality alleging, involving or arising out of the undertaking or breach of any contract or obligation, direct or indirect, of the municipality (including but not limited to any bond, note or other evidence of indebtedness of the municipality or others), nor shall any act be done or action or special proceeding be prosecuted or maintained seeking to obtain or enforce any judgment thereon or any lien, set-off or counterclaim arising therefrom against the municipality, its property or revenue, unless: (a) a demand for payment shall have been made and served upon the municipality, in compliance with section 85.20 of this title, and (b) it shall appear by and as an allegation in any complaint, petition or other moving papers that at least thirty days have elapsed since the service of such demand and that adjustment or payment thereof has been neglected or refused.
§ 85.20. Demand for payment.

a. In any case where a demand for payment is required by section 85.10 of this title as a condition precedent to the commencement of an action or special proceeding against a municipality, the demand shall comply with the provisions of this section.

b. The demand shall be in writing, sworn to by or on behalf of the claimant, and shall set forth: (1) the name and post-office address of each claimant, and of his attorney, if any; (2) the contract or obligation involved; (3) the nature and basis of the claim; (4) the time when the claim arose; and (5) the items of damage claimed to have been sustained so far as then practicable.

c. The demand shall be served on the municipality against whom the claim is made by delivering a copy thereof, in duplicate, personally, or by registered mail, to the person, officer, agent, clerk or employee, designated by law as a person to whom a summons in an action in the supreme court issued against such municipality may be delivered.

d. At or before the trial of an action or the hearing upon a special proceeding to which the provisions of this section are applicable, a mistake, omission, irregu-
larity or defect made in good faith in the demand required to be served by this section, not pertaining to the manner of service thereof, may be corrected, supplied or disregarded, as the case may be, in the discretion of the court, provided it shall appear that the other party was not prejudiced thereby. Application for such relief, if made before trial, shall be by motion, on affidavits. Failure to serve more than one copy may be corrected by such motion.
§ 85.30. Petition of municipality; temporary stay of claims.

Any municipality, or any emergency financial control board established by state law for such municipality, may file a voluntary petition on behalf of the municipality under this section. The petition shall be filed in the supreme court in a county in which the municipality is located. The petition shall state: (a) that the municipality is unable to pay its debts or obligations as they mature; (b) that the municipality or any emergency financial control board established by state law for such municipality intends to file with the court, within sixty days from the filing of the petition, a rehabilitation plan in compliance with the requirements of section 85.40 of this title; and (c) the nature of the debts and obligations of the municipality, the approximate amount thereof, and the identities and addresses of known creditors or, in lieu thereof, the reason such identification is impracticable. A petition filed under this section shall operate to suspend the enforceability of any claim, and to stay the commencement or the continuation of any action or special proceeding, or the doing of any act, within the scope of section 85.10 of this title, in or before any court or other tribunal in any jurisdiction, or otherwise, for a period of sixty days; provided, however, that: (a) the stay may be vacated prior thereto if, upon motion of any creditor, the court finds that the petition
was not filed in good faith or that the municipality is expending funds or otherwise dissipating assets for improper purposes; and (b) if a rehabilitation plan for the municipality is filed within sixty days from the filing of the petition, the court shall extend the stay for such additional period of time as is required to permit the court to enter an order pursuant to section 85.40 of this title. During the period of any stay or extension thereof pursuant to this title, the municipality, with the approval of any emergency financial control board established by state law for such municipality, may expend such sums as are required to maintain and provide essential services.
§ 85.40 Rehabilitation plan for municipality; court approval; continuation of stay

Upon the filing of a petition pursuant to section 85.30, any municipality, with the approval of any emergency financial control board established by state law for such municipality, or any such board with or without the approval of the municipality, may file a rehabilitation plan on behalf of the municipality. Upon the filing of such a plan, the court shall enter an order extending any stay then in effect pursuant to section 85.30 for such period of time as is required to carry out fully all of the terms and provisions of the plan if the court finds, after a hearing upon notice to interested parties, that: (a) the rehabilitation plan provides for the eventual payment in full of all contractual debts and obligations of the municipality, with interest due thereon at the time of maturity, subject to existing powers of the state to modify public employment or other contracts or obligations in times of emergency; (b) that, giving due regard to the overriding responsibility of the municipality to maintain and provide essential services and to the practical limits of the taxing authority of the municipality, the rehabilitation plan is at least as likely to provide full and prompt payment to all affected creditors, on an equitable basis, as any stayed action, special proceeding or other act initiated by, or available to, such creditors; (c) that the rehabilitation plan was approved by any emergency financial control board established by state law for such municipality, and (d) that the rehabilitation plan does not materially prejudice any available right or remedy of any creditor in the event the plan is not consummated. The plan shall further provide
for the payment of interest on all matured debts and obligations, at no less than the rate prescribed by law at the time for the payment of interest by municipal corporations on judgments and accrued claims. The plan shall provide for prompt and appropriate notice of the filing of the plan and the hearing thereon to be given to all known creditors of the municipality affected thereby, by mail or publication, or both, as may be practicable under the circumstances. The plan may provide for the payment of creditors or classes of creditors in any form or manner, on the same or different basis, in any order, so long as the requirements of this section are met and any applicable constitutional priorities among creditors or classes of creditors are recognized and preserved. In the event the court is unable to make the aforesaid findings as to the rehabilitation plan, it shall enter an order so stating and vacating the stay then in effect, which order shall become effective within ten days from the entry thereof unless, prior thereto, the municipality or any emergency financial control board established by state law for such municipality files with the court an amended rehabilitation plan. Upon the filing of the first such amended plan, the court shall (and, upon the filing of any further amended plans, it may in its discretion) extend the stay for such additional period of time as is required to permit the court to enter an order containing findings pursuant to this section with respect to the amended plan.
§ 85.50. **Vacating stay; permanent injunction.**

