THE CITY IN TRANSITION: PROSPECTS AND POLICIES FOR NEW YORK

THE FINAL REPORT OF THE TEMPORARY COMMISSION ON CITY FINANCES

The City of New York
June 1977

370

THE CITY IN TRANSITION: PROSPECTS AND POLICIES FOR NEW YORK

THE CITY IN TRANSITION: PROSPECTS AND POLICIES FOR NEW YORK

THE FINAL REPORT OF THE TEMPORARY COMMISSION ON CITY FINANCES

The City of New York
June 1977

MEMBERS OF THE TEMPORARY COMMISSION ON CITY FINANCES

Owen McGivern, Esq., Chairman*

George Champion*
John A. Coleman
Thomas Coleman
Dr. Joseph W. Ford*
Charles A. Goldstein, Esq.*
Marife Hernandez
Lawrence Lachman*
Bruce Llewellyn
Alton G. Marshall
John F. McGillicuddy*
Dr. Edward J. Mortola*
Lewis Rudin
Dr. Emanuel Saxe
Dr. Donna E. Shalala
Richard R. Shinn
John F. Sipp
David Teitelbaum, Esq.
Robert V. Tishman*
A. Robert Towbin
Harry Van Arsdale
Hon. Robert F. Wagner*
Martha R. Wallace

Leo A. Larkin, Esq.
Project Director

*Member, Committee on the Final Report of the Temporary Commission on City Finances

STAFF OF THE TEMPORARY COMMISSION ON CITY FINANCES

Raymond D. Horton, Esq.
Staff Director

Mary McCormick
Research Director

Bonnie Benjamin
Charles Brecher
Dana Driskell
James M. Hartman
Kurt W. Katzmar
Cristina Kazan
Penny Peace
Robert P. Shay, Jr.
Matthew Smith
Barbara Thornton
Robin Wagner
Yakov Zvi

Interim Reports of the Temporary Commission on City Finances:

THE EFFECTS OF THE BOND TRANSFER TAX, November 1975.

STATE ASSUMPTION OF COURT, PROBATION, AND CORRECTION SERVICES IN NEW YORK, January 1976.

SYNCHRONIZING STATE AND FEDERAL AID TO NEW YORK CITY, January 1976.

FINANCING MASS TRANSIT IN NEW YORK CITY, March 1976.

THE EFFECTS OF THE NEW YORK CITY ESTATE TAX, April 1976.

THE FISCAL IMPACT OF RETIREMENT BENEFITS: SOME PROPOSALS FOR REFORM, May 1976.

THE FISCAL IMPACT OF FRINGE BENEFITS AND LEAVE BENEFITS: SOME PROPOSALS FOR REFORM, June 1976.

AN HISTORICAL AND COMPARATIVE ANALYSIS OF EXPENDITURES IN THE CITY OF NEW YORK, October 1976.

THE EFFECTS OF TAXATION ON MANUFACTURING IN NEW YORK CITY, December 1976.

THE CITY UNIVERSITY OF NEW YORK: PROPOSALS FOR THE FUTURE, January 1977.

THE EFFECTS OF PERSONAL TAXES IN NEW YORK CITY: SOME PROPOSALS FOR A MORE RATIONAL SYSTEM, February 1977.

PUBLIC ASSISTANCE PROGRAMS IN NEW YORK CITY: SOME PROPOSALS FOR REFORM, February 1977.

ECONOMIC AND DEMOGRAPHIC TRENDS IN NEW YORK CITY: THE OUTLOOK FOR THE FUTURE, May 1977.

THE ROLE OF INTERGOVERNMENTAL FISCAL RELATIONS IN NEW YORK CITY, May 1977.

THE EFFECTS OF RENT CONTROL AND RENT STABILIZATION IN NEW YORK CITY, June 1977.

THE MEDICAID PROGRAM IN NEW YORK CITY: SOME PROPOSALS FOR REFORM, June 1977.

Preface

The City in Transition: Prospects and Policies for New York is the Final Report of the Temporary Commission on City Finances. It completes the Commission's mandate to study and make recommendations concerning the City of New York's long-term financial problems and prospects. The members of the Commission and its Chairman, Owen McGivern, were appointed by Mayor Abraham D. Beame on June 7, 1975. The legislation formally creating the Commission (Local Law 45 of 1975, Council Int. 842) was signed by Mayor Beame on September 5, 1975. The Commission's staff began work in September 1975. Between November 1975 and June 1977, the Commission published 16 Interim Reports. Appendix II includes a summary of each Interim Report.

The Final Report is not a summary of the Interim Reports, but an original document embodying considerable analysis heretofore not published by the Commission. The Final Report proposes a major reorientation of City, State, and Federal policies which, based on the analysis of the past and projections of the future, is necessary if the City of New York's financial problems and New York City's underlying economic problems are to be solved. It is not possible to detail precisely how and when changes in the established order must occur given the multiplicity of interests and forces, some of them indeterminate, that must be reconciled in the years ahead. However, it is clear that the established order must change in the general manner described in the Final Report if New York City's future is to be better than its recent past.

The persons and institutions, public and private, that contributed to the work of the Commission are too numerous to list here. On behalf of the Commission and its staff, I would like to offer a collective word of thanks. The Ford Foundation, Rockefeller Brothers Fund, and Fund for the City of New York warrant specific acknowledgement. Their financial assistance made it possible for the work of the Commission to be completed.

I am deeply grateful to the members of the Commission for their assistance. The Commission members defined a comprehensive and independent research agenda and supported its completion in innumerable ways. The Commission's Chairman, Owen McGivern,

and Project Director, Leo Larkin, made many thoughtful and constructive contributions throughout the life of the Commission. In addition, I would like to thank Charles Goldstein who served as Chairman of the Final Report Committee.

Most of all, I want to express my appreciation to the staff of the Temporary Commission on City Finances. The staff worked hard under very difficult conditions to complete the Commission's assignment.

I would like to acknowledge the assistance of the following persons in the writing of the Final Report: Bonnie Benjamin, Charles Brecher, Dana Driskell, James M. Hartman, Kurt W. Katzmar, Cristina Kazan, Mary McCormick, Penny Peace, Robert P. Shay, Jr., Matthew F.X. Smith, Barbara Thornton, Robin Wagner, and Yakov Zvi.

Raymond D. Horton,
Staff Director
June 1977

Table of Contents

Preface ix
Summary 1

PART ONE:
THE CAUSES OF THE FISCAL CRISIS

Section I: The Fiscal Crisis in Historical Perspective . . . 19
A. The Fiscal Crisis: 1975 to 1977 19
B. The Causes of the Fiscal Crisis 21
1. Socioeconomic Change 22
2. Intergovernmental Relations 24
3. Local Government 25
C. Summary 27
Section II: Social and Economic Trends 29
A. The Equilibrium Period 31
B. The Modest Growth Period 36
C. The Depression Period 38
D. Summary 41
Section III: Intergovernmental Relations 43
A. State-City Relations 44
B. Federal-City Relations 46
C. Federal and State Aid to New York City . 48
1. Federal Aid Programs 50
2. State Aid Programs 52
D. The Effect of Intergovernmental Relations on City Services 54
E. Summary 58
Section IV: Policies and Practices of the City of New York 61
A. Growth in Operating Expenditures 61
B. Tax Policy 64
C. Debt Policy 69
D. Management Policy 73
1. Expenditure Control and Management. 73
2. Management of Labor Relations and Personnel 76
3. Management of Personnel Costs 79
4. Management Choices Involving Compensation and Public Services . . . 83
E. Summary 89

PART TWO: PROSPECTS FOR NEW YORK CITY

Section V: Socioeconomic Prospects 95
A. Economic and Demographic Assumptions . 96
1. Economic Assumptions 96
2. Demographic Assumptions 100
3. Some Integrative Assumptions 101
B. Critical Variables for the Future 103
1. The City's Export Base 103
2. The City's Growing Internationalization 106
3. The City's People 106
4. The City's Infrastructure 107
5. The City's Competitiveness 108
C. Summary 108
Section VI: Intergovernmental Prospects 111
A. The Political and Socioeconomic Context . 111
1. New York City in the National Context 112
2. New York City in the State Context .. 114
B. The Outlook for Intergovernmental Relations 115
1. Federal Aid 117
2. State Aid 119
3. Public Assistance and Medicaid Reform 120
Section VII: Prospects for the City of New York 123
A. Socioeconomic and Intergovernmental Prospects 124
1. Socioeconomic Prospects and Local Political Change 124
2. Intergovernmental Prospects and Local Political Change 125
B. Three Strategic Options for the Future ... 126
1. Bankruptcy 127
2. Decrementalism 129
3. Developmentalism 136

PART THREE:
DEVELOPMENTAL POLICIES FOR THE FUTURE

Section VIII: Tax Reduction 141
- A. Some General Considerations 142
- B. Evolving Local Tax Policy 146
- C. Recommendations 149
  - 1. Business Taxes 150
  - 2. Real Estate Taxes 151
  - 3. Personal Income Taxes 152

Section IX: Improving Debt Management and the City's Infrastructure 155
- A. Debt Management 156
  - 1. Past Debt Management Policies 156
  - 2. Future Debt Management Policies 159
- B. The City's Infrastructure 160
  - 1. An Overview of the Capital Budget 160
  - 2. Capitalization of Expense Budget Items 162
  - 3. Future Needs and Priorities 164
- C. Recommendations 165

Section X: Management Improvement 167
- A. Centralized Management 171
- B. An Effective Management Service 172
- C. Effective Personnel and Wage Policies 173
- D. Innovation in Service Delivery 176

Section XI: Expenditure Reduction 179
- A. Reduction of Labor Costs 180
  - 1. Pension Reform 181
  - 2. Fringe Benefit Reform 183
- B. Contraction of Functional Expenditures 185
  - 1. Mass Transit 186
  - 2. Municipal Hospitals 188
  - 3. Public Housing 189
- C. Administrative Support Costs 190
  - 1. Leasing 190
  - 2. Contracting 191
  - 3. Purchasing 191
- D. Conclusion 191

Section XII: Intergovernmental Reform 195
A. Functional Reassignment 196
1. Public Assistance 196
2. Medical Assistance 198
3. Specific State-City Relationships 200
B. Federal and State Block Grant Programs . 202
C. Grants for Public Capital Investment..... 208
D. Toward a National Urban Policy 210
Section XIII: Conclusion 215

Appendix I: Primary Recommendations of the Temporary Commission on City Finances 217
Appendix II: Summaries of Interim Reports of the Temporary Commission on City Finances 221
Appendix III: Methodology for Compilation of Historical Financial Data 267
Appendix IV: New York City in Comparative Perspective .. 295
Appendix V: Local Law 45 of 1975, Council Int. 842 313
Appendix VI: Members of the Temporary Commission on City Finances 321
Index 325

TABLES AND GRAPHS
PART ONE:

Table I-1: Employment by Industry in New York City: 1950, 1960, 1970, 1975 23
Graph II-1 Trends in New York City Employment: 1953-1975 30
Graph III-1: Sources of Funds in the New York City Budget: Fiscal Years 1961-1977..... 50
Table III-1 City Operating Revenues from Intergovernmental Sources: Fiscal Years 1961-1977..... 51
Graph III-2 Composition of Federal and State Aid to New York City for Operating Purposes: Fiscal Year 1976 53
Table III-2 Expenditure by Function Amount, Percentage of Total, and Aggregate Percentage Increase: Fiscal Years 1961, 1975 56
Table III-3 Comparison of Total Budget and Tax-Levy Expenditure Growth: Fiscal Years 1961, 1975 57

Table IV-1 Operating Expenditures of the City of New York in Current and Constant Dollars: Fiscal Years 1961-1975 62
Table IV-2 Per Capita Expenditures in the Ten Largest U.S. Cities: Fiscal Years 1961, 1971 63
Table IV-3 Changes in the Growth and Composition of the City's Revenue Structure: Fiscal Years 1961, 1966, 1971, 1975 66
Table IV-4: Average Per Capita Tax Burden for the Fifteen Largest U.S. Cities: 1974 68
Table IV-5: Short-Term and Long-Term Debt in the City of New York: Fiscal Years 1961-1975 70
Table IV-6: New Issues and Redemptions of Short-Term Debt: Fiscal Years 1961-1975 71
Table IV-7 Debt Service and Retirement Costs in the City of New York: Fiscal Years 1961-1975 . 72
Graph IV-1: Expenditure by Object as a Percentage of Total Expenditures: 1965, 1975 75
Table IV-8: Growth in Municipal Labor Costs: Fiscal Years 1961-1975 80
Table IV-9 Percentage Increases in Real Salaries for Selected Job Titles: 1965-1976 82
Table IV-10: Full-Time Employment and Labor Costs in the City of New York: Fiscal Years 1961-1975 85
Table IV-11: Employment Changes in Selected Service Areas: Fiscal Years 1961-1975 87
Table IV-12: Selected Data Illustrating Components and Service Tradeoffs in the Police Department: Fiscal Years 1961-1975 88

PART TWO:

Table V-1: Regional Shifts in Population and Employment: 1960-1975 98
Table V-2: "Most Likely" Projections for Nonagricultural Employment in New York City: 1980, 1985 99
Table V-3: New York City Population by Age: 1970-1980 102
Table V-4: Changes in New York City's Export Employment: 1965-1973 105

Table VI-1: Net Metropolitan Migration: 1960-1975 113
Table VI-2: New York State and the Nation, Selected Comparisons: 1963, 1975 115
Table VI-3: Population Trends in New York City and New York State: 1950-1975 116
Table VI-4: Employment Growth in New York City and the Rest of New York State: 1960-1974 116
Table VI-5: Additional Intergovernmental Aid to New York City: Fiscal Year 1978 122
Table VII-1: Major Components of the Three-Year Financial Plan to Eliminate the Budget Gap .. 131
Table VII-2: Reduction in Full-Time City Employees: December 1974 to March 1977 132
Table VII-3: Change in Expenditure of Total Budget and City Funds by Function: Fiscal Years 1975, 1977 133
Table VII-4: New York City Expenditures and Revenues: Fiscal Years 1977-1981 135

PART THREE:

Table VIII-1: Income Tax Burden on a Hypothetical Family of Four (State and Local Taxes) 143
Table VIII-2: After Tax Rate of Return Resulting from Expansion in Selected New York Sites for a Hypothetical Industry 145
Table VIII-3: Effective Tax Rates Per $100 Full Value of Property Classes in New York City: Fiscal Year 1977 147
Table IX-1: Borrowing for Current Expenses in the City of New York: Fiscal Years 1965-1978 157
Table XI-1: City Subsidization of Mass Transit, Public Hospitals, and Public Housing: Fiscal Years 1971-1976 187
Table XI-2: Summary of Cost Savings from Section XI Recommendations 192
Table XII-1: Summary of Savings to City of New York Due to Implementation of Functional Reassignment Recommendations 199
Graph XII-1: New York City's Share of Receipts from Major Federal Aid Programs: 1976 203
Graph XII-2 New York City's Share of State Local Assistance Fund Programs: 1976 207

Summary

The central conclusion of the Final Report of the Temporary Commission on City Finances may be summarized as follows: The City of New York must be fundamentally reformed before its fiscal problems and the larger economic problems of New York City can be solved; incremental reform of the local governmental process will not suffice, even in the event that the State of New York and the Federal government assume increasing responsibility for functions presently performed by the City of New York.

Until the local private economy reaches a new equilibrium, the prospects for the City of New York and New York City will remain cloudy. Economic development represents the critical link between reform of the local governmental process and improvement of the larger city. Economic development is dependent upon increased investment.

While the *developmental strategy* proposed in the Final Report concludes that increased private investment ultimately holds the key to the city's future, its central focus is on the need to reform local public policies and managerial practices so that they promote rather than, as in the past, retard private investment. The developmental strategy is a broad plan for political action that will increase private investment in New York City by first increasing public investment.

The basic idea of the developmental strategy is that *slack or*

uncommitted resources must be acquired and then invested by the City of New York in ways that promote the competitiveness of the local private and public economies. The City can acquire slack resources by reducing expenditures, improving management, and obtaining fiscal relief from the State and Federal governments. The City's investment of slack resources, if it is to promote long-term developmental needs rather than short-term maintenance needs, primarily should be for the purposes of tax cuts, debt reduction, and improvement of the city's infrastructure or physical plant.

The effect of the developmental strategy would be to make the City of New York's public policies and managerial practices more rational in an economic sense. In the past, particularly after the mid-1960s, the local political system behaved in an economically irrational fashion by attempting to contravene some fundamental economic forces. The attempt failed, as demonstrated by the onset of fiscal crisis in 1975. Further attempts to conserve the existing structure of local political costs and benefits also will fail.

The Final Report of the Temporary Commission on City Finances is divided into three parts. Part One identifies the causes of the fiscal crisis. Part Two analyzes New York City's prospects. Part Three contains recommendations for the future. In addition, six appendices are included in the Report. Appendix I lists the major recommendations of the Final Report. Appendix II summarizes the sixteen Interim Reports issued by the Commission between November 1975 and June 1977. Appendix III presents historical data on New York City finances. Appendix IV presents some comparative data on major U.S. cities and their municipal finances. Appendix V is Local Law 45 of 1975 (Council Int. 842) which created the Temporary Commission on City Finances and Appendix VI is a biographical listing of the members of the Temporary Commission on City Finances.

A. CAUSES OF THE FISCAL CRISIS

Part One of the Final Report examines the nature and causes of the City of New York's problems. The central finding is that the City's problems are not essentially fiscal but manifestations of deep-seated problems stemming from highly interactive developments in the socioeconomic structure of the city, intergovernmental relations, and the local governmental process.

1. Socioeconomic Developments

The recent history of New York City as a socioeconomic entity can be divided into three periods: an "equilibrium" period during the 1950s; a "modest growth" period during the 1960s; and a "depression" period which began in 1969 and has not ended. The composition, but not the size, of the city's population changed throughout the post-World War II era. The central characteristic of population change was the out-migration of largely white, middle-class persons and the in-migration of persons with lower incomes, less education, and different job skills. During the 1950s and 1960s, high birth rates and heavy in-migration offset the out-migration of an estimated two million New Yorkers and produced relative stability in the size of the population. However, when the local economy entered its depression period, the city began to lose large numbers of people for the first time in its history. Between 1970 and 1975, New York City's population declined 4 percent.

The composition of the local economy also changed throughout the post-World War II era. During the equilibrium period of the 1950s, decline in manufacturing was offset by growth in other sectors of the local economy, primarily the private service and financial sectors. The city's export base, those firms or individuals that sell their goods or services to customers located outside the city, continued its secular transformation from the production of goods to the production of services. In the 1960s, several forces combined to produce modest growth in the local economy: a very strong national economy; certain "one-shot" events, like Wall Street's "go-go" years, that boosted selected sectors of the private economy; and a substantial increase in local revenues and intergovernmental assistance that permitted large employment gains in the public sector, particularly in the local government. In the 1960-1969 period, almost 80 percent of the jobs added to the local economy were government jobs. However, when the 1969-1970 recession began, the city's economy started a sharp contraction that has not stopped. In the 1969-1977 period, employment has fallen nearly one-sixth, from its historic high of 3.8 million to under 3.2 million.

Demographic change in New York City increased the share of persons who needed government services and decreased the share of persons able to finance government services. The effect of demographic change on the local public economy was offset somewhat by the modest growth of the local economy in the 1960s; however,

the sharp contraction of the local economy after 1969 contributed to a serious imbalance in local government finances.

2. Intergovernmental Relations

The City of New York's unique intergovernmental problems were a major reason for its near collapse in 1975. The City's unusually broad functional and financial responsibilities are not entirely the product of recent origin or Federal and State mandates. In the 19th century, partially in response to the needs of its huge immigrant population, the City initiated, among other things, municipal university and hospital systems. When consolidation of Greater New York City occurred in 1898, the City assumed the functional responsibilities of the five counties it now comprises as well as those of the old City of Brooklyn. The City entered the post-World War II period with heavy service responsibilities plus a strong home-rule tradition that encourged local functional and financial responsibility.

When the Federal government defined urban problems as a national responsibility in the 1960s under the general rubric of the Great Society, the City began to receive enormous amounts of new intergovernmental funds, particularly for social welfare programs. In the 1960s, the share of the City's expense budget funded by intergovernmental aid doubled from 23 percent to 46 percent. While intergovernmental aid permitted the City to expand services for its rapidly growing dependent population, it also put the City in a unique financial bind compared to other major American cities. The overwhelming share of Federal aid was provided through programs that required state matching grants (or state and local matching grants at the discretion of the state). The State of New York required its local governments to finance higher shares of the nonfederal costs than any other state in the nation. This requirement created an enormous financial problem for the City of New York, particularly in the areas of public assistance and Medicaid where the City was required to finance 25 percent of total program costs. In addition, the State mandated the highest welfare and medical assistance benefits in the country. State financing and benefit mandates, coupled with the "open-ended" nature of welfare and medical assistance programs, ensured enormously high social welfare costs for the City.

The effect of evolving intergovernmental programs was not limited simply to increasing the City's expenditures. Partly in order to finance its share of matching grant requirements, the City sub-

stantially increased local taxes and engaged in heavy deficit financing. Also, the City began to divert financial and manpower resources from the four most basic functions of local government—police, fire, sanitation, and education—to social service programs. Thus the effects of intergovernmental change compounded those of socioeconomic change, providing service-demanders with additional incentives to stay in or come to New York City and revenue-providers with additional incentives to leave.

3. The Local Political Process

Certain key policies and practices of the City of New York constituted, collectively, one of the underlying causes of the fiscal crisis. Between fiscal years 1966 and 1971, the City of New York's expenditures increased at an average annual rate of 15.9 percent compared to 8.6 percent in the 1961-1966 fiscal period and 10.2 percent in the 1971-1975 fiscal period. Rather than focus its attention on expenditure reduction, which always is difficult politically, the City sought to increase the supply of money by raising local taxes and borrowing beginning in the mid-1960s.

The City's tax policy gradually shifted the local revenue structure away from its traditional bases—the real estate and sales taxes—to more progressive and business-oriented taxes. Not surprisingly, this contributed to the exodus of people and businesses with the means to finance the local government and invest in the local economy. By 1974, municipal taxes in New York City were more than three times higher on a per capita basis than in Chicago and Los Angeles. Compounding the local tax burden is the fact that New York State levies the highest per capita state taxes in the nation.

The City's debt management policies, like its tax policies, also facilitated maintenance of existing expenditure commitments at the expense of important future interests. In the 1966-1971 fiscal period, the City's short-term debt jumped from less than $.5 billion to over $2.3 billion, and in the next four years it almost doubled to $4.5 billion. In the 1966-1975 fiscal period, short-term debt grew from 8.5 percent to 36.9 percent of total City debt. Long-term debt also was used to sustain day-to-day operations. In fiscal year 1965, $26 million of operating expenses was capitalized; by fiscal year 1975, when the City's financial structure almost collapsed, $724 million of capital funds, over one-half of the entire capital budget, was used to finance operations.

The third important failure of the local governmental process

was the City's loss of influence over both the compensation and management of its employees. In the 1966-1971 fiscal period, labor costs almost doubled from $2.1 billion to $4 billion. The largest percentage increases occurred in fringe and pension benefits rather than salaries. The cost of liberalizing pensions, unlike granting pay increases, can be deferred into the future, as evidenced by the $8.5 billion of unfunded pension liability that exists today. However, the pay of City workers also increased rapidly, particularly in contrast to workers in the city's private sector. Between 1970 and 1976, during the worst years of the local depression period, real pay of patrolmen increased 10.3 percent, a higher rate of increase than during the largely expansionary 1965-1970 period. Changes in real wages of selected private sector workers in the 1970-1976 period ranged from an increase of 4.5 percent to a decline of 7.9 percent.

The City's inability or unwillingness to moderate gains in the compensation of City employees in the midst of obvious (and increasing) financial scarcity resulted in a political, or managerial, trade-off of serious consequence when the City in the 1970s chose to finance negotiated wage and benefit increases by reducing the work force, particularly in the essential services. During the 1971-1975 fiscal period, for example, local taxes for police services increased almost 50 percent, and compensation of individual police officers increased over 50 percent. The number of police officers, however, fell 2 percent, and the number of hours of police service actually delivered fell 4 percent.

The financial implications of the City's management failures have been enormous. During the 1961-1975 fiscal period, the annual average increase in labor costs was 10.65 percent. If through a combination of *slightly* better collective bargaining and *slightly* more efficient management, the City somehow had been able to hold the average annual increase in labor costs to just *one-half of one percent less* than actually occurred, 10.15 percent rather than 10.65 percent, the City would have saved $1.9 billion cumulatively.

The socioeconomic and intergovernmental changes could be construed to support a "captive-of-events" theory of the fiscal crisis in which the City of New York is viewed as having little or no control over the events that caused the crisis. The "captive-of-events" theory is a popular interpretation that is true in some important respects. Certainly, the City of New York was incapable of influencing socioeconomic and intergovernmental change in a substantial fashion during the post-World War II era.

However, the "captive-of-events" theory also is popular because it tends to absolve the local political process of responsibility for the fiscal crisis and buttresses the also-popular view that solution to the City's financial problems lies in increased State and Federal aid rather than in local governmental reform. The "captive-of-events" theory has a stronger political underpinning than it does a theoretical underpinning. Practices and policies of the City of New York also contributed substantially to the fiscal crisis, particularly in the post-1965 period: tax policies increased the financial incentives for mobile businesses and individuals to leave New York City; debt management and labor relations policies drove up the cost of local government (and thus local government taxes) and reduced the supply of essential public services, thereby diminishing the "quality of life" in New York City.

In order to understand better the extent to which the City of New York contributed to its own fiscal crisis, it is useful to examine the City's expenditure pattern in the year the fiscal crisis began, 1975. Over 85 percent of the City's total expenditures were for three groups—the recipients of public and medical assistance benefits, 27.9 percent; City employees, 42.4 percent; and the holders of City bonds and notes, 14.9 percent. Mandated public assistance and medical assistance costs were $3.6 billion; but combined debt service and pension costs of $3.1 billion were not mandated in the same sense as welfare and Medicaid. Beyond that, the State and Federal governments picked up 75 percent of welfare and Medicaid costs. The overwhelming share of the $3.1 billion expenditure for debt service and pensions was provided from the City's own tax-levy funds. If the City had not bargained or borrowed so liberally, *or* if the Federal and State governments, particularly the latter, had not discriminated against the City with respect to welfare and Medicaid financing, the fiscal crisis would not have occurred in 1975 and perhaps never would have occurred.

B. PROSPECTS FOR NEW YORK CITY

Part Two of the Final Report examines the same three factors analyzed in Part One but from a prospective rather than retrospective basis under the assumption that the same factors that caused the fiscal crisis also will affect the future in important ways. Moreover, planning should be based on reasonable assumptions about the future.

1. Socioeconomic Prospects

Several important conclusions may be reached concerning the city's socioeconomic prospects. First, the city's future is indeterminate. The view that the future of the city is not a foregone conclusion is contrary to the views of many, including pessimists who believe the city is either dead or dying and optimists who believe recovery is "right around the corner." Second, there is no reasonable basis to assume that the city's economy will experience a major recovery in the next decade. Third, there is a reasonable basis to assume that the decline of the local economy can be slowed significantly and perhaps even halted in the next decade. Fourth, the City of New York can play a major role, positively or negatively, in determining the future of the local economy.

The fourth conclusion is critically important. The performance of the local economy is explained by two variables, the performance of the national economy and the "competitiveness" of New York City as a location for business enterprise. Three projections of local employment in 1980 and 1985 were made by the Commission. In each estimate, the assumption about the performance of the national economy (slow recovery from the 1973-1975 recession) was held constant. The Commission's "most-likely" employment forecast assumes improvement of competitive conditions but of small proportions. Under this assumption, employment will fall from its 1976 level of 3.18 million to 3.105 million in 1980 and 3.05 million in 1985. Under the assumption that rapid deterioration of local competitiveness will continue, the "low" employment forecast is for an employment level of 2.99 million in 1980 and 2.78 million in 1985. However, if pronounced improvement in New York City's competitive position occurs, the basis for a "high" forecast, employment will reach 3.27 million in 1980 and 3.32 million in 1985.

The most significant feature of these projections is the considerable variance between the high and low employment forecasts: 280,000 jobs in 1980 and 540,000 jobs in 1985. This does not mean, of course, that the City's policies alone can affect an employment swing of over one-half million jobs by 1985. Some factors that determine the competitiveness of New York City as a location for business activity are beyond the influence of the local government. However, many determinants of competitiveness are affected directly by decisions of the City of New York: the "quality of life" in the city, including schools, other essential services, and the condition of the city's infrastructure; local taxes, labor, rental and energy costs; and municipal budgetary conditions, to mention several.

Analysis of the city's socioeconomic prospects provides some important policy assumptions. On the one hand, there is no reasonable basis for policymakers to assume that the local economy will experience a major recovery; on the other hand, there is strong evidence that policymakers can improve substantially the performance of the local economy. However, a reorientation of City policies is required if the City is to improve the local economy. The City's public policies and managerial practices, if not fundamentally changed, will continue to contribute to economic decline in New York City.

2. Intergovernmental Prospects

The prospects for major reform of intergovernmental relations in the next few years are not bright. Public assistance financing and medical assistance financing represent the two most important intergovernmental fiscal problems; neither appears likely to be resolved until at least the early 1980s. Other intergovernmental programs, particularly Federal programs, are yielding additional monies to the City but not in amounts required to improve materially either the City's fiscal problems or the performance of the local economy.

3. A Developmental Strategy for the City

If substantial change in the local economy or substantial reform of intergovernmental relations are not likely, the chances for correction of the City's fiscal problems are low in the absence of substantial change in the local political system. The Commission proposes a developmental strategy for the City of New York that contrasts sharply with two other options, bankruptcy and decrementalism.

The developmental strategy would require reform of the local political process for the explicit purposes of improving the local economy and maximizing the impact of whatever intergovernmental relief the City receives. The nexus between the developmental strategy and improvement in the local economy is straightforward: investment of slack public resources in ways that promote the competitiveness of the local economy will increase private investment. Increased private investment ultimately holds the key to stability in the local economy.

The developmental strategy does not assume that substantial enough reform of intergovernmental relations is likely within the

necessary time period. But in the event that fundamental reform of the intergovernmental system does occur, the developmental strategy does not hold this as a sufficient basis for meeting the city's future investment needs without fundamental reform of the local political process also occurring.

The critical issue is the use to which the City of New York would put slack resources resulting from increased intergovernmental assistance. If slack resources are used in the future as they have been used in the past, that is, in an attempt to maintain an inherently imbalanced local governmental system, the long-term potential of intergovernmental reform largely and quickly will be dissipated. However, if slack resources are invested to promote the economy, intergovernmental reform will have a positive and enduring impact. This is why the City of New York must be fundamentally reformed before its fiscal problems and the economic problems of New York City can be solved and why incremental reform of the local political process will not suffice, even in the event that the State of New York and the Federal government assume increasing responsibility for functions provided by the City of New York.

Bankruptcy is the most radical of the three strategies. Its proponents assume that the City's fiscal problems are so enormous and its adaptive potential so limited, that judicial intervention is required. The Final Report concludes that, while bankruptcy may occur in the future, it is not presently a constructive option. First, it is not a democratic solution. Second, it would prevent the City from reentering the credit market for an extended period of time. Third, the substantial uncertainties about the formal and informal characteristics of bankruptcy suggest that it may not solve anything.

Decrementalism is the most conservative of the three strategies. It is also the prevailing strategy, primarily because it emphasizes change in intergovernmental relations and preservation of the existing governmental system in New York City. The decremental strategy clearly has roots in the "captive-of-events" theory of New York City's decline. Its underlying assumption is that fiscal reforms such as those implemented in the past two years will buy the time required to restructure intergovernmental relations, thereby negating the need to change fundamentally the local governmental process.

The developmental strategy lies between the radicalism of the bankruptcy approach and the conservatism of the decremental strategy. Unlike the bankruptcy option, the developmental strategy assumes that the local governmental process still retains the capacity

to adapt constructively to the larger developmental needs of New York City. Unlike the decremental option, the developmental strategy calls for fundamental local reform and questions whether intergovernmental reform is a likely or sufficient basis for meeting the city's future investment needs. The developmental strategy emphasizes the interdependency of reform locally and intergovernmentally.

C. DEVELOPMENTAL POLICIES FOR THE FUTURE

Three of the basic purposes to which slack resources should be invested are tax reduction, debt reduction, and maintenance of the city's infrastructure. The three principal means of acquiring slack resources are management improvement, expenditure reduction, and increased intergovernmental fiscal relief through the assumption by the State and Federal governments of responsibilities presently assumed by the City.

1. Tax Reduction

Economic development considerations increasingly should inform local tax policy, and fiscal considerations, the historically dominant concern, should be less important. Three underlying principles must guide future tax policy. First, tax reduction must be substantial because of the size of existing tax disincentives. Second, tax reduction must be selective, aimed at those areas where stimulative effects will be greatest. Third, the commitment to tax relief must be long-term. The Commission's proposals represent a "bullet" approach to tax relief rather than a "shotgun" approach whereby small amounts of tax relief are distributed to relatively large numbers of taxpayers.

Five major tax reforms are proposed in the Report: (1) a five-year reduction in the corporate income tax from its present rate of 10.05 percent to 5.05 percent in order to reduce costs in and demonstrate the City's commitment to the core of its vitally important export base; (2) a substantial and immediate tax cut for manufacturers in order to stimulate goods production, which is particularly sensitive to local taxes; (3) phased elimination of rent control and rent stabilization in order to increase real estate tax receipts and improve the long-term quantity and quality of the city's housing stock; (4) elimination of discriminatory real property assessment practices that discourage investment in commercial and industrial properties and result in substantial subsidies by the owners of such properties to the owners of residential housing and vacant land;

(5) reduction of the State personal income tax over the course of five years from its current rate of 15 percent on taxable incomes in excess of $25,000 to 10 percent on taxable incomes in excess of $15,000.

The basic purpose of the tax policies recommended by the Commission is to improve the competitiveness of New York City as a place in which to do business. The underlying assumption, of course, is that maintenance of existing taxes will diminish the existing business and individual tax base, thereby producing lower tax receipts and reduced private investment. The proposals concerning rent control and real estate assessment practices would, if implemented, increase local revenues, thereby providing some cushion against the short-term fiscal impact of the other tax cuts.

2. Debt Reduction and Infrastructure Maintenance

Prior to the fiscal crisis, the City had two basic debt problems: the total size of its outstanding debt and the huge amount of short-term debt that constantly needed to be rolled over because it could not be repaid. The ability of the Municipal Assistance Corporation (MAC) to convert a substantial amount of the City's short-term debt into long-term obligations of its own, plus the Federal seasonal financing program, have resolved the short-term debt problem, at least temporarily. However, the City's total outstanding debt, including MAC debt which is secured by City revenues, has increased over $1 billion since the beginning of the fiscal crisis.

The Commission recommends that the City pursue a debt management policy whereby it issues less debt each year than it amortizes. Reduction of outstanding debt in this fashion gradually will reduce debt service costs that inhibit the City's ability to provide essential services. Also, debt reduction will make it possible to reduce real estate taxes substantially, a key developmental goal that presently is frustrated by excessive debt service costs, over $2.3 billion in fiscal year 1977. Finally, reduction of outstanding debt will speed the City's return to credit markets at competitive interest costs.

The mechanism for reducing outstanding debt—each year borrowing a fraction of the amount that is amortized—requires linking the City's debt management to its capital budget process. The essential goals of reducing outstanding debt and maintaining the city's infrastructure are interrelated. New York City's infrastructure is one of its most important resources for the future. The city's physical plant badly needs the maintenance that was deferred during

the post-1965 period when a substantial share of capital monies was diverted for operating purposes and the bulk of legitimate capital expenditures was for construction rather than renovation or maintenance.

In order to reduce outstanding debt, it is necessary to constrain the issuance of bonds (assuming, for the moment, that the City regains the ability to sell its bonds competitively). At the same time, the city's legitimate capital needs are enormous. To increase the likelihood of achieving both goals, the Commission recommends accelerated phasing out of expense budget items from the capital budget. The Commission also recommends that the focus of capital expenditure be on maintenance rather than new construction except in instances like the Convention Center where an important economic development interest would be served.

Finally, the Commission recommends that the Federal seasonal loan program be extended beyond the end of fiscal year 1978. If the developmental strategy recommended in the Final Report of the Commission is pursued, there is no reason why the extension of the Federal seasonal loan program should be dependent upon the extension of the statutory powers of the present Emergency Financial Control Board.

3. Management Improvement

The basic challenge facing management in the City of New York is to provide adequate services (which is essential to maintaining the "quality of life" in New York City) at reduced levels of expenditure (which is essential to freeing up resources for investment). Unfortunately, the key element in the City's retrenchment program, reduction of the municipal work force through a combination of attrition and layoffs, has negatively affected the City's work force in some basic ways. The collective impact of these changes greatly complicates the managerial challenge facing the City of New York. As a result of the City's policies since the beginning of the fiscal crisis, the work force is 21 percent smaller, older, less representative of the city's people in terms of race and gender, and better compensated than in 1975.

Four basic reforms must occur if the City is to be able to maintain services at reduced levels of expenditure. First, fiscal and managerial control must be centralized at the mayoral level. Second, an effective management service must be created. Third, the formal and informal rules that govern the selection, training, and deployment of the work force must be modernized. In connection with

this, the Commission recommends that the City develop a new municipal wage policy. City employees should receive general wage increases in return for the City's regaining managerial control over deployment and utilization of the work force. Fourth, experimentation in the means of organizing and delivering municipal services must occur.

To illustrate that management improvement can yield substantial savings while maintaining services, the Commission identifies eight reforms that, if implemented, would permit maintenance of police services at a savings of $100 million a year. The fact that none of the eight reforms yet has been accomplished even in the midst of fiscal crisis, indicates that there is substantial resistance to change in the City's managerial and bureaucratic processes.

4. Expenditure Reduction

Expenditure reduction is the second major method of acquiring resources for investment in the future. The City of New York lacks the resources to maintain its existing cost structure and functional scope. The most obvious area for expenditure reduction is the nearly $2 billion the City spends on the fringe and pension benefits of its employees. In the past two years, while the City was pursuing a conscious policy of reducing its work force and its services, only one substantial reduction has occurred in the fringe and pension benefits of City employees, a halving of the Increased-Take-Home-Pay (ITHP) benefit by which the City made its actuarial retirement systems virtually noncontributory for employees.

The Commission recommends the elimination of three pension benefits that cost the City a total of $135 million annually: the remainder of the ITHP benefit, the Heart Bill, and those union annuity funds that are not constitutionally protected. These three recommendations, if implemented, would reduce overall retirement costs by a modest 8 percent. Furthermore, five recommendations are made to reduce or eliminate selected fringe benefits that, if implemented, would save the City approximately $100 million annually.

The City's subsidy policies also need to be examined in the areas of mass transit and municipal hospitals, where the City's subsidy provides over one-quarter of revenues, and in public housing. In all, the annual cost of City subsidies is nearly $600 million for these three functions. The strongest case that can be made for expenditure reduction in these areas is in the City's private and public hospital systems. Every independent study that has been made in recent years indicates the existence of excess bed capacity

in New York City ranging from 4,000 to 7,000 beds. The closure of 5,000 beds, as recommended by the Commission, would reduce City tax-levy expenditures by $13 million to $37 million immediately depending on whether individual beds or entire hospitals are closed. This could be done without adversely affecting patient care, and the savings would increase each year. One-half of the beds should be closed in the municipal hospital system, which has an occupancy rate of only 75 percent, and one-half should be closed in the proprietary and voluntary systems.

The Commission identifies approximately $300 million of expenditure reductions that should be made. While this is a substantial sum, expenditure reduction accomplished by functional load-shedding is a potentially more important area.

5. Intergovernmental Reform

The principal recommendation of the Commission in the area of intergovernmental relations is for assumption of local public assistance and Medicaid costs by the State and Federal governments. Ideally, both programs would be financed by the Federal government because of its inclusive, progressive tax structure and its ability to relate benefits to cost-of-living differences. Until reform of public assistance and Medicaid financing occurs, and it appears that this will happen in the 1980s rather than in the 1970s, the State of New York should assume gradually increasing shares of the City's welfare and Medicaid costs. While the State's finances are not trouble free, they are in much better condition than the City's.

Beyond the issue of the State's relative ability to pay is the basic fact that it is responsible for the City of New York's financial problems to the extent that they reflect welfare and Medicaid costs. There are many areas in which the City of New York not only warrants criticism for its past and present failures and bears the primary responsibility for reform as well; however, in the areas of welfare and Medicaid, the State and Federal governments are responsible, not the City.

The Commission also recommends that the State assume the full cost of the senior colleges of the City University system. However, the University should remain an independent system oriented to the special higher educational needs of New York City. Furthermore, the State should honor its earlier decision to assume the cost of the local court system over a four-year period. Correctional and probation services also should be assumed by the State, not only to improve the City's finances but to provide better overall

administration of the presently fragmented court, corrections, and probabtion systems in New York.

If the Commission's recommendations for intergovernmental reform are followed, over $1.2 billion in City expenditures would be absorbed by the State and Federal governments on an annualized basis. Eventually, most if not all of these functional transfers will occur. The question is how fast they will occur.

With respect to the various Federal and State block grant programs, including revenue sharing, the City generally receives a fair proportion of funds. This is more the case with respect to Federal programs than to State programs. The most serious inequities in State programs concern aid to education and, less importantly, mass transit.

In conclusion, the Final Report examines the issue of whether or not the developmental strategy it proposes is politically viable. Pursuing the developmental theory involves a reordering of local political priorities. The developmental approach would engage the City of New York in policies that may not be rational in a narrow, short-term political sense. How well public officials in the City, State and Federal governments are able to integrate economic and political rationality in the next few years will determine much about New York City's future.

In planning for the future, care should be taken not to define the city's recovery in terms of regaining the past. From the perspective of New York City, what it needs most from the City of New York are policies and practices that will contribute to a better future rather than mistakenly attempt to recapture the past or even maintain the present.

PART ONE

THE CAUSES OF THE FISCAL CRISIS

Section I

The Fiscal Crisis in Historical Perspective

The fiscal crisis that overtook the City of New York in 1975 was the culmination of changes in the socioeconomic structure of New York City, intergovernmental relations, and the local political process. Section I discusses the major financial and political developments since the onset of the fiscal crisis and concludes with an overview of the underlying causes of the fiscal crisis.

A. THE FISCAL CRISIS: 1975 TO 1977

The immediate cause of the crisis that pushed the City of New York to the brink of bankruptcy in 1975 was the convergence of two forces: the enormous amount of short-term debt the City was carrying and the sharp contraction of credit resulting from the 1973-1975 recession. Early in fiscal year 1975, when the City was paying unprecedented interest rates on its debt, representatives of financial institutions, as well as certain public officials, were warning that the City soon might not be able to borrow money at any price. The City, however, had no choice, short of default and bankruptcy, but to continue borrowing in order to meet its obligations. Without borrowing, the City would have been unable to make payments that were owed to welfare and medical assistance recipients, City employees, and creditors. In fiscal year 1975, welfare and Medicaid benefits, employee salaries and benefits, and payments to the holders of City bonds and notes accounted for 85 percent of the City's expenditures.

For several years prior to 1975, some fundamental precepts of local government finance were violated: budgets were not balanced, and both short-term debt and long-term debt were issued to cover budget deficits. These and other policies inconsistent with New York City's financial well-being resulted in large part from the City of New York's increasing propensity to place a higher premium on the satisfaction of short-term political needs than on long-term economic needs. City officials, for a variety of complex reasons, either were unable or unwilling to come to grips with a basic imbalance in the local governmental process that, in the course of one decade, enabled expenditures to exceed revenues by staggering amounts. By 1975, the City's cumulative budget deficit exceeded $3 billion, and its annual short-term borrowing needs exceeded $7 billion. In December 1974, a $600 million issue of City notes carried an interest rate, tax free, of 9.5 percent.

In May of 1975, the City was informed by major financial institutions involved in purchasing and underwriting its debt that a market for City securities no longer existed. This precipitated the first of a series of recurring fiscal crises in 1975 that were not resolved until the Federal government came to the rescue of the City in December of that year.

In the face of default in June, the State created the Municipal Assistance Corporation (MAC) and authorized it to issue long-term bonds, backed by revenues from the City sales and stock transfer taxes, to refinance the City's short-term debt.[1] The legislation creating MAC also authorized it to oversee the City's financial operations and mandated certain financial and accounting reforms. The first issue of MAC bonds, $1 billion worth, was purchased through an arrangement with the city's major banks, but it became clear shortly thereafter that MAC would be unable to refinance the City's short-term debt without additional reforms being undertaken by, or imposed on, the City.

Despite economies made by the City during the summer of 1975, MAC's difficulties in marketing additional securities gave rise to another crisis in August. With default again imminent, the State acted once more. In early September, the Emergency Financial Control Board (EFCB) was created. The EFCB was authorized to review, control, and supervise the financial management of the City during the period of financial emergency. Pursuant to the legislation creating the EFCB, a three-year Financial Plan was developed in October that was designed to balance the City's budget by the fiscal year ending June 30, 1978. The central assumptions underlying the

Financial Plan were that a balanced budget could be achieved by the end of fiscal year 1978 and that this would enable the City to return to the credit market to satisfy its future borrowing needs.

In November, a complicated financing scheme was proposed to cover the period of the Financial Plan. It included a MAC exchange offer to holders of City securities, an agreement by the major New York banks and the City's pension and sinking funds to purchase additional securities, an $800 million advance from the State to the City, and a legislated moratorium on the repayment of principal on outstanding City notes. Finally, the financing package called on the Federal government to provide substantial credit directly to the City. This package was completed in December 1975, when the Federal government approved seasonal financing legislation that provided the City with $126 million of credit in fiscal year 1976 and up to $2.3 billion annually throughout the last two years of the Financial Plan.

Throughout most of 1976, fiscal crisis was avoided. However, in November the moratorium legislation was held unconstitutional by the State Court of Appeals, once again threatening the City's delicate financial structure. In March 1977, a plan was developed to repay almost $1 billion in notes that were subject to the moratorium.

The solution to the moratorium problem probably represented the last major financing crisis the City will face until the end of the Financial Plan in June 1978, but the City's fiscal crisis is far from solved. Indeed, it will not be solved until fundamental public policy changes are made that address the problems underlying the fiscal crisis. While the creation of MAC and EFCB, the three-year Financial Plan, the Federal seasonal loan scheme, and a number of other actions have prevented bankruptcy, the basic problems underlying the crisis remain. Treating the City's problems as primarily fiscal, however successfully in the short-run, will provide only symptomatic relief and not prevent recurring fiscal crises in the years ahead.

B. THE CAUSES OF THE FISCAL CRISIS

Changes in the size and composition of New York City's population and economy represent one underlying cause of the fiscal crisis. Traditional and emerging features of City, State, and Federal fiscal relations constitute a second cause. The third cause involves changes in the nature of the local political process itself. These factors are described in more detail in the remaining sections of Part

One, but they warrant brief discussion here to underscore the fact that the problems of the City of New York are not narrowly fiscal.

1. Socioeconomic Change

New York City's population, which remained stable between 1950 and 1970, declined 326,000 between 1970 and 1975. The post-1970 decline, however, is far less important than changes in the composition of the population that began after the end of World War II. The most important change was the out-migration of largely middle-class residents and the in-migration of persons with lower incomes, less education, and fewer job skills than the out-migrants.

Between 1950 and 1960, it is estimated that almost one million city residents moved outside the city, primarily to suburban locations that permitted them to retain their economic nexus with the city. The exodus of large numbers of people to the suburbs was offset by high birth rates among those who remained in the city and, more importantly, by substantial in-migration, largely from the South and Puerto Rico.

Similar compositional changes in the city's population continued throughout the 1960s. The pace of out-migration moderated somewhat, but the rate of in-migration, particularly among blacks, accelerated. This, coupled with high birth rates, resulted in a slight increase in the city's population during the 1960s. However, the income, education, and skills of the city's people continued to change, producing important consequences for the politics and finances of the City of New York. As the share of the population dependent on government expenditures increased, the share of those persons capable of financing expenditures decreased.

Significant changes also were occurring with respect to the composition of the city's economy in the post-World War II era. In 1950, manufacturing employed the largest proportion of the city's work force, followed by wholesale and retail trades, services, and the finance, insurance and real estate sectors (see Table I-1). In the ensuing 25 years, manufacturing employment declined by almost one-half. However, growth in the private service sector and government more than offset the decline in manufacturing during the 1950s and most of the 1960s. Employment in the city reached its historic high, 3.8 million, in 1969.

In that year, the City's economy began a sharp contraction that resulted in the loss of over 600,000 jobs by 1977. Employment in every major sector of the local economy declined, eventually even

TABLE I-1

Employment By Industry in New York City: 1950, 1960, 1970, 1975

(employment figures in thousands; parentheses denote a decline)

	1950	1960	Employment Change 1950-1960	Percentage Change 1950-1960	1970	Employment Change 1960-1970	Percentage Change 1960-1970	1975	Employment Change 1970-1975	Percentage Change 1970-1975	Employment Change 1950-1975	Percentage Change 1950-1975
Contract Construction	123.0	125.3	2.3	1.9	110.1	(15.2)	(12.1)	77.9	(32.2)	(29.3)	(45.1)	(36.7)
Transportation and Public Utilities	331.5	318.1	(13.4)	(4.0)	323.3	5.2	1.6	268.4	(54.9)	(17.0)	(63.1)	(19.0)
Wholesale and Retail Trade	754.8	744.8	(10.0)	(1.3)	735.5	(9.3)	(1.3)	635.3	(100.2)	(13.6)	(109.5)	(15.8)
Finance, Insurance, and Real Estate	336.2	386.0	49.8	14.8	459.6	73.6	19.1	422.1	(37.5)	(8.1)	85.9	25.6
Services	507.7	607.3	99.6	19.6	785.4	178.1	29.3	770.7	(14.7)	(1.9)	263.0	51.8
Manufacturing	1038.9	946.8	(92.1)	(8.9)	766.2	(180.6)	(19.1)	527.8	(238.4)	(31.1)	(511.1)	(49.2)
Government	374.4	408.2	33.8	9.0	562.8	154.6	37.9	572.1	9.3	1.7	197.7	52.8
Mining	1.7	1.9	0.2	11.8	1.9	0	0	1.5	(0.4)	(21.1)	(0.2)	(11.8)
Total Employment	3468.2	3538.4	70.2	2.0	3744.8	206.4	5.8	3275.9	(468.9)	(12.5)	(192.3)	(5.5)

Source: Data for 1950-1974 are from U.S., Department of Labor, Bureau of Labor Statistics, *Employment and Earnings: States and Areas, 1939-1974* (1975), pp. 500-510; data for 1975 are from New York State, Department of Labor, *Employment Review* (May 1976), pp. 36-38.

local government employment, the only sector that grew in the 1970-1975 period.

While the local economy grew moderately in the 1960s, it was not a fundamentally sound growth. Almost 80 percent of the jobs gained in the 1960-1969 period were government jobs, most of them local government jobs. Expansion of employment by the City of New York was made possible by high taxes on the local private sector and rapid growth in intergovernmental aid. Evidence of the frailty of the local economy was provided early in the 1970s when, unlike earlier periods, it did not participate in the national economic recovery that followed the 1969-1970 recession. In late 1973, when another recession began, this one the most serious since the Great Depression, the local economy was in a state of serious decline. Sharp contraction continued through the end of the recession in 1975. In response to post-1969 local economic conditions, which saw unemployment rates rise to 12.1 percent in 1976, the city began to lose large numbers of people for the first time in its history.

2. Intergovernmental Relations

Federal policies, including subsidization of the national highway system, provision of loan guarantees for home mortgages, and income tax deductability for home mortgage interest payments, facilitated the out-migration patterns that changed the population of New York and many other U.S. cities in the post-World War II period. In response to new urban needs and demands, particularly after the urban riots in the early and mid-1960s, Federal policies toward central cities began to change. Federal and State policies combined to affect New York City in a unique fashion. These developments are examined in greater detail in Section III. Basically what occurred under the rubric of Great Society programs was the introduction of a series of major urban policy initiatives that greatly increased the amount of intergovernmental monies flowing into American cities, particularly New York. In the 1960s, the share of City revenues provided by intergovernmental monies doubled, increasing from 23 percent to 46 percent in 1970.

The new intergovernmental programs that increased financial assistance also encouraged the development of emerging trends in local political and socioeconomic processes. First, as was shown in the Commission's Eighth Interim Report, *An Historical and Comparative Analysis of Expenditures in the City of New York*, the mix of services provided by the City of New York was altered.[2] The share of resources devoted to the basic municipal services—police,

fire, sanitation, and education—declined relative to social or human service functions like welfare and health care. Second, the method of financing the major new intergovernmental initiatives, particularly Medicaid, forced the City into a unique financing role that greatly exacerbated the City's already considerable financial problems. Third, the City began to increase local taxes and resort to debt financing in order to provide matching funds for the new intergovernmental initiatives. These policies contributed to the already high cost of living and doing business in New York City and further weakened the shaky structure of municipal finances. Fourth, as intergovernmental programmatic and financial involvement grew, the programmatic and financial control of City officials diminished. In important expenditure areas, like welfare and Medicaid, the City's ability to control expenditures declined due to the "open-ended" nature of the programs.

In retrospect, the growth of intergovernmental assistance in New York City was a mixed blessing. While it enabled the City more adequately to meet the needs of its poorer citizens, it also contributed substantially to the financial problems that culminated in the fiscal crisis.

3. Local Government

The politics and finances of the City of New York remained relatively stable during the 20 years following the end of World War II. It is interesting to note in this connection that Wallace S. Sayre and Herbert Kaufman finished their introduction to the paperbound edition of the classic *Governing New York City* in 1965 with the same confidently-asked question with which they concluded the first edition in 1959: "What other large American city is as democratically and as well-governed?"[3] A decade later the same question could not have been asked so confidently.

Despite the relative stability of City politics, careful examination of the City's finances discloses emerging problems in the early 1960s. Between fiscal year 1950 and fiscal year 1961, City expenditures increased (in constant dollars) at an average annual rate of 7 percent. In the 1961-1966 fiscal period, the real rate of annual expenditure increase rose to 8.6 percent. Expenditure increases were offset to some extent by rapid growth of intergovernmental assistance, but the City still experienced new budget pressures. In fiscal year 1965, the City first resorted to the issuance of short-term debt to cover a deficit in its operating budget.

In the 1966-1971 fiscal period, the City's expenses more than

doubled, increasing from $3.6 billion to $7.8 billion. The average annual growth in expenditures during the 1966-1971 fiscal period was 10.8 percent in constant dollars, substantially higher than the growth rate in the previous five-year period. During the same period, intergovernmental aid increased 17.5 percent on an average annual basis. The rate of expenditure increase, however, was such that local taxes, including new personal income and business taxes, also rose substantially during this period. Finally, the City increasingly relied on deficit financing to ease its budgetary problems, not only with short-term debt but, through the capitalization of expense budget items, long-term debt as well.

These financial data are consistent with the earlier observation that the City's political process was changing rapidly in the post-1965 era. The City's relations with its organized employees were symptomatic of the increasingly near-sighted character of local political and managerial decisionmaking. Organized City workers began to make major gains at the collective bargaining table, particularly—though certainly not exclusively—in the area of retirement benefits. Because pension improvements, unlike salary increases, do not have to be funded immediately, City officials were able to defer payments into the future while reaping short-term political benefits such as municipal union support in electoral politics. The more than $8 billion in unfunded pension liabilities that exists today, much of it resulting from negotiated pension improvements in the post-1965 period, represents an infrequently mentioned form of debt that New Yorkers are carrying above and beyond the $13.4 billiion that is owed for outstanding notes and bonds.

The growth of debt in the decade prior to 1975, particularly after 1969, also bears witness to the increasing propensity of local political decisions to reflect short-term political needs rather than long-term economic needs. The City not only used long-term debt to finance daily operations, but it borrowed short-term on the basis of questionable receivables and then rolled over its short-term debt rather than repaying it. By borrowing heavily to maintain its day-to-day expenditure commitments, the City was mortgaging its future.

The short-run orientation of local political decisionmaking also was evident in the City's tax policy. New taxes were introduced and existing taxes increased to the point where the City's taxes contributed to the wasting of another important long-term asset: businesses and individuals of means who were a major source of local revenues.

In 1969, the local economy began its contraction, and a plateau was reached in the share of the budget funded by intergovernmental monies. By then, however, the local political system had lost the capacity to adapt to economic scarcity. Essential services were consciously reduced in the early 1970s when the City chose to limit its expenditures by reducing the number of policemen, firemen, sanitationmen, and teachers rather than moderating salary and other benefit increases; local taxes were increased, contributing even more to economic decline. Borrowing, the line of least resistance in the final analysis, accelerated. Between fiscal years 1969 and 1975, the City's short-term debt rose from $.7 billion to $4.5 billion.

In short, the City's political management was exacerbating rather than easing the city's problems. It was only when borrowing no longer was possible, in May of 1975, that the full extent of the fiscal problems became clear. By then, it was too late to avoid fiscal crisis.

C. SUMMARY

Two basic conclusions emerge from Section I that provide the framework for the remainder of the Report. First, the City of New York's fiscal problems are enormous, certainly unparalleled in its recent history (and unparalleled among other major cities in the U.S.). The transition from relative financial stability to near bankruptcy occurred in the course of one decade. This suggests that correction of the City's fiscal problems will not occur easily or quickly.

Second, the City's problems are not essentially fiscal. Rather, the fiscal problems are merely manifestations of deep-seated socioeconomic, intergovernmental, and political problems. Without substantial improvement or reform in these areas, the City of New York will continue to suffer recurring fiscal problems. The underlying causes of the fiscal crisis are highly interactive, as suggested above and explored in greater detail in the remainder of Part One. Socioeconomic decline not only helped produce but was compounded by changes in intergovernmental relations and local politics. Each major cause of the fiscal crisis fueled and, in turn, was fueled by the other causes. Breaking into the circular dynamics of these three variables represents the major policy challenge facing the City, State, and Federal governments.

Footnotes

[1]For a more detailed description of the events of the fiscal crisis in 1975, see the City of New York, *Official Statement Relating to the Issuance of $5,000,000 General Obligation Serial Bonds of the City of New York*, May 20, 1977, pp. 2-29.

[2]Temporary Commission on City Finances, Eighth Interim Report, *An Historical and Comparative Analysis of Expenditures in the City of New York*, October 1976, pp. 13-34, 51-56.

[3]Wallace S. Sayre and Herbert Kaufman, *Governing New York City: Politics in the Metropolis* (New York: W.W. Norton and Co., 1965), p. 738.

Section II

Social and Economic Trends

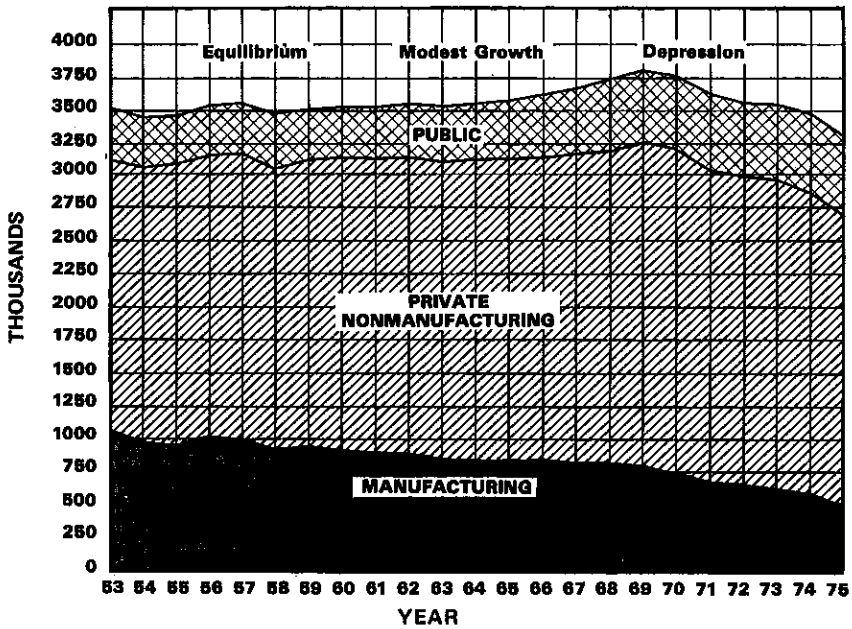
The recent history of New York City as a socioeconomic entity can best be understood by dividing the post-World War II years into three periods. The first period, one of "equilibrium," lasted from the late 1940s to the early 1960s. This period was characterized by offsetting forces of growth and decline that produced stability in the size though not the composition of the city's economic base and population. The second period, one of "modest growth," lasted from the early 1960s to the end of that decade. It was a time in which the positive forces evident during the period of equilibrium accelerated, while the negative forces abated somewhat, producing net growth in both the economic base and the population. The third period, best characterized as nothing less than a "depression," began in 1969 and remains in force in 1977. It has been a period of sharp decline in both the economic base (see Graph II-1) and the population.

In order to understand the events that have produced these sharp fluctuations in the socioeconomic city, it is useful to view each period in terms of urban economic and demographic concepts. Local economies respond to two sets of forces: cyclical trends in the national economy and the competitiveness of the local economy in those activities or industries in which a city specializes, its "export base."

During any given period of time, the national and world economies generate a pattern of demand for a wide array of goods and services. Competition for the production of goods and services

to satisfy these demands is intense. Individual cities compete with other parts of the country and, increasingly, with other areas of the world to acquire economic resources and be the location for profit-making activities. The economies of specific locations rise or fall because of changes in their ability to meet or influence external demands. In a market-oriented economy, the winners of this struggle are those firms whose profits are maximized.

GRAPH II-1
Trends in New York City Employment:
1953-1975



Not all private sector activities within a given area are directly involved in this interarea competition. The cutting edge of competition consists of those firms or individuals within a city that export their goods or services to other cities or areas. These activities may be referred to collectively as a city's export base which provides a city with a reason for existing in an economic sense. The ability of a city's export base to outperform actual or potential competitors located elsewhere is crucial for a city's long-term welfare.

The dynamic elements of demographic change are more familiar. Local areas grow due to natural increase when births outnumber deaths. Areas also experience population growth or decline due to net migration, the balance between the numbers of in-migrants and out-migrants. Net migration is linked closely to local economic conditions, since people leave areas where employment opportunities are shrinking and move to areas where employment opportunities are expanding.

A. THE EQUILIBRIUM PERIOD

New York City's export sector has been known historically for its awesome ability to transform itself, thereby enabling it to capture a portion of new market demands that are generated in the national economy. During the 19th century, the city's export sector shifted from a largely mercantile base to manufacturing and trade. In the early part of the 20th century, New York City became a center for the management of the large corporate enterprises that came to dominate the nation's private sector. By the late 1940s, New York City enjoyed an economy with a highly diversified export sector.

Two major types of export activity dominated the local economy in the immediate postwar era. The first was the manufacturing of selected nondurable goods, most notably apparel but also including printed matter, leather goods, toys, jewelry, and other such products. The common elements in this mix of products are the relative ease with which they can be transported and the tendency for their production to take place in small units.

The second, and by far the larger, component of the export sector has been called the corporate office complex. It consists of both the headquarters of large corporations and the wide range of specialized business service firms that surround the corporate headquarters. The specialized business firms sell their services not only to headquarters located nearby but also to businesses around the nation and, increasingly, the world. Thus, they represent part of the export base in their own right.

During the immediate postwar period both national economic trends and the internal dynamic of the local economy combined to produce a form of economic equilibrium. Nationally, the economy experienced slow growth with occasional modest downturns. Between 1953 and 1960, the Gross National Product (GNP) grew in constant dollars at an average annual rate of only 2.5 percent, and the unemployment rate averaged 4.9 percent.[1]

New York City's export base, as reflected in the industrial mix of its employment, was relatively insensitive to the mild fluctuations in the national business cycle during this period. The city's economy remained quite stable with employment remaining around 3.5 million each year. Downturns during national recessions were more modest than those experienced by the rest of the nation as a whole, and growth was slower than that of the rest of the nation during upturns in the business cycle. The performance of the local economy during this period was consistent with urban economic theory which held that large cities with a diversified export base would grow more slowly than the nation as a whole during prosperity but would decline more slowly during recessionary periods.[2]

The apparent stability in the aggregate size of the local economy, however, masked significant changes that were occurring in the city's export base. In the 1950s, the New York region began to lose out in the competition for manufacturing activity, a trend which continues to this day.

The factories operating during New York City's heyday as a manufacturing center served a rapidly expanding national market from a decidedly off-center geographical location. The city's emergence as a major location for manufacturing activities was made possible by the development of the national railroad system, a system that favored locations, like New York City, that already had established production centers and consumer markets. The individual manufacturing enterprises of this era, which were distinctly small-scale operations, clustered together near railroad terminals in order to take advantage of what was (and still is) the most efficient system of long-distance transportation. For small firms and isolated factories, less concentrated patterns of location would have meant prohibitively higher transportation costs, with other modes of transportation serving as unreliable links to consumer markets and production inputs. The successful firms were those that found a concentrated physical environment that was compatible with their functional requirements.

While the typical 19th and early 20th century factory was compelled for economic reasons to operate within a concentrated setting, its successors were not. Even as early as the latter part of the 19th century, relatively large factories could and did escape from congested industrial districts. These factories were able to sustain their own key facilities (such as railroad sidings, in effect, their own railroad terminals) that small firms could afford only by pooling

resources and thereby, in spatial terms, concentrating their demand with other firms. Large factory units became increasingly typical in durable goods industries, such as steel and metals, because they presented greater opportunities to exploit economies of scale. The durable goods industries were the fastest growing sectors of the national economy and paid the highest wages. By and large, such industries have had very scanty representation in New York City during much of its modern history.

The rapid development of the automobile and truck soon began to liberate nondurable goods industries from their dependence on highly concentrated environments and shared external economies. This liberation from transportation constraints did not necessarily spur a departure from New York City for several reasons. First, the city's established factory districts continued to play an important role for some firms because they were entry points for new endeavors. Second, rental space was available. Third, New York City was a familiar place to immigrants who wanted to begin small businesses. And finally, New York City had a large labor force that continually was being replenished by immigration, an important factor for the rapidly growing manufacturing sector.

The city's large, low-paid immigrant labor force played an important role in the city's competitive advantage over other locations. But this source of cheap labor was permanently severed by the National Origins Immigration Act of 1924. Blacks from the South provided an alternative source of low-wage, blue-collar labor in the World War I era, but by that time the city's relative labor cost advantages already were being eroded. The increasing use of the automobile made it possible to mobilize the labor force of rural and small-town America on behalf of factories that now were exporting their products to metropolitan areas. Areas that once had been markets for the city's exports increasingly became its competitors.

The rapid contraction in agricultural employment after World War I also added to the widespread urbanization of the nation's rural areas. The population of these areas, excluding the South, was predominantly white. This group, an important addition to the nation's blue-collar labor force, generally was not attracted to New York City or to other northeastern areas of the U.S.; rather, they chose cities in the Midwest and, somewhat later, the Far West.

The forces that led to the decline of New York and other central cities as manufacturing centers already were in motion in the

1920s. But the full impact was obscured by the Depression and World War II. Both of these events, although for quite different reasons, acted to freeze the established spatial distribution of manufacturing activities, thus favoring existing centers of production like New York City. In the 1930s, there was a great deal of excess capacity in the established areas of production; because of lagging markets, there was little incentive to build new plants. During World War II, plant construction necessarily was undertaken on an emergency, defense-related basis, and established factories were used to the fullest extent possible. Defense-related plant expansions were concentrated within the older urban centers of manufacturing, since these areas also had sizable labor forces and sufficient housing to accommodate further migration. When large-scale private investment in new plants resumed after World War II, it took some time before its impact was felt in terms of the redistribution of manufacturing employment.

Thus, it was not until the early 1950s that New York City began to experience effective and large-scale competition from alternative production areas. New York City, because of the nature of its manufacturing mix, was perhaps more vulnerable than other industrial cities to new competition. The city's principal manufacturing specialty, apparel, not only could be produced elsewhere in the country but virtually anywhere in the world. Production technologies were primitive and required little capital investment to achieve optimum output. The essential component was unskilled labor. Other components could be transported by truck (or later, by plane) to newly-established production centers as easily and cheaply as the products could be distributed to retail stores.

In the period from 1953 to 1962, manufacturing employment in New York City fell from 1,066,000 to 912,000, an average annual decline of more than 15,000. These jobs were not simply lost to the suburbs. During this period, manufacturing employment in the rest of the New York region declined from 843,000 to 825,000 jobs. New York City and the entire region were entering a long-term period of decline as a manufacturing center for the nation.

In contrast to manufacturing, the corporate office complex, the other component of New York's export sector, was expanding. Multiple forces were at work within the national economy that led to greater demand for these activities. The 1950s witnessed a large-scale expansion in television broadcasting and advertising, two industries concentrated in New York City. The period also saw the

beginning of greater government regulation of the economy that led to greater corporate expenditures for accounting, public relations, and legal services. In addition, corporate growth through mergers, consolidations, and overseas expansion led to greater need for expertise in financial, legal, and other specialized business services that historically were concentrated in New York City.

The result was a continual, modest expansion in the nonmanufacturing components of New York City's export sector. Between 1953 and 1962, employment in the local financial sector grew from 346,000 to 398,000; employment in the service industries rose from 525,000 to 629,000. This expansion was sufficient to offset job losses in manufacturing activity and even provide net gains in real income. Rather than simple stability, the local economy was in an equilibrium in which manufacturing losses were counter-balanced by gains in the financial and service sectors.

Matching this economic equilibrium was a comparable balance in the city's population. The 1950s were the first decade in the city's history in which the population was relatively stable rather than growing significantly. Between 1950 and 1960, the local population declined less than 2 percent from 7,892,000 to 7,782,000.

The most significant source of population loss during the 1950s was movement of an estimated one million residents to the suburbs. The nationwide trend toward suburbanization had a substantial impact on New York City. In the postwar years, residential construction revived, real incomes rose, highways were constructed with Federal aid, and long-term mortgage money was made available. The combined effect of these economic forces and Federal policies in New York City was a massive wage of migration to the suburbs.

The offsetting demographic factors that helped produce stability in the size of the total population during the 1950s were twofold. First, the postwar "baby boom," a national phenomenon, was experienced in the city. During the 1950s, the number of births in the city reached an all-time high of nearly 1.6 million, a level more than 15 percent above that of the 1940s and nearly 50 percent higher than in the 1930s, a depression decade. Second, while many people were moving out of the city, large numbers of people also were moving to the city. The new sources of in-migration were blacks from the rural South and Puerto Ricans. During the 1950s, there was a net in-migration of nearly 130,000 blacks. The number of New York City residents of Puerto Rican birth or parentage increased 367,000, at least 242,000 of whom were born in Puerto

Rico. Thus, growing numbers of births plus substantial new waves of in-migration helped offset the massive movement to the suburbs and kept the city's population nearly stable in size.

B. THE MODEST GROWTH PERIOD

The economic and demographic equilibrium of the 1950s was followed by a period of modest growth in the middle and late 1960s. An upturn in the national business cycle and considerable growth in demand for several of the city's export lines outweighed longer-run forces of decline. The demographic response to this upturn was an increased rate of in-migration which more than offset the continuing suburban out-migration to yield a net gain in population.

During the 1960s, the U.S. economy underwent the longest period of sustained growth in the nation's history. The GNP measured in constant dollars grew at an average annual rate of 4.5 percent compared to 2.5 percent in the 1950s. At the national level, employment increased at an average annual rate of 1.8 million between 1960 and 1969 compared to an annual average of 572,000 for the years 1953 to 1960.

The impact of this national boom was felt in the city's two broad export sectors. The loss of manufacturing jobs slowed considerably. From 1963 to 1969, manufacturing in the city declined from 879,000 to 826,000, an annual average loss of less than 9,000 compared to over 15,000 in the earlier period. Moreover, manufacturing employment in the rest of the region actually expanded from 832,000 to 940,000.

The substantial national growth combined with several unique events to produce rapid growth in the corporate office complex in the 1960s. Between 1963 and 1969, employment in the city's financial sector grew nearly 18 percent from 395,000 to 465,000, and service industry employment grew nearly 22 percent from 640,800 to 779,800.

The rapid growth in these sectors was not due to the national upsurge alone. This was also the period of rapid growth in banking and security trading, Wall Street's "go-go" years, as they came to be known. Employment in the city's brokerage houses nearly doubled in this period from 54,800 to 105,200; similarly, banking employment grew one-third, from 93,700 to 124,900. Airlines based in New York City grew at an extraordinarily rapid rate, jumping in employment by 50 percent from 37,900 to 56,700. In retrospect, it

is evident that the city's mini-boom in the 1960s was due not only to the general national upsurge but several "one-shot" episodes of very rapid growth in selected export industries.

Due to the combined impact of rapid growth in selected services and slowed decline in manufacturing, the stable economy of the 1950s shifted to a moderate growth economy in the 1960s. Total employment in the city expanded from 3.5 to 3.8 million, its historic high. This was a slower growth rate than occurred in the nation as a whole, but it was still a marked departure from the record of the recent past.

The economic shift from equilibrium to modest growth was matched by a similar demographic shift. On the negative side, while there was a modest drop in the rate of out-migration to the suburbs during the 1960s, there also was an increase in the death rate. More significant shifts occurred on the positive side of the demographic ledger. While the birth rate was falling rapidly nationwide, the number of births in the city remained high, totaling approximately 1.5 million over the decade. And while the rate of rural to urban migration was slowing nationally, black in-migration to New York City more than doubled from 130,000 in the 1950s to 320,000 in the 1960s.

The reasons for the massive black in-migration to New York City during the 1960s are not entirely clear. Historically, production work in manufacturing has been the principal entry point into the city's economy for people with low-skill levels, but there were few such manufacturing jobs in the 1960s. However, New York City was a highly visible showcase for the antipoverty programs of the Johnson Administration in the 1960s. The fact that the city appeared to be a primary beneficiary of Great Society social legislation probably played an important role in attracting large numbers of people to the city, particularly for young adults who still considered the city a place to go to get ahead. An influx of young black adults and an increase in the birth rate of the city's black population resulted in a remarkable 53 percent rise in the city's black population during the 1960s.

In retrospect, it is clear that moderate growth in the city's economic and demographic base during the 1960s was the result of atypical and unsustainable forces. In the local economy, modest expansion resulted from an unprecedented rate of national growth and unique, rapid expansion in selected industries that were concentrated in New York City; on the demographic side, a continued high

birth rate and accelerated in-migration, both trends running against the national tide, led to population gain. None of these forces could continue for an extended period, and a reversal soon took place.

C. THE DEPRESSION PERIOD

In 1969, New York City entered a period of economic and demographic decline which has continued to the present. Two national recessions, one of which was the most severe since the Great Depression, changing trade patterns, and a decline in the city's hold on corporate office and business service activity all led to a sharp downturn in the local economy. The loss of jobs was accompanied by a drop in population. The lack of employment opportunity quickened the rate of out-migration and birth rates fell.

In 1969, national economic growth began to slow as the Nixon Administration made a conscious effort to reduce the rapid pace of earlier years in an attempt to curb inflation. Between 1970 and 1976, the constant dollar GNP grew at an annual average of only 2.1 percent. This growth rate was not only well below that of the 1960s (4.5 percent) but was lower than that achieved during the city's equilibrium era in the 1950s (2.5 percent). The slow growth nationally was due to the 1969-1970 and 1973-1975 recessions which, by definition, brought temporary reductions in real GNP.

Recessions generally have a greater effect on manufacturing than services. New York City's manufacturing sector, which had been declining even in the boom period, was particularly hard hit. Between 1969 and 1975, manufacturing employment in the city dropped from 826,000 to 528,000, an average loss of nearly 50,000 jobs per year. This was more than five times the rate of loss during the modest growth period and more than three times the rate of loss during the earlier equilibrium era.

More than just the national recessions was negatively affecting the local manufacturing sector. One of the forces compounding the trend was the rapid shift to overseas production in the garment industry. This industry alone accounted for a loss of more than 80,000 jobs in the 1969-1975 period. Also, the City's local tax policies had a particularly significant impact on manufacturing activity.[3] Finally, the region was experiencing manufacturing decline once again. Between 1969 and 1975, manufacturing employment in the suburbs of the New York region fell by 170,000 or 18 percent, a rate of loss well above the national average in this recessionary

period. Losses in central city manufacturing no longer were offset by suburban growth. The entire region now appears to be losing its share of national manufacturing activity.

The city's corporate office complex historically has been immune to recessionary forces, growing continually during the postwar era. This trend basically has continued during the local depression period. Banking and many service industries experienced net growth between 1969 and 1975. But the rate of growth has been much slower than in the 1960s. Moreover, in certain areas, there have been substantial losses. Most notable is the securities industry which shifted from an 88 percent employment increase during the period of modest growth in the 1960s to a 37 percent decline between 1969 and 1975. Computerization of trading and order processing eliminated many jobs in back offices of the city's brokerage houses.

Slowed growth overall and selected declines in the city's corporate office complex suggest that fundamental changes have been taking place in recent years which may weaken the city's hold on even these export activities. For most of the past century, the predominance of New York City in the field of major corporations was unchallenged. It was and is, in Patrick Geddes' phrase, "a world city,"[4] but its position in this regard is being challenged. Changes in communication and transportation technologies now make it possible for command center functions to locate in a much more dispersed fashion than was formerly feasible. Another force at work on the corporate office complex is the impact of the rest of the city. A significant portion of the tax burdens that affect business activities located in the center of the city are generated by expenditure requirements for public services for the residential populations of the outer boroughs. What the command center firms located in Manhattan receive from the rest of the city in exchange for their tax burdens and whether these benefits have been declining are critical questions.

What distinguishes the city's corporate office complex is the extent to which it is dominated by firms and individuals that serve national and world markets. The units involved range, in order of complexity, from highly specialized law firms with only one office to headquarter operations that guide the fortunes of giant multibranch, multinational corporations. What both of the units have in common is the geographical scope of their markets. They are not local firms dealing with local markets; nor are they branches of

corporations whose headquarters are located elsewhere but need representation in the city. Rather, they are organizations that serve geographically extensive markets from a New York City location.

The individuals who are part of these enterprises face a variety of problems that arise in unpredictable fashion and need timely solutions; the failure to provide answers generally results either in large losses or in considerable foregone opportunities. Twenty-five years ago, the efficient execution of such tasks was beyond the internal capabilities of all but a handful of the largest corporate enterprises. For the head offices of most firms serving national markets it would have been uneconomic, if not impossible, to have attempted to make internal provision for the entire range of expertise, or even a significant proportion of it, that was needed to meet all of the possible demands for highly specialized information and advice. Such considerations dictated that these firms cluster in close proximity to each other. What they had in common was their need for a location that facilitated interaction. The interaction they required was with their competition as well as with firms and individuals who complemented and supplemented their decisionmaking skills.

In recent years, the sorts of activities that historically required an environment similar to Manhattan increasingly have been released from this constraint. Other urban and even suburban areas have developed a rich mix of external economies. The firms involved have become larger and thus better able to internalize what were once, of economic necessity, external economies. Changes in the technologies of transportation and communication have abetted this trend by allowing large headquarter operations to achieve access to needed external economies that are not physically proximate. Thus the headquarter function can move to Stamford, Connecticut and not lose touch with its outside law firm that continues to ply its trade in Manhattan. Conceivably, companies could also, and in fact increasingly are able to, recruit their own internal law firm as part of their headquarter operations. The extent to which such "externalities" can be successfully internalized in this fashion measures the reduction in the economic need for externality-rich environments like Manhattan. The individual firm, depending upon its size, can act to create its own economically self-sufficient environment wherever it decides to locate. A headquarters unit that decides to remain in Manhattan might feel less in need of taking such action, but the point is that its decision to remain no longer depends as

strongly as it once did on access to critical kinds of supplementary expertise and specialization.

In sum, the city's corporate office complex remained a source of selective growth even during the local depression, but unlike the past, growth here has not been sufficiently strong to offset fully the accelerated losses in manufacturing. The result has been a decrease in the size of the local economy. Total employment dropped from 3.8 million to under 3.2 million in the 1969-1975 period.

Such substantial economic decline could not help but have a significant impact on demographic trends. People respond to economic opportunity, or the lack of it. During the recent depression years, in-migration among blacks and Puerto Ricans has slowed dramatically, and out-migration of young family heads has quickened. As a result, net out-migration from the city exceeded 500,000 between 1970 and 1975, a rate well above that of any earlier period. Population loss accelerated because, in the early 1970s, the birth rate in the city began to reflect the national trend towards a lower birth rate. In the first five years of the 1970s, births fell to 580,000, a number well below the estimates for any earlier five-year period, even including the depression of the 1930s. Greater out-migration and fewer births caused the city's population to fall from 7,895,000 in 1970 to 7,569,000 in 1975. This 4 percent decline was the first sizable drop in population in New York City's history.

D. SUMMARY

The changing demography of New York City has had important consequences for the City of New York. In reviewing these consequences, it is helpful to use Sayre and Kaufman's notion of "money providers" and "service demanders."[5] Money providers represent those people and businesses that must be relied upon to finance local government; service demanders are those individuals and organizations that seek greater expenditures by local government. The decline of money providers and growth of service-demanders, a gradual transformation that occurred throughout the postwar era, affected both the finances and politics of the City of New York.

Modest economic growth in the 1960s to some extent counterbalanced the compositional changes that were occurring in the local population through its positive effect on the City's revenues. Unfortunately for the city, the period of modest economic growth was short-lived. The "depression" period, which began in 1969 and

continues today, coupled with changes in the city's social structure, played a critical role in pushing the City of New York into fiscal crisis.

Finally, the city's export base, the critical determinant of the health of the private sector, has been seriously weakened by the secular decline in manufacturing and, more importantly, by some recent competitive challenges to the city's corporate office complex. Certainly the socioeconomic trends discussed in this section do not support an optimistic view of the city's future. However, other, somewhat more encouraging socioeconomic trends exist. These are discussed in Part Two in connection with the city's prospects for the future.

Footnotes

[1]The material in this section is drawn largely from the Temporary Commission on City Finances, Thirteenth Interim Report, *Economic and Demographic Trends in New York City: The Outlook for the Future,* May 1977.

[2]For a discussion of the relationship of local business cycles to national cycles see Wilbur R. Thompson, *A Preface to Urban Economics* (Baltimore: Johns Hopkins Press, Paperback Edition, 1968), particularly pps. 133-172.

[3]See, generally, Temporary Commission on City Finances, Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City,* December 1976. Also see Ronald Grieson, et al., *The Responsiveness of New York City Employment to Business Tax Changes* (New York: Social Science Research Institute, Queens College, City University of New York, August 1974).

[4]Patrick Geddes, as cited in Peter Hall, *The World Cities* (New York: World University Library, McGraw Hill, 1966), p. 7.

[5]Wallace S. Sayre and Herbert Kaufman, *Governing New York City: Politics in the Metropolis* (New York: W. W. Norton and Co., 1965), pp. 513-14.

Section III

Intergovernmental Relations

The second variable underlying the City's fiscal crisis is intergovernmental relations, a variable that has been, from the City's point of view, relatively uncontrollable. The importance of intergovernmental relations becomes clear in light of the fact that nearly one-half of the City's operating budget is presently financed by the State of New York and the Federal government. The role of aid-provider played by both Albany and Washington is closely linked to early decisions made by the City to provide a broad range of public services as well as to later decisions by the State and Federal governments regarding the assignment and financing of public services.

Decisions made early in the City's history to assume functions that no other city has attempted to operate or finance contributed to the present fiscal problem, but the evolution of financial arrangements among the three levels of government, especially in the area of human services, has placed a unique financial burden on the City of New York. New York is the only city in the nation that is required to pay 50 percent of the nonfederal share of public assistance and medical assistance costs. This State-City cost sharing pattern, combined with the large numbers of welfare and Medicaid recipients in New York City, has caused the City to allocate ever-increasing amounts of its own tax-levy resources to State- and Federally-mandated programs, at the expense of essential municipal services.

A. STATE-CITY RELATIONS

The City of New York's broad functional responsibilities in large part result from decisions that date back to the earliest days of the city's development. Thomas Jefferson's principle that government should be as close as possible to the people it serves, provided the basis for the home-rule model of New England town government in the newly-independent northeastern states, including New York. Under the home-rule model, localities operated and financed those government services that the citizens felt were necessary. The town meeting represented the forum in which home-rule decisions were reached. The functions typically provided by local governments in the 1800s were fire and police protection, water supply, sewers, sanitation, streets and highways, and public schools. Services were financed entirely by property taxes.

New York City, the port of entry for millions of immigrants, grew rapidly in the 19th and early 20th centuries. As its population grew, so did the need for public services. Function followed form, and the City set up its own health inspection services in the 1830s, its own poorhouses in the 1840s, its own Board of Education in the 1850s, its own public parks department in 1870, and later, its own university and hospital systems.[1]

The consolidation of 1898, creating the Greater City of New York, more than doubled the city's population and increased its land area by five times. After the consolidation, the City of New York embraced five counties as well as the old City of Brooklyn, and it was necessary for the City to expand its common functions to this vastly wider area and assume such county functions as courts, probation, criminal prosecution, and prisons.[2] Just over 30 years later, the State of New York assigned additional functions to the City, including highway maintenance, mental health services and, most significantly, public assistance.

During the Great Depression, New York State began a program of cash transfer payments, known as Home Relief, for families that were hard hit by the declining economy. The costs of Home Relief were shared equally by the State and its localities, due to New York's strong home-rule tradition. In 1935, New Deal legislation mandated national public assistance programs in the form of grants to states and localities. One-third of the costs of the Aid to Families with Dependent Children (AFDC) program and one-half of the costs of the programs for the aged and blind were Federally provided, up to a certain maximum payment per recipient.[3] In New York State, the operation of these programs was assigned to upstate

counties and New York City, and the practice of sharing equally the nonfederal costs followed the pattern in the already established Home Relief program. Other states, with no precedent in sharing public assistance costs with localities, assumed all or a greater portion of the nonfederal costs of the new Federally-mandated programs.

Since 1935, the share of the Federal contribution for AFDC has increased, and aid to the aged, blind and disabled has been combined into the Supplemental Security Income program (SSI), which is funded entirely by the Federal government. Despite these changes, New York State has ended up with the minimum proportion of Federal funding for AFDC, 50 percent, due to the per capita income-based formula used for determining state funding levels. Only 12 other states also receive this minimum percentage. Thus, the City of New York is doubly disadvantaged: first, by the low Federal reimbursement percentage, and second, by the State's unique requirement that its localities fund one-half of the nonfederal share of AFDC.

Moreover, the State has established the most liberal benefit levels in the nation for the AFDC program. In addition, the State supplements Federal benefits provided under the SSI program. This SSI supplement, as well as the on-going Home Relief program, is funded equally by the State and localities. When the Medicaid program was introduced by the Federal government in 1966, the nonfederal share of costs, again 50 percent of the total, also was shared equally by the State and localities.[4]

Although the State placed a large fiscal burden on the City of New York beginning with public assistance programs in the 1930s, it limited the City's ability to tax and borrow through constitutional and legislative mandates, and provided only the same small amounts of aid for so-called "local inducement" programs in education and highway construction that it had provided since the late 1800s. In an incremental response to local pressure throughout the first half of the 20th century, the State slowly established an aid system known as the shared-tax system in which it returned varying portions of the receipts of its more progressive taxes, such as the motor fuel tax, motor vehicle tax, and, later, the income tax.

By the late 1940s, this shared-tax system was attacked by local officials as being fiscally unmanageable and as insufficient to make up for the State-mandated burden of public assistance. The State frequently changed the percentage of the (by then) six taxes it shared with localities, depending on its own budgetary needs, making local financial planning nearly impossible. Following the recom-

mendations of a state commission in 1946, the State instituted the per capita aid program.[5]

Complaints that the new per capita aid program, which distributed unallocated funds to localities on the basis of population, provided no more aid than the old shared-tax system gave rise to the introduction of a fiscal need measure into the per capita aid formula in 1962. In 1968, the State Legislature passed a special per capita aid program for cities under which New York City receives almost 90 percent of the additional monies. In 1971, State per capita aid was renamed revenue sharing, and the funds provided localities, unlike the Federal revenue-sharing program, were tied to receipts from the State's personal income tax.[6]

Along with the growth in general support aid (and, later, revenue sharing), State grants-in-aid for specific purposes began to grow in the 1960s. Although a rudimentary formula for State aid to local public schools based on school district need had been in use since the 1920s, and highway construction aid had been provided since the 19th century, the majority of the present State categorical, or specific purpose, grant programs for such programs as mental health, housing, environmental conservation, and mass transit, developed in the 1960s. Many of the programs, like welfare earlier, were developed in response to Federal initiatives, and the State agreed to finance all or, more frequently, part of the nonfederal share of a particular Federal program.

New York State still has what may be termed a home-rule fiscal structure. Like several other northeastern home-rule states, New York has not assumed program responsibilities to a large degree; instead, it has left the responsibility of operating and financing most governmental functions to localities, most significantly, public assistance, Medicaid, and those functions unique to the City of New York such as the City University and the municipal hospital system. This pattern has resulted in placing inequitably high costs, particularly in social services, on municipalities like New York City that have large poor populations and declining tax bases. Partly because of this, New York City, as well as other central cities, experienced substantial out-migration of middle-class residents who preferred not to pay ever-increasing local taxes; as a result, fragmented, defensively-zoned suburbs grew up around the city.

B. FEDERAL-CITY RELATIONS

Federal initiatives and granting procedures have done little over the last few decades to alter New York's home-rule model of functional

assignment. Over the years since the framing of the Constitution, the definition of what problems were clearly national in character underwent steady change. A legitimate national interest emerged in functions that previously were reserved for states, such as highways, forest conservation, and vocational education. Early grants for these purposes were made in the 1920s to states without matching requirements. In 1928, grant programs represented only 1.5 percent of revenues available to state and local governments.[7] In the 1930s, as a response to the Great Depression, the Federal government began funnelling large amounts of money into grant programs for states in the areas of work relief, public works, and public assistance. By 1938, Federal money accounted for almost 23 percent of all state and local revenues. Most of the Federal programs initiated during that period were not operated by the Federal government. With the exception of Social Security, the programs took the form of financial aid for the provision of services or direct transfer payments to individuals. Administration and partial fiscal responsibility were left with state and local governments.

With the advent of World War II and throughout the 1950s, the Federal government shrank its financial assistance to state governments. However, during the Kennedy and Johnson Administrations, Federal grants grew rapidly, achieving Depression-level proportions in state and local budgets. The Great Society programs did not change the form of federal involvement, but they did change its volume and purpose. Most of the grants awarded during the 1960s were categorical grants in the areas of health, education, social services, and environmental protection; they were awarded to states with no requirement that states pass the funds on to localities. In almost all cases, the grants required matching funds from the state government (or locality if the state chose to pass on the funds), could be used only for narrowly defined purposes, and carried with them complex administrative and reporting regulations. By 1969, the height of the surge in Federal grant programs, Federal grants-in-aid provided over one-fifth of all revenues available to state and local governments.

The programs of the 1960s entered areas that previously had not been considered to be in the purview of the Federal government. Due to the increasing urbanization of the United States and the limited ability of states and localities to finance the human services that urban areas with large poor populations needed, the Federal government defined urban problems as national in character. It provided financial assistance (and thus assigned functions) to state and local governments for medical care, manpower training, special

education, mental health, and supportive social services such as day care, foster care and programs for the aged. Broader-based functions such as low-income housing, community action programs, and urban renewal also were initiated by the Federal government. None of these services could have been provided by states or cities alone, although many of the programs provided Federal aid on an annually-decreasing basis with the intention of eventual local or state institutionalization. Furthermore, many of the programs like public assistance and Medicaid were, and still are, open-ended in terms of the financial contributions they require.

In response to state and local objections concerning the number and complexity of Federal grant programs in the late 1960s, especially the human service grants, the Nixon Administration moved to consolidate categorical grants into blocks and, as an innovation, to share Federal revenues directly with state and local governments without functional mandates. Some of the new block grants for manpower training, public employment, community development, and the general revenue-sharing funds are distributed directly to local governments, thereby bypassing state controls and reinforcing the home-rule structure in states like New York.

The bulk of the grants, however, is still categorical (about 75 percent of total Federal aid), and most funds still go to State governments (about 85 percent of total Federal aid). In home-rule states, nearly all Federal aid to the state is passed through to local governments, picking up state aid on the way to finance the non-federal share of program costs. Thus, as the intergovernmental fiscal system has evolved, local governments increasingly have been able to spend more than they could raise through local taxes. However, consolidated, home-rule cities with a large number of low-income persons, of which New York is the outstanding example in the state, have little freedom to choose which functions they will provide and how they will spend intergovernmental aid.

C. FEDERAL AND STATE AID TO NEW YORK CITY

In New York City, roughly one-half of the operating budget, about $5.7 billion in fiscal year 1976, was supported by funds provided by the State and Federal governments. New York City's experience in this regard is not unlike that of a number of the nation's major cities. As discussed above, New York City is unique among American cities by virtue of both its size and the degree of consolidation

of governmental functions within a single municipal corporation, but it is only somewhat different in terms of the significance of outside aid in its budget. In over one-half of the ten largest cities, state and Federal aid accounts for more than 25 percent of the municipal operating budget; and in Baltimore and Washington, the only other cities that parallel New York City's broad range of functional responsibilities, over one-half of their municipal budget consists of intergovernmental aid.[8]

The development of present levels of intergovernmental aid is almost entirely a product of the last 25 years. As recently as 1950, funds from State and Federal sources accounted for less than 20 percent of the City's operating budget. At that time, by far the largest portion of the budget was financed by the real estate tax. Currently, a large percentage of the intergovernmental funds the City receives is spent on programs that either did not exist or were rudimentary in 1950. Medical assistance and other social service programs are the most important ones, but significant sums are utilized for relatively recent programs in the areas of housing, manpower training, and education. Many important municipal activities, including police, fire, and sanitation, benefit from no specific State or Federal aid programs.

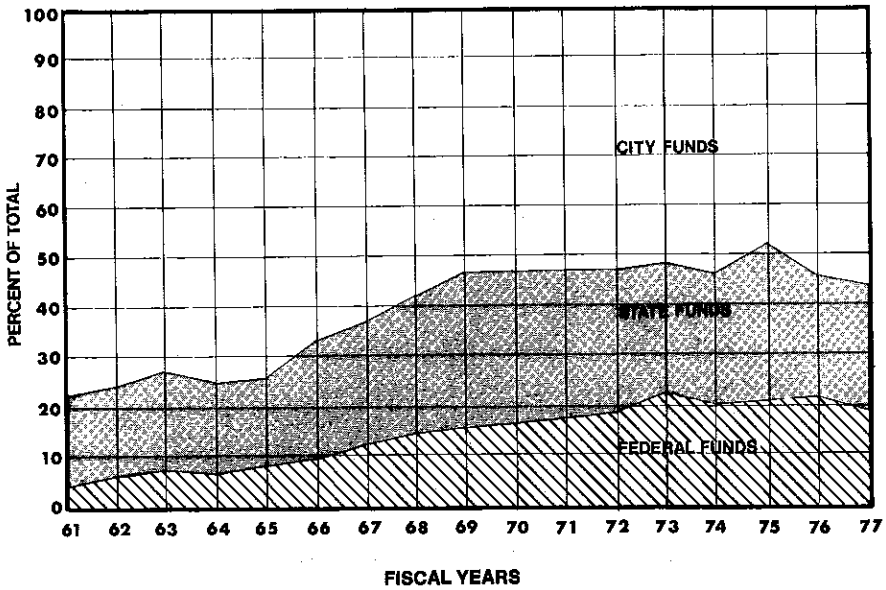
The importance of intergovernmental aid in the City's budget has been increasing since 1950. From 1950 to 1960, growth of Federal and State aid was slow; in fiscal year 1950, it accounted for $231 million, or 19 percent of the City budget. By fiscal year 1961, State and Federal aid had grown to $565 million, only 23 percent of the budget. During the 1960s, however, intergovernmental assistance increased dramatically, accounting for nearly one-half of the total budget by fiscal year 1969. Federal and State aid totaled $2.9 billion in fiscal 1969, a five-fold increase over the 1961 level.

The growth trend since the early 1960s has not been steady, but has occurred in three discernible phases (Graph III-1). In the first phase, the 1961-1965 fiscal period, intergovernmental aid grew at about the same rate as the budget, accounting for about 25 percent of the total budget. The budget itself grew at a relatively low and steady rate of about 9 percent per year during this period.

In the subsequent four-year period, fiscal years 1965-1969, there was a rapid expansion of the total budget, but State and Federal aid grew at an even faster rate. The annual growth rate of the City budget averaged 15 percent over this period, but this was outpaced by the average annual growth rate of 30.5 percent in combined Federal and State aid.

GRAPH III-1

Sources of Funds in the New York City Budget: Fiscal Years 1961-1977



Source: Temporary Commission on City Finances, Fourteenth Interim Report, *The Role of Intergovernmental Fiscal Relations in New York City*, May 1977, p. 17.

From fiscal year 1970 to fiscal year 1977, the growth rate of the budget as a whole has been slower, mirroring to some extent declining rates of increase in intergovernmental aid. The proportion of outside aid in the budget remained within the 44 to 48 percent range, except in fiscal year 1975 when the fiscal crisis produced a one-time advance of State aid. In the current fiscal year, 1977, intergovernmental aid appears to have declined for the first time since 1950 (Table III-1).

1. Federal Aid Programs

Federal aid to New York City has grown from less than 5 percent of the City's budget in fiscal year 1961 to almost 20 percent of the budget in recent years, a 23-fold increase (Table III-1). Much

TABLE III-1

City Operating Revenues From Intergovernmental Sources: Fiscal Years 1961-1977

($ in millions)

Fiscal Year	Total Revenue	Revenue From Intergovernmental Sources[1]			Intergovernmental Revenue as % of Total Revenue			Annual % Change in City Operating Revenues From Intergovernmental Sources		
		Total	Federal	State	Total	Federal	State	Total	Federal	State
1961	$ 2453.0	$ 565.2	$ 110.3	$ 454.9	23.0%	4.5%	18.5%	–	–	–
1962	2578.9	628.0	144.3	483.7	24.4	5.6	18.8	11.1%	30.8%	6.3%
1963	2769.6	729.9	165.9	564.0	26.4	6.0	20.4	16.2	15.0	16.6
1964	3114.3	781.7	182.6	599.1	25.1	5.9	19.2	7.0	10.0	6.2
1965	3327.7	873.9	218.3	655.6	26.3	6.6	19.7	11.8	19.5	9.4
1966	3699.7	1318.0	307.9	1010.1	35.6	8.3	27.3	50.8	41.0	54.1
1967	4561.4	1738.2	576.8	1161.4	38.0	12.6	25.4	31.9	87.3	15.0
1968	5273.8	2213.2	746.0	1467.2	41.9	14.1	27.8	27.3	29.3	26.3
1969	6140.4	2891.0	899.7	1991.3	47.0	14.6	32.4	30.6	20.6	35.7
1970	6568.8	3052.5	1059.8	1992.7	46.4	16.1	30.3	5.6	17.8	0.1
1971	7437.0	3647.2	1286.6	2360.6	49.0	17.3	31.7	19.4	21.4	18.5
1972	8528.9	4041.2	1524.4	2516.8	47.4	17.9	29.5	10.8	18.4	6.6
1973	9466.1	4596.3	2048.9[2]	2547.4	48.5	21.6	26.9	13.7	34.4	1.2
1974	9956.8	4843.6	2049.6[2]	2794.0	48.2	20.6	27.6	5.4	–	9.7
1975	12,001.0	6200.1[3]	2473.7[2]	3726.4[3]	51.7	20.6	31.1	28.0	20.7	33.4
1976	11,380.8	5704.0[4]	2525.1[2]	3178.9	50.1	22.2	27.9	–8.0	2.1	–14.7
1977[5]	13,569.3	5695.8[4]	2748.6	2947.2	42.0	20.3	21.7	–0.1	8.8	–7.3

Note: All State aid figures for fiscal years 1966-1976 include the Stock Transfer Tax.

[1] The distribution of intergovernmental assistance by programmatic category is included in Appendix III.

[2] Includes Federal revenue sharing as follows: fiscal years 1973, $258.6; 1974, $266.9; 1975, $256.8; 1976, $263.3; and 1977, $262.0.

[3] Includes $629.6 million in advanced unallocated State aid.

[4] $125 million in reserve for disallowances has not been subtracted to keep data consistent with prior-year data.

[5] From the City of New York, Office of Management and Budget, *Executive Budget of the City of New York*, fiscal year 1978, p. 8.

Sources: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1977, Part 2, Summary 1; and staff computations.

of this rapid growth is due to the expansion of the Federally-mandated, but City-operated, medical and public assistance programs. New York City experienced greater expansion of Federal aid than most cities for two reasons: no other city was required to bear such a large portion of the welfare and Medicaid burden, and the number of persons who qualified for benefits increased sharply, particularly in the 1960s.

Federal funds that flow to New York City, either directly or through New York State agencies, reflect the general pattern of increasing Federal outlays to cities and states. In 1950, Federal transfers to State and local governments totaled $2.2 billion, but this amount rose to $58.9 billion in 1976, increasing far more rapidly than did total state and local expenditures in the 1950-1970 period. However, the rate of growth of Federal grants has outpaced the overall growth of state and local budgets only slightly since 1970. Federal grants as a percentage of local revenues remained low from 1950 to 1965, rose dramatically until 1970, and have remained relatively constant since then.

In the City's budget, social service grants have comprised 55 to 70 percent of all Federal funds over the last ten years (Graph III-2). Since 1972, the general support category, or revenue sharing, has become a significant portion of total Federal funding, accounting for over 10 percent in fiscal year 1976. Revenue sharing monies will increase even more because of the recent passage of the anti-recession revenue sharing program, as discussed in Section IV.

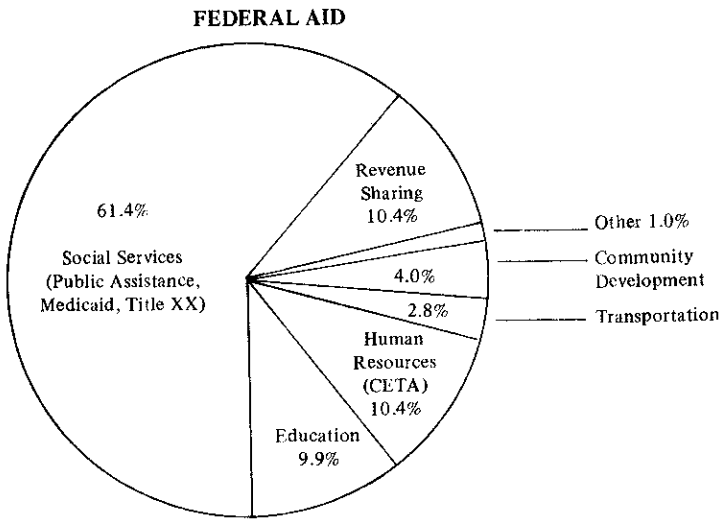
2. State Aid Programs

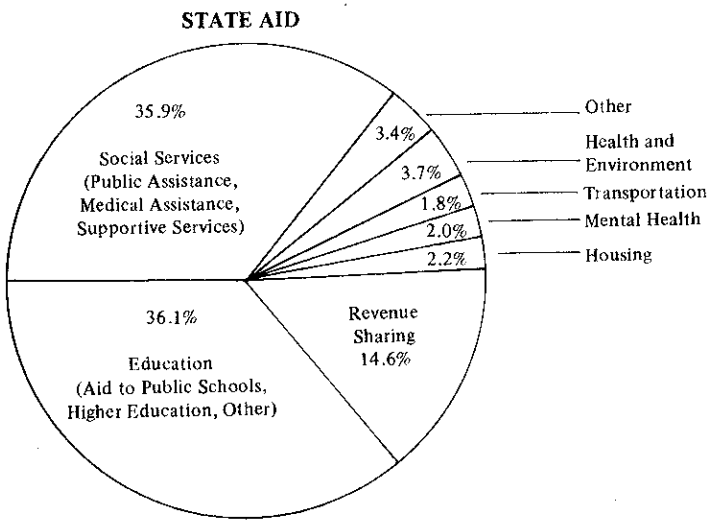
The total annual amount of aid provided to New York City by the State has more than tripled in the last ten years. As shown in Table III-1, State aid rose from a little less than $1 billion in fiscal year 1967 to over $3 billion in fiscal year 1976, an increase of over 200 percent. Total State aid to the City rose in every year except fiscal year 1970 when aid was held at the previous year's level, although annual increases varied considerably from year to year.

State aid to the City has been concentrated in a few major categories of assistance (see Graph III-2). Currently, education aid, social services and revenue sharing account for over three-fourths of total State aid. Aid to public schools has been among the slowest-growing categories of financial assistance from the State, increasing only 118 percent from fiscal year 1967 to fiscal year 1976. The only

GRAPH III-2

Composition of Federal and State Aid to New York City for Operating Purposes: Fiscal Year 1976





Sources: Federal aid from the City of New York, *Annual Report of the Comptroller*, fiscal year 1976. State aid from the State of New York, *Annual Financial Report of the Comptroller of the State of New York*, fiscal year 1976. State aid graph excludes the Stock Transfer Tax.

major aid category that grew more slowly than aid to education was State assistance for housing programs.

Among the rapidly expanding categories of State aid over the past ten years have been social services, revenue sharing, and State aid to the City University of New York. Social services aid, which includes public assistance, medical assistance, and supportive services, requires matching funds by the City, an important factor in causing the City's fiscal problems. Revenue sharing grew from a level of just under $100 million in fiscal year 1967 (under the old per capita aid program) to an estimated $442 million in fiscal year 1976. The increase in total State aid since 1968 has been dramatic because of the tying of revenue sharing to receipts of the State personal income tax and passage of the special aid to cities program. The funding level virtually doubled from fiscal year 1968 to fiscal year 1969. The percentage of the income tax reserved for revenue sharing was cut back from 21 percent to 18 percent in 1970, producing a modest slowing of the rate of annual increase in this program.

Under long-standing arrangements, the State shares with its localities the proceeds of a number of state-levied taxes, including the mortgage tax, gasoline tax, and motor vehicle registration fees. These taxes tend to grow very slowly and even have declined in some years. The combined amount has remained constant at about $70 million over the last five years.

D. THE EFFECT OF INTERGOVERNMENTAL RELATIONS ON CITY SERVICES

Analysis of expenditures by function during the past 15 years indicates substantial changes in the allocation of budget resources among City programs and services. Changing expenditure patterns, as reflected in comparative rates of growth, suggest that the City has reordered its public service priorities significantly since the early 1960s, in part because of intergovernmental definitions of the City's functional responsibilities. In the 1961-1975 fiscal period, financial resources increasingly were directed toward functions for which intergovernmental aid was mandated or available (public assistance,

health care, and higher education) and which were not performed typically by municipal governments. These services that constitute common municipal functions (police, fire, sanitation, and education) grew at much slower rates. These trends are documented in greater detail in the Commission's Eighth Interim Report, *An Historical and Comparative Analysis of Expenditures in the City of New York.*[9]

The expenditure increases for the entire range of functions performed by the City of New York during the 1961-1975 fiscal period are presented in Table III-2. The twenty functional areas, plus the amounts for debt service and pension costs that could not be functionally allocated, are listed in order of percentage expenditure increase. Those functions that experienced a decline in their percentage share of total City budget expenditures are underscored in Table III-2; those functions that increased their share of City budget expenditures are not underscored. The changes in the distribution of City budget resources are explained by the exceptional expenditure increases in the "high growth" functions. Spending on housing between fiscal years 1961 and 1975 increased 1116.3 percent, higher education 909.6 percent, and welfare 800.8 percent. In each of these major functions, the increase was more than twice the growth rate in total City spending. In contrast, expenditure increases in the "low-growth" functions, such as fire, courts, parks, and general government, were each about one-half of the total City growth rate.

Intergovernmental assistance has been an important determinant of the high rate of growth for the functions that are not common to municipalities. The bulk of State and Federal categorical aid in the 1961-1975 fiscal period was provided to meet the State and Federal shares of welfare costs, to fulfill the requirements of State aid formulas for primary and secondary education, and to support the operations of the City University and municipal hospital systems. The traditional municipal services, other than education, have been financed largely with the City's own tax-levy resources raised through real estate and general fund taxes. In order to evaluate the impact of intergovernmental aid on City services, it is important to know the extent to which intergovernmental aid affected utilization of the City's tax-levy resources.

Table III-3 shows that tax-levy spending for higher education and welfare increased much more rapidly, 785.7 percent and 472 percent, respectively, than the overall increase in tax-levy spending,

TABLE III-2

Expenditure by Function, Amount, Percentage of Total, and Aggregate Percentage Increase: Fiscal Years 1961 and 1975

($ in millions)

Functions Ranked by Order of Growth[1]	Fiscal Year 1961		Fiscal Year 1975		Aggregate % Increase 1961-1975
	Amount	% of Total	Amount	% of Total	
Housing	$ 14.7	0.6%	$ 178.3	1.5%	1116.3%
Addiction Services[2]	–	–	83.9	0.7	966.2
Higher Education	53.2	2.3	537.3	4.6	909.6
Youth Services	4.7	0.2	43.1	0.4	811.6
Welfare[3]	345.8	14.6	3115.2	26.7	800.8
Unallocated Debt	75.2	3.2	525.6	4.5	598.8
Corrections	19.6	0.8	109.6	0.9	458.0
Health Services	50.4	2.1	277.4	2.4	450.6
Unallocated Pensions	66.9	2.8	327.5	2.8	389.2
Education	587.5	24.9	2572.1	22.1	337.7
Hospitals	179.5	7.6	726.1	6.2	304.4
Police	236.1	10.0	928.8	8.0	293.5
Environmental Protection	131.5	5.6	435.9	3.7	231.4
Human Resources[4]	–	–	144.5	1.2	221.4
Transit	108.1	4.6	345.0	3.0	219.1
Fire	122.0	5.2	389.3	3.3	218.9
Judicial	43.5	1.8	135.2	1.2	210.6
Libraries	20.6	0.9	59.4	0.5	188.9
Parks	45.0	1.9	124.7	1.1	177.5
Cultural	7.3	0.3	19.8	0.2	170.5
General Government, Legislative, and Other	208.2	8.7	516.3	4.5	151.2
Water Supply	45.4	1.9	59.4	0.5	30.8
TOTAL CITY BUDGET EXPENDITURE	$2365.2	100.0%	$11654.4	100.0%	392.7%

[1]Definitions of functions are included in Appendix III.

[2]First expenditure in fiscal year 1968.

[3]Combines Department of Social Service and Payment to Charitable Institutions.

[4]First expenditure in fiscal year 1966.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2-A, Statement 5.

TABLE III-3

Comparison of Total Budget and Tax-Levy Expenditure Growth: Fiscal Years 1961 and 1975

($ in millions)

Functions Ranked By Growth Rate	Budget Expenditure 1961	Budget Expenditure 1975	Budget Expenditure % Increase
Higher Education	$ 53.2	$ 537.2	909.6%
Welfare	345.8	3115.2	808.8
Education	587.5	2572.1	337.7
Hospitals	179.5	726.1	304.4
Police	236.1	928.1	293.5
Environmental Protection	131.5	435.9	231.4
Fire	122.0	389.3	218.9
Budget Expenditure for Seven Major Functions	$1655.6	$ 8704.7	425.8%
Total City Budget Expenditure	$2365.2	$11654.4	392.7%

Functions Ranked By Growth Rate	Tax-Levy Expenditure 1961	Tax-Levy Expenditure 1975	Tax-Levy Expenditure % Increase
Higher Education	$ 21.7	$ 192.2	785.7%
Welfare	133.7	768.8	472.0
Police	218.0	855.2	292.2
Education	381.9	1366.9	257.8
Fire	107.7	374.4	248.8
Environmental Protection	92.8	321.9	246.8
Hospitals	127.7	394.0	208.8
Tax-Levy Expenditure for Seven Major Functions	$1183.5	$4273.7	261.1%
Total City Tax-Levy Expenditure	$1823.2	$6995.5	283.7%

Sources: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961 and 1975, Part 2-A, Statement 5, and *Expense Budget*, fiscal years 1962 and 1976.

283.7 percent. Tax-levy expenditures for police grew slightly faster than the overall increase, 292.2 percent compared to 283.7 percent, but tax-levy spending on the other three basic municipal services grew less than the overall increase (or, to put it differently, were the subject of smaller shares of total tax-levy spending). Tax-levy spending for education only increased 257.8 percent, fire, 248.8 percent, and environmental protection (essentially sanitation), 246.8 percent. The relatively low growth rate for hospitals is especially marked, reflecting the 1966 introduction of Medicaid in which Federal and State monies replaced City tax-levy funds as the major revenue source for hospital operations.

Even allowing for the changes in hospital funding, however, the data in Table III-3 indicate that intergovernmental assistance only partially compensated for the "high-growth" commitment to the variable functions. The City's wide range of functional responsibilities, especially the mandated costs for welfare and the sponsorship of the City University system, skewed allocation of the City's own tax-levy funds and placed tremendous demand on the municipal tax structure to generate additional resources for expenditure purposes. Traditional services common to most municipalities became less important relative to variable services in the 1961-1975 fiscal period.

E. SUMMARY

Decisions concerning the assignment of public functions and their financing made both long ago and within the past fifteen years have contributed importantly to the City's fiscal crisis. Among major American cities, New York's functional and financial burdens are unique. As this section shows, not all of the important intergovernmental decisions in this respect were made in recent decades. The evolution of New York as a home-rule state, the consolidation of the city in 1898, and the growth of the city's poor, not only in this century but in the 19th century, all helped shape the City's heavy functional load. However, the City's broad functional responsibilities were not entirely forced on it by the State and Federal governments. While major functional and financial responsibilities like welfare and Medicaid were mandated from above, the City itself chose to deliver certain services, like higher education and hospital care, that become very costly over time.

Since the early 1960s, expansion of the definition of the "national interest" has been translated into a rapidly increasing Federal aid structure. This national dynamic, which has placed a strong

emphasis on the provision of human services, has affected the City of New York in a profound and not entirely positive manner. The growth of intergovernmental aid skewed local service priorities, contributed to a huge increase in local taxes and debt financing, and reduced the ability of City officials to manage and control expenditures.

The intergovernmental system also has contributed to the socioeconomic transformation of New York City by providing incentives for money-providers to leave the city (high taxes) and incentives for service-demanders to remain or enter the city (high social service benefits). This, in turn, not only caused further increases in Federal and State aid but also put even greater pressure on the City's limited tax base, a pressure that other major U.S. cities felt to a lesser extent because their state governments typically assumed a larger share of all nonfederal program costs than New York.

The City of New York was unable to control or even substantially affect intergovernmental relations once the system matured in the 1960s. From the perspective of intergovernmental relations, the chief problems are welfare and Medicaid. The fiscal inequities imposed on the City from these two programs involve both Federal and State elements. Until reform of welfare and Medicaid financing occurs, the City's finances will be difficult to stabilize.

Footnotes

[1]T. E. Smith, *Guide to the Municipal Government of New York City* (New York: Meilen Press, 1973), various sections.

[2]Wallace S. Sayre and Herbert Kaufman, *Governing New York City: Politics in the Metropolis* (New York: W. W. Norton and Co., 1965), pp. 11-23.

[3]J. R. Aronson and Eli Schwartz, eds., *Management Policies in Local Government Finance* (Washington, D.C.: International City Management Association, 1975), pp. 205-206.

[4]For a detailed analysis of the City's comparative burden with respect to public assistance and Medicaid costs, see Temporary Commission on City Finances, Twelfth Interim Report, *Public Assistance Programs in New York City: Some Proposals for Reform*, February 1977 and Sixteenth Interim Report, *The Medicaid Program in New York City: Some Proposals for Reform*, June 1977.

[5]In 1946, Governor Thomas E. Dewey appointed a former lieutenant

governor, Frank Moore, to head the temporary State commission to investigate the entire State aid system. The Moore Commission's basic recommendation was to eliminate all of the shared-tax programs and provide a flat grant based on a per capita measure, but it also recommended that State aid to education continue as a separate program.

[6]Thomas Dorsey, "State Aid Programs for Local Government", in J. D. Carroll and R. W. Campbell, eds., *Intergovernmental Administration: 1976* (Syracuse, N.Y.: Department of Public Administration, Maxwell School, Syracuse University, 1976), pp. 119-122.

[7]Data on Federal aid to state and local governments are from Aronson and Schwartz, pp. 202-205.

[8]Unless otherwise noted, the data concerning intergovernmental assistance to New York City are from Temporary Commission on City Finances, Fourteenth Interim Report, *The Role of Intergovernmental Relations in New York City,* May 1977.

[9]Temporary Commission on City Finances, Eighth Interim Report, *An Historical and Comparative Analysis of Expenditures in the City of New York,* October 1976.

Section IV

Policies and Practices of the City of New York

This section analyzes certain policies and practices of the City of New York that constituted, collectively, one of the underlying causes of the fiscal crisis. While strong, highly interactive socioeconomic and intergovernmental forces were contributing to the City of New York's financial problems, particularly in the period after the mid-1960s, so too were certain aspects of the local political system.

This section begins with a review of the rapid growth of expenditures in the City, particularly in the 1966-1971 fiscal period, that resulted in pressure on City officials to find new sources of money. In the remaining parts, the City's policies and practices regarding the management of financial and human resources are reviewed. Money and manpower, in the final analysis, represent the City's two basic managerial resources. Neither resource was managed well, and this played a critical role in the timing and severity of the fiscal crisis.

A. GROWTH IN OPERATING EXPENDITURES

Table IV-1 shows expenditures for the 1961-1975 fiscal period in both current and constant dollars. Over this 14-year period, operating expenditures increased nearly five-fold from $2.4 billion to $11.7 billion. The total expenditure increase for the 1966-1971 fiscal period was 117.2 percent, 15.9 percent on an average annual basis.

TABLE IV-1

Operating Expenditures of the City of New York in Current and Constant Dollars: Fiscal Years 1961-1975

($ in millions)

Fiscal Year	Expenditures (Current $)	Percentage Increase	Expenditures[1] (Constant $)	Percentage[3] Increase
1961	$ 2365.2		$2695.4	
1962	2558.4	8.2%	2859.2	6.1%
1963	2816.6	10.1	3121.6	9.2
1964	3109.2	10.4	3371.1	8.0
1965	3368.8	8.4	3606.5	7.0
1966	3595.8[2]	6.7	3756.2	4.2
1967	4470.8	24.3	4520.5	20.3
1968	5281.0	18.1	5190.2	14.8
1969	6057.3	14.7	5637.3	8.6
1970	6696.8	10.6	5833.4	3.5
1971	7808.9	16.6	6370.5	9.2
1972	8483.1	8.6	6591.4	3.5
1973	9272.8	9.3	6885.1	4.5
1974	10,247.6	10.5	6983.0	1.4
1975	11,654.4	13.7	7227.5	3.5

Fiscal Period	% Increase (Current $)	Average Annual % Increase (Current $)	% Increase (Constant $)	Average Annual % Increase (Constant $)
1961-1966	52.0%	8.6%	39.4%	6.8%
1966-1971	117.2	15.9	69.6	10.8
1971-1975	49.2	10.2	13.4	3.2
1961-1975	392.7	12.2	168.1	7.5

[1] Adjustments to fiscal year constant dollars are based on U.S., Department of Labor, Bureau of Labor Statistics, Consumer Price Index for Urban Wage Earners and Clerical Workers, New York-Northeastern New Jersey. Calendar year 1967=100. See Appendix III.

[2] The figure for fiscal year 1966 is deflated somewhat because of the use of $255.8 million in capital funds during that year to finance pension costs.

[3] Average annual percentage changes in all tables are compounded.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975.

This rate contrasts sharply with the 8.6 percent rate of annual increase in the 1961-1966 fiscal period and the 10.2 percent annual rate in the 1971-1975 fiscal period. The abnormal "bulge" in expenditures during the 1966-1971 fiscal period was caused by the rapid increase in intergovernmental monies, extremely rapid increases in labor costs, and inflation. When inflation is considered, the differences among the three periods narrow somewhat, but the same general pattern remains. In constant dollars, the fiscal year 1966-1971 average annual rate of increase was 10.8 percent, more than three times the rate in the 1971-1975 fiscal period.

On a comparative basis, the City's expenditure growth also was atypical during the 1966-1971 fiscal period, as shown in Table IV-2. Among the nation's largest cities, only Washington and Baltimore experienced slightly higher per capita expenditure growth rates than New York City; the local governments of those two cities, like New York, have very broad functional responsibilities. Except for Washington, Baltimore, and Philadelphia, where per capita expenditures increased 103.2 percent in the five-year period, no other major city experienced a rate of expenditure growth even close to that which occurred in New York City.

TABLE IV-2

Per Capita Expenditures in the Ten Largest U.S. Cities: Fiscal Years 1966 and 1971

($ in millions)

City	1966	1971	Total % Increase	Average Annual % Increase
Washington	$551	$1200	117.8%	16.8%
Baltimore	368	788	114.3	16.5
New York City	583	1207	107.0	15.7
Philadelphia	190	386	103.2	15.3
Detroit	206	377	83.0	12.8
Chicago	140	256	82.9	12.8
Cleveland	184	307	66.9	10.8
Los Angeles	238	365	53.4	8.9
Dallas	161	246	52.8	8.9
Houston	139	161	15.8	2.9

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1965-1966 and 1970-1971.

B. TAX POLICY

In addition to the absolute growth in and importance of intergovernmental assistance, significant changes also have occurred in the City's local revenue structure that frequently are overlooked in analysis of the City's finances. Fiscal year 1975 revenues were $3.9 billion higher than in fiscal year 1961. Second, local revenues increasingly reflected general fund taxes rather than the real estate tax. While real estate tax rates and receipts grew very fast in the post-1965 period, the most profound changes in the local tax structure occurred in general fund taxes: the sales tax; the personal income tax; the general corporation tax; and other business taxes, including commercial rent occupancy, utility, financial corporation, unincorporated business, and insurance corporation taxes.

Table IV-3 shows changes in the growth and composition of the City's revenue structure in fiscal years 1961, 1966, 1971, and 1975. In fiscal year 1961, local taxes (including water charges, fines, fees, and other miscellaneous revenues) produced $1.88 billion in revenues. By fiscal year 1975, local revenues were $5.8 billion, up 207.3 percent from fiscal year 1961. The $3.9 billion growth in City revenues during the period was almost equal to 70 percent of the absolute growth of intergovernmental monies over the same period.

Of particular significance, however, were the changes that occurred in the composition of the City's local revenues. In fiscal year 1961, the real estate tax accounted for just over $1 billion, almost 42 percent of total revenues, including intergovernmental monies, and 54.5 percent of local revenues. Between fiscal years 1961 and 1975, the real estate tax share declined steadily to 24.1 percent of total revenues and 49.4 percent of local revenues.

A similar trend occurred with respect to the sales tax, which in recent decades has been the City's second-largest local revenue source. In fiscal year 1961, sales tax receipts were $303 million, over 12 percent of total revenues and 16 percent of local revenues. By fiscal year 1976, sales tax receipts increased to $791 million, but they represented only 6.6 percent of revenues and 13.6 percent of local revenues.

The real estate and sales taxes are the City's most broad-based taxes. Neither tax is a progressive tax. While there are numerous exceptions in the application of each tax (food, for example, is not subject to the sales tax; many religious, charitable, and nonprofit institutions do not pay property taxes), virtually every New Yorker pays real estate taxes (directly, by property owners, or indirectly, by renters and sales taxes). New York City businesses, of course, also

pay sales and real estate taxes as well as special business taxes. As shown in the Commission's Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City,* the rapid increases in the City's business taxes put the city's manufacturers as well as many of its other businesses at a competitive disadvantage by materially adding to the cost of goods and services produced locally.[1]

The nature of the City's tax base began to reflect a higher incidence of business and personal income taxation in the 1960s. The City's personal income tax, introduced in 1966, is progressive up to a maximum level of $25,000. It ranges from a low rate of .9 percent on incomes up to $1,000 to a high of 4.3 percent. When coupled with the State personal income tax (presently levied at a rate of 15 percent maximum on incomes above $25,000), New Yorkers pay an enormous tax on incomes earned in the city. A City commuter tax, set at much lower rates than the personal income tax, was introduced in 1966 and increased in 1971. In addition to the personal income tax, the City imposes a series of "nuisance" taxes covering a wide range of items, including cigarettes, leaded gasoline, vaults, horse race admissions, and off-track betting.

With respect to corporate income taxes, the City changed its method of taxation from a gross receipts to a net income basis in 1965. In 1971, the corporate income tax rate was raised from 5.5 to 6.7 percent; in 1975, it was raised to its present level of 10.05 percent.

Other major business taxes include the commercial rent occupancy tax, the utility tax, an unincorporated business tax, and an insurance corporation tax. Of these four, only the utility tax existed in fiscal year 1961. The commercial rent occupancy tax was passed in 1963, and the financial corporation tax and the tax on insurance companies were introduced in 1966.

The most obvious effect of the introduction and increase of personal income and business taxes was to raise the City's local revenue very substantially. In fiscal year 1961, the corporate income tax ($178.9 million) and utility tax ($26.3 million) accounted for $205 million of local revenues, about two-thirds of sales tax revenues and one-fifth of real estate tax revenues. By fiscal year 1975, the personal income tax, corporate income tax, utility tax, and the additional business taxes produced almost $1.2 billion in revenues, over $400 million more than the sales tax and almost one-third of real estate tax revenues.

But the major consequence of these tax increases (plus constant increases in the real estate tax rate and several extensions in

TABLE IV-3

Changes in the Growth and Composition of New York City's Revenue Structure:[1] Fiscal Years 1961, 1966, 1971, 1975

($ in millions)

Source of Revenue	1961 Amount	1961 % of Total	1966 Amount	1966 % of Total	1971 Amount	1971 % of Total	1975 Amount	1975 % of Total
Real Estate Tax	$ 1028.3	41.9%	$ 1409.4	38.1%	$ 2080.4	28.0%	$ 2896.1	24.1%
Sales Tax	303.0	12.3	382.1	10.3	493.6	6.6	791.1	6.6
Personal Income Tax	–	–	–	–	199.4	2.7	465.8	3.9
General Corporation Tax	178.9	7.3	213.5	5.8	183.3	2.5	268.1	2.2
Other Business Taxes								
Commercial Rent-Occupancy Tax	–	–	71.8	2.0	139.5	1.9	190.5	1.6
Utility Tax	26.3	1.1	30.7	0.8	49.6	0.7	90.1	0.7
Financial Corporation Tax	–	–	–	–	38.3	0.5	114.2	0.9
Unincorporated Business Tax	–	–	–	–	17.3	0.2	42.3	0.4
Insurance Corporation Tax	–	–	–	–	12.0	0.2	18.1	0.2
Total	$ 26.3	1.1%	$ 102.5	2.8%	$ 256.7	3.5%	$ 455.2	3.8%
Special City Taxes								
Cigarette Tax	22.0	0.9	32.5	0.9	33.5	0.4	29.8	0.2
Tar and Nicotine Tax	–	–	–	–	–	–	14.9	0.1

Special City Taxes (*continued*)								
Conveyance of Real Property Tax	3.6	0.1	4.9	0.1	6.4	0.1	14.2	0.1
Off-Track Betting Tax	–	–	–	–	–	–	67.1	0.6
Leaded Gasoline Tax	–	–	–	–	–	–	9.6	0.1
Others	31.4	1.3	15.7	0.4	19.2	0.2	21.2	0.2
Total	$ 57.0	2.3%	$ 53.1	1.4%	$ 49.1	0.7%	$ 156.8	1.3%
Water Charges	50.6	2.1	49.4	1.3	157.9	2.1	190.5	1.6
Licenses, Fines, Fees, Franchises, Permits and Privileges	65.2	2.7	76.3	2.1	98.4	1.3	155.3	1.3
Fares, Tolls, Rents, Interest and Services	82.5	3.4	86.6	2.4	85.2	1.1	118.4	1.0
Other Revenues	96.0	3.9	8.8	0.2	185.8	2.5	303.6	2.5
Total Local Revenues	$ 1887.8	77.0%	$ 2381.7	64.4%	$ 3789.8	51.0%	$ 5800.9	48.3%
Federal Assistance	110.3	4.5	307.9	8.3	1286.6	17.3	2473.7	20.6
State Assistance	454.9	18.5	1010.0	27.3	2360.6	31.7	3726.4	31.1
Total City Revenues	$ 2453.0	100.0%	$ 3699.7	100.0%	$ 7437.0	100.0%	$12,001.0	100.0%

[1] See Appendix III for complete revenue structure trend data for fiscal period 1961-1975.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961, 1966, 1971, and 1975, Part 2-A, Statement 5.

the base and rate of the sales tax) was to create enormous local tax disincentives for individuals and businesses in New York City. By 1974, as shown in Table IV-4, per capita local taxes in New York City were $699, slightly higher than in Boston ($596) and San Francisco ($529), but much higher than in other major U.S. cities.[2] When State tax burdens are included, per capita tax differentials increase even further. New York State taxes were $517 per capita in 1974, yielding a per capita State-City tax load of $1,186 in New York City. Boston, the city with the second highest state-city tax burden, had per capita taxes of $1,007.

TABLE IV-4

Average Per Capita Tax Burden for the Fifteen Largest U.S. Cities:[1] 1974

(Current Dollars)

City	City Average Per Capita Taxes[2]	State Average Per Capita Taxes[2,3]	Combined Average Per Capita Taxes
New York	$699	$517	$1186
Chicago	213	367	580
Los Angeles	212	407	619
Philadelphia	305	412	717
Detroit	276	455	731
Houston	137	294	431
Baltimore	381	432	813
Dallas	196	294	490
Cleveland	206	297	503
Indianapolis	176	298	474
Milwaukee	156	476	632
San Francisco	529	407	936
San Diego	125	407	532
San Antonio	93	294	387
Boston	596	411	1007

[1]Excludes Washington, D.C.

[2]Excludes transfer from other levels of government.

[3]Includes "taxes" and "charges and miscellaneous".

Source: U.S., Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States 1975*.

It is not possible to quantify the precise impact of local taxes on the locational decisions of individuals and business. And it is clear that many individuals and businesses left the city (and will choose to leave in the future) for reasons that have nothing to do with local tax disincentives. It is likely, however, that local taxes played a large role in driving out individuals and businesses unless it can be assumed that substantial price (or cost) differentials play no role in personal and corporate decisionmaking.

The basic problem revealed by this brief overview of City expenditures and tax policy is that the latter was a function of the former. Taxes were determined by fiscal considerations—closing or, more properly, narrowing of budget gaps—rather than long-term economic considerations. It never was recognized (or, if recognized, never was accepted politically) that the City's taxpayers, its revenue providers, represented a long-term asset of the city that had to be maintained rather than a short-term asset that could be exploited.

C. DEBT POLICY

Despite the rapid growth of local and intergovernmental revenues, budget pressures remained that increasingly were addressed by variations on the general theme of debt financing. In the 1961-1975 fiscal period, the City's outstanding debt increased from $4.3 billion to $12.3 billion (see Table IV-5). Long-term debt rose from $4.2 billion to $7.8 billion, but the largest increase was in short-term debt which rose from $100 million to $4.5 billion in the 14-year period. As a share of total debt outstanding, short-term debt rose from a modest 2.3 percent in fiscal year 1961 to 36.9 percent in fiscal year 1975.

As with local tax policy, the City's borrowing decisions were related to rapid expenditure increases after the mid-1960s. The City began to resort to debt practices that violated some basic principles of municipal finance. First, the City began to finance operating expenditures from the sale of bonds instead of from recurring revenues. The capitalization of expense items represented a form of deficit financing that grew from $26 million in fiscal year 1965 to $724 million in fiscal year 1975. This practice accelerated after fiscal year 1969. The capitalization of expense budget items increased service delivery costs and diminished the amount of money available for legitimate long-term capital needs.

Second, the City began to "roll-over" its short-term debt rather than repay it during the year of issue. The basic purpose of short-

TABLE IV-5

Short-Term and Long-Term Debt in the City of New York: Fiscal Years 1961-1975

($ in millions)

Fiscal Year	Short-Term Outstanding	Long-Term Outstanding	Total Debt	Short-Term as % of Long-Term	Short-Term as % of Total
1961	$ 100.4	$4176.0	$ 4276.4	2.4%	2.3%
1962	127.5	4301.1	4428.6	3.0	2.9
1963	230.9	4427.7	4658.6	5.2	5.0
1964	315.8	4539.2	4855.0	7.0	6.5
1965	525.7	4704.5	5230.2	11.2	10.1
1966	466.7	5018.9	5485.6	9.3	8.5
1967	634.9	5070.0	5704.9	12.5	11.1
1968	693.2	5044.0	5737.2	13.7	12.1
1969	747.3	5080.4	5827.7	14.7	12.8
1970	1288.2	5235.9	6524.1	24.6	19.7
1971	2319.4	5635.3	7954.7	41.1	29.2
1972	2650.2	6380.0	9030.2	41.5	29.3
1973	2517.5	6916.8	9434.3	36.4	26.7
1974	3415.9	7652.0	11,067.9	44.6	30.7
1975	4540.2	7766.6	12,306.7	58.5	36.9

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975.

term debt is to ensure that money is available when expenditures must be made. Because local and intergovernmental revenues do not flow evenly into the City, short-term borrowing in anticipation of revenues is necessary for the financing of day-to-day operations. However, short-term debt should be repaid within the year it is issued, and it should be issued against legitimate receivables.

Table IV-6 indicates the increasing dimension of the roll-over problem. Whenever new issues of notes equal redemptions, the City has, in effect, rolled-over its entire debt, and outstanding debt remains the same. In only two years during the 1961-1975 fiscal period, did the City actually reduce its outstanding short-term debt, fiscal years 1966 and 1973. The City borrowed over $1 billion more than it redeemed in both fiscal years 1971 and 1975, and in fiscal year 1974 it borrowed almost $1 billion more than it redeemed.

The rationale for these short-term and long-term debt abuses

was the same, to permit maintenance of the existing political structure even though it could not be financed on a legitimate basis. The consequence was the same, too. By relying exclusively on debt

TABLE IV-6

New Issues and Redemptions of Short-Term Debt: Fiscal Years 1961-1975

Fiscal Year	Issued	Redeemed or Cancelled	Increase (Decrease) In Amount Outstanding	Notes Issued/ Redeemed
1961	$ 687,700,000	$ 685,700,000	$ 2,000,000	1.0029
1962	842,238,000	815,138,000	27,100,000	1.0331
1963	807,658,800	704,300,000	105,358,800	1.1463
1964	1,166,728,800	1,081,758,800	84,970,000	1.0786
1965	1,469,989,800	1,260,128,800	209,861,000	1.1658
1966	1,645,597,560	1,704,539,800	(58,942,240)	0.9653
1967	2,076,036,800	1,907,855,360	168,151,440	1.0886
1968	2,427,717,000	2,369,399,000	58,318,000	1.0244
1969	3,270,995,000	3,216,957,000	54,038,000	1.0167
1970	4,400,925,000	3,860,005,000	540,920,000	1.1398
1971	6,512,240,000	5,481,060,000	1,031,180,000	1.1881
1972	5,248,960,000	4,918,110,000	330,850,000	1.0673
1973	4,003,285,000	4,135,980,000	(132,695,000)	0.9678
1974	7,305,915,000	6,407,550,000	898,365,000	1.1403
1975	8,395,745,000	7,271,445,000	1,124,300,000	1.1547

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975.

financing, the City was sacrificing important long-term assets. First, the city's infrastructure was inadequately maintained in part because capital funds were diverted for operating rather than capital purposes. Second, the City's ability to borrow money for legitimate purposes at competitive costs was inhibited. Third, its debt load pushed up debt service costs, which reduced the amount of money available to deliver services. Table IV-7 shows the increase in debt service expenditures during the 1961-1975 fiscal period. By fiscal year 1975, the cost of debt service was in excess of $1.9 billion, up from $402 million in fiscal year 1961. As a share of total expenditures, debt service was 14.9 percent in fiscal year 1975, greater than the budget share for welfare benefits.

Complicating the problem of maintaining services, particularly essential services, was a huge increase in retirement costs that was occurring at approximately the same time as the rapid growth of debt service. In the 1970-1975 fiscal period, combined debt service and City employee retirement costs rose from $1.3 billion to $3.1 billion. This heavy cost greatly reduced the City's capacity to maintain services. By fiscal year 1975, the City was spending over twice the amount of its own tax-levy resources on debt service and City employee retirement benefits as on public assistance and medical assistance.

D. MANAGEMENT POLICY

Managerial capacity, the ability to exercise both fiscal and managerial control over scarce public resources, is a critical determinant of how well local government provides for the economic and social needs of its residents and businesses. It is important to recognize, from the beginning, that the City's managerial capacity is constrained beyond the overriding constraint of politics. Even if the political needs of City officials always were consistent with the managerial needs of the larger city, management would remain a difficult task.

1. Expenditure Control and Management

One important dimension of managerial constraint in the City can be derived from examining expenditures by object rather than, as in Section III, by function. Graph IV-1 presents expenditures by object as a percentage of total expenditures for fiscal years 1965 and 1975. Early in Section I, it was noted that certain groups (welfare and Medicaid recipients, civil servants, and creditors) either directly or indirectly received over 85 percent of City expenditures in 1975. Graph IV-1 shows that in 1975 labor costs (salaries, fringe benefits, and pensions) accounted for 42.4 percent of total expenditures, over $5.5 billion and were by far the largest component of the City's budget. Debt service, the payment of principal and interest to the City's creditors, accounted for 14.9 percent, $1.9 billion; and cash payments for welfare and Medicaid, the latter to the providers of medical care rather than recipients, accounted for 27.9 percent, almost $3.7 billion. Some overlap exists between the labor cost and Medicaid assistance categories for those City workers in the Health and Hospitals Corporation whose salaries are paid from Medicaid

TABLE IV-7

Debt Service and Retirement Costs in the City of New York: Fiscal Years 1961-1975

($ in millions)

Fiscal Year	Debt Service	Retirement Costs[1]	Total
1961	$ 402	$ 260	$ 662
1962	400	292	692
1963	400	322	722
1964	433	347	780
1965	470	364	834
1966	589	433	1022
1967	672	487	1159
1968	650	518	1168
1969	667	545	1212
1970	676	624	1300
1971	830	741	1571
1972	932	793	1725
1973	1598	839	2437
1974	1269	1121	2390
1975	1948	1140	3088

Fiscal Period	Percentage Increase	Percentage Increase	Percentage Increase
1961-1976	473.1%	469.2%	471.6%
1961-1966	46.5	66.5	54.4
1966-1971	40.9	71.1	53.7
1971-1976	177.6	99.7	140.9

[1] Includes actuarial and nonactuarial pension systems, Social Security, and union annuity funds.

Sources: Temporary Commission on City Finances, Sixth Interim Report, *The Fiscal Impact of Retirement Benefits: Some Proposals for Reform*, May 1976, Table II, page 10; and Citizens Budget Commission, Official Statement Relating to the Issuance of $125,000,000,000 General Obligation Serial Bonds of the City of New York, July 1, 1976, pp. 8, 25.

but not enough to detract from the basic point that the overwhelming share of City expenditures was and still is for objects that, at any time, cannot be reduced easily by the City.

Debt service, labor costs, and welfare and public assistance benefits are mandated by various contractual, legislative, and even constitutional provisions. As shown in Section III, Federal and State mandates determine almost all welfare and medical assistance costs; however, labor costs, the product of collective bargaining, and debt service, the product of borrowing, represent obligations that are not mandated on the City in the same sense that welfare and Medicaid costs are. From this perspective, then, the enormous costs associated with compensating employees and servicing debt represent fixed but not forced expenditures.

Graph IV-1 also indicates that the City's ability to control expenditures declined somewhat in the post-1965 period. In fiscal year 1965, the three major categories accounted for over 80 percent of the budget. The major growth in the 1965-1975 fiscal period in terms of budget share occurred in welfare and medical assistance and debt, although the largest absolute increase occurred in labor costs which rose from $1.9 billion to $5.5 billion. Of course, the City's $8.5 billion unfunded pension liability is not reflected in these data.[3] Had the City's various retirement systems been adequately funded over time, the labor cost component of the budget would be much greater.

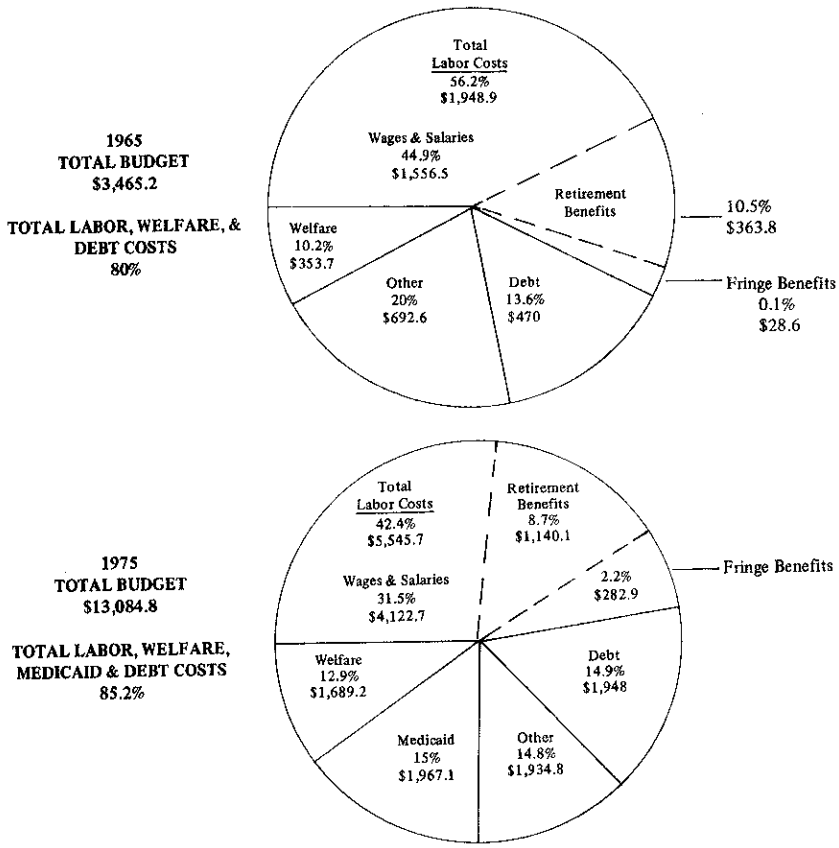
Examining the City's expenditures from this vantage point is useful because it shows how concentrated expenditures are by object and gives some perspective on the issue of where and how expenditure control should occur. These data suggest implicitly that, contrary to popular thought, solution of the City's expenditure problem has very little to do with eliminating particular functions which are either "unimportant" or are duplicated in whole or part by other levels of government. This is not to say that unimportant or duplicative functions should be retained or, for that matter, ever performed. However, eliminating them represents a very small step in the direction of solving the City's expenditure problem.

A second, somewhat more intangible managerial limit results from the existence of several key governmental units that do not fall under the direct managerial authority of the City of New York, for practical purposes, City Hall. These include the Health and Hospitals Corporation, the Board of Education, the Board of Higher Education, and the Metropolitan Transportation Authority, specifi-

GRAPH IV-1

Expenditures by Object as a Percentage of Total Expenditures: 1965 and 1975

($ in millions)



Sources: The City of New York, *Annual Report of the Comptroller*, fiscal years 1965 and 1975; Temporary Commission on City Finances, Eighth Interim Report, *An Historical and Comparative Analysis of Expenditures*, October 1976; Sixth Interim Report, *The Fiscal Impact of Retirement Benefits*, May 1976; Seventh Interim Report, *The Fiscal Impact of Fringe and Leave Benefits*, June 1976; Twelfth Interim Report, *Public Assistance Programs in New York City*, February 1977; and Sixteenth Interim Report, *The Medicaid Program in New York City*, June 1977.

cally the Transit Authority which provides the city's mass transit (subway and bus) services. Although these agencies generally have mayoral appointees on their governing boards and their budgets are formally or informally approved by City officials (and now, by the EFCB), experience has shown that they are highly resistant to the City's expenditure control efforts, even though each agency receives substantial monies from the City. One of the salutary consequences of the fiscal crisis is that the independence of these agencies from the City, highly regarded as a managerial goal at various times in the past, is being reconsidered.

These broad legal and structural fiscal constraints should not be construed to mean that improvements in managerial capacity or major reduction of expenditures are impossible. Quite the opposite is true. The main impediments to upgrading managerial capacity are not so much legal or structural in character but, more importantly, result from the absence of sound procedures and incentives for City officials to exercise managerial controls.

2. Management of Labor Relations and Personnel

Since the largest component of City expenditures is the cost of compensating City employees, the labor relations and personnel processes have important financial implications. One of the least visible but most important failures within the local political process has been the City's gradual loss of influence over both the compensation and management of employees. Weakened fiscal and managerial control have negatively affected the productivity of municipal government and, accordingly, the City's ability to upgrade the quality and quantity of municipal services. To the extent that municipal services help define the "quality of life" in New York City, the decline of fiscal and managerial control over personnel complicates very seriously the City's long-term prospects.

The loss of influence over personnel costs and management was not an inevitable consequence of the rapid unionization of the municipal work force that occurred during the 1960s; rather, it was the result of a series of choices that tended to accentuate many relationships and processes that long had been factors in local politics. The response of the City of New York to the need for a formal collective bargaining system was the institution of a collective bargaining structure that failed to recognize the underlying *political* nature of bargaining. Traditionally, conflict over the distribution of the City's scarce resources, of which City employees

long have received the major portion, was resolved through the political process. The formal labor relations structure that developed, particularly in the late 1960s, largely ignored this elemental fact and attempted, instead, to institute a depoliticized and impartially-administered collective bargaining structure. Ultimately, this experiment only succeeded in reducing the managerial and political influence of City officials.

The 1965 strike by municipal welfare workers, the first major, prolonged public employee strike in New York City, provided the impetus for the creation of a formal bargaining structure.[4] A condition of the settlement of the welfare strike was creation of a tripartite panel (with two City representatives, seven union representatives, and four impartial members meeting under the aegis of the American Arbitration Association) charged with developing a new labor relations program for the City. As a result of its efforts and with support from City Hall, the New York City Collective Bargaining Law became effective January 1, 1968, the same date the New York State Public Employees Relations Law (the Taylor Law) became effective.

The specific labor relations structure mandated by the collective bargaining law lessened substantially the City's degree of control over labor costs and personnel management in several important ways. First, mayoral managerial authority was badly fragmented. All employees of mayoral agencies came under the New York City Collective Bargaining law, but independent agencies had the choice of coming under the jurisdiction of either the State or City labor relations program; most of the independent agencies, including the Boards of Education and Higher Education, Housing Authority, and Transit Authority chose to remain under the State labor relations system.[5] Each independent agency operating under the State system thus could formulate its own bargaining position with respect to its employees without regard for the overall labor policy of the City, despite the fact that settlements in the independent agencies had direct and indirect cost implications for the City. Transit Authority contracts, for example, frequently established the pattern of wage increases for almost all municipal employees in mayoral agencies. Without coordination of wage policies between the City and the Transit Authority, it was difficult for the City to realize a rational wage policy that recognized its unique cost problems. The institution of a separate Office of Labor Relations (OLR) responsible for bargaining on behalf of the City, also isolated the bargaining process from the personnel function, the budgetary pro-

cess, and the line agency, service-delivery process. Each of these functions, at least in theory, should be involved in the formulation of personnel policy.

Second, managerial influence was weakened by the heavy reliance placed on "neutral" arbitrators in the labor relations process. An important structural feature of the new collective bargaining framework, adopted in 1968, was granting to third-party neutrals the authority to recommend settlements of contract disputes through advisory arbitration. In 1971, neutrals were given the power to settle contract disputes through binding arbitration. Third-party neutrals were granted authority to make political decisions that affected the cost of government, local taxes, and the quantity and quality of public services, responsibilities for which they were not trained and, on balance, not particularly adept at performing. For example, in the midst of the fiscal crisis in February 1976, a third-party neutral ruled that the City could not lay off more firefighters because he personally felt that the safety and property of the public might be jeopardized by more layoffs.[6] The decision eventually was overturned in the courts but it indicates, at least on discrete issues, that the City's management authority was sharply limited by third-party involvement in labor relations.

Third, aside from the fragmentation and diffusion of managerial authority, City managers began to lose effective control over the utilization and deployment of its work force. Unlike the earlier bargaining period, the City's new collective bargaining law provided for bargaining not only over wages and benefits but also over working conditions. Additionally, a 1967 mayoral executive order specified that the City had to bargain over the "practical impact" of previously managerial decisions.[7] As a result, virtually all traditional "management right" issues fell within the scope of bargaining. This led to some unfortunate managerial losses that restricted the ability of the City to deliver services efficiently, such as contractual limitations on employee work loads and contractual specification of minimum staffing requirements.

The City's managerial capability was weakened in other ways as well. Because managerial employees were prohibited by law from joining employee organizations and bargaining collectively, the City was forced to define managerial employees. Its definition was a very narrow one; only two percent of the work force qualified as managerial employees. In some important municipal agencies, the number of managerial employees is minuscule. For example, in the

Fire Department in 1976, *fourteen* persons of a total work force of 11,455 were considered managerial and thus outside of the collective bargaining system.[8] All other Fire Department employees, including some officers with base salaries as high as $38,000 and with distinctly managerial and supervisory responsibilities, were represented by unions for collective bargaining purposes.

The allocation of municipal resources by the City to its own Office of Labor Relations, compared to municipal unions, illustrates the City's managerial confusion with respect to the collective bargaining process. In 1976, OLR, responsible for researching, negotiating, and handling grievances for 122 different bargaining units, employed only 50 persons and received an appropriation from the City of approximately $800,000. In contrast, the City released 125 municipal employees full-time to unions and paid for all of their salary, fringe, and retirement benefits; 96 additional municipal employees were released without pay with the City paying for pension credits; and 41 more City workers were released to unions on a part-time basis. The total cost to the City of staffing municipal unions for the purpose of conducting labor relations with, and theoretically, against the City was $3.6 million, almost five times what the City spent on its own Office of Labor Relations.[9]

3. Management of Personnel Costs

The increased political strength of municipal unions and the absence of a strong managerial orientation by officials led to municipal union success in obtaining higher salaries and fringe and retirement benefits for their members, particularly in the period after 1966. Table IV-8 presents the growth of municipal labor costs for fiscal years 1961-1975. The aggregate increase in total labor costs for this period was 312 percent, with by far the largest increases occurring in the 1966-1971 fiscal period, when total labor costs almost doubled from slightly over $2 billion to almost $4 billion. The breakdown of labor costs by salaries, fringe benefits, and retirement benefits reveals a sharply higher growth rate for fringe and pension benefit costs than for salaries. Between fiscal years 1961 and 1975, fringe benefits increased 17-fold, from $15 million to $283 million. Pension costs almost quadrupled from $260 million to $1.1 billion. The pension costs, as noted earlier, represent only a fraction of the pension liability the City chose to fund, not the total liability that actually was incurred.

TABLE IV-9

Percentage Increases in Real Salaries for Selected Job Titles: 1965-1976

City Employee	% Change (Decrease) 1965-1970	% Change (Decrease) 1970-1976	% Change (Decrease) 1965-1976
Base Pay—Patrolman (Salary)	10.0%	10.3%	21.3%
Total Compensation	14.9	19.7	37.5
Private Sector Employees			
Maintenance Mechanics	4.1%	(3.4%)	0.5%
Draftsman	8.8	(7.9)	0.2
Secretary	9.7	(4.3)	5.0
Keypunch Operator	10.0	0.1	10.1
Clerk	5.7	(6.4)	(1.1)
Shipping & Receiving Clerk	1.7	4.5	6.3
Manufacturing Employee[1]	2.7	(2.0)	0.6

[1] Data for manufacturing employees are for the 1965-1975 period.

Sources: Temporary Commission on City Finances, Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City*, December 1976 and Thirteenth Interim Report, *Economic and Demographic Trends in New York City: The Outlook for the Future*, May 1977, pp. 48-53; labor relations orders on file at the New York City Office of Labor Relations; and New York City Police Department.

2) Supplemental welfare benefits to provide optical, dental, and prescription drug coverage, and a variety of other benefits for employees