Any order extending a stay pursuant to section 85.40 of this title may be vacated or modified if, upon motion of any creditor affected thereby, the court finds: (a) that the municipality has failed to comply with a material provision of the rehabilitation plan; or (b) that the municipality is expending funds or otherwise dissipating assets for improper purposes; or (c) that, due to a material change in circumstances, the rehabilitation plan no longer complies with the requirements of section 85.40. Upon the occurrence of the final act necessary to carry out fully all of the terms and provisions of the rehabilitation plan, the court, upon motion of the municipality or any emergency financial control board established by State law for such municipality, shall enter an order permanently enjoining the commencement or the continuation of any action, special proceeding or other act relating to any debt or obligation included in the plan.
§ 85.60. Modification of plan.

At any time prior to entry of an order approving a rehabilitation plan pursuant to section 85.40 of this title, the municipality or any financial emergency control board established by state law for such municipality may file modifications thereof, subject to the power of the court to enter an order prohibiting the filing of a further modification if it finds that such modification was not filed in good faith. At any subsequent time, the municipality or any financial emergency control board established by state law for such municipality may file modifications only on court order, after hearing, upon notice to interested parties. Upon the filing of any such modifications, the court shall hold a hearing pursuant to section 85.40 and shall enter an order continuing or extending the stay, as may then be in effect, pursuant to section 85.30 or 85.40 of this title, for such period of time as may be required to permit the court to enter an order pursuant to section 85.40 with respect to the modified plan.
§ 85.70. Notice to claimants.

Upon the filing of a petition pursuant to section 85.30 of this title or the entry of any order extending, vacating or modifying a stay pursuant to this title, prompt and appropriate notice thereof shall be given, at the expense of the municipality, to all known claimants of the municipality affected thereby, by mail or publication, or both, in the form and manner as the court may direct.
§ 85.80. Authority for municipality or emergency financial control board to file petition under federal statute.

In addition to, or in lieu of, filing a petition under this title, a municipality, or any emergency financial control board established by state law for such municipality, may file any petition with any United States district court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect, providing relief to financially embarrassed municipalities. Nothing contained in this title shall be construed to limit the authorization granted by this section.
§ 85.90. Judicial review.

If any plan proposed pursuant to this title should be disapproved, or if any stay shall be vacated or modified or an extension thereof denied pursuant to this title, or if any other order pursuant to this title should be entered which is adverse to the municipality or any financial emergency control board established by state law for such municipality, by any court of this state, the municipality or any financial emergency control board established by state law for such municipality shall have a direct appeal as of right to the court of appeals of this state, which shall have the duty to assign the appeal for hearing at the earliest possible date and otherwise to cause the appeal to be heard and decided expeditiously.
Section 19. Judicial Review

If any section, part or provision of this act shall be declared unconstitutional or invalid or ineffective by any court of this state, any party in interest shall have a direct appeal as of right to the court of appeals of the state of New York, which shall have the duty to assign the appeal for hearing at the earliest possible date and otherwise to cause the appeal to be heard and decided expeditiously.
Section 20. Separability of provisions

If any section, part or provision of this act shall be declared unconstitutional or invalid or ineffective by any court of competent jurisdiction, such declaration shall be limited to the section, part or provision directly involved in the controversy in which such declaration was made and shall not affect any other section, provision or part thereof.
The purposes of the three are abbreviated as follows: The United States Housing: HUD - Multifamily Housing.

**IV.** The amounts held by the MAC are pursuant to 1975-76 Federal Categories and, see note 9.

**V.** The amounts held by the MAC are pursuant to 1975-76 Category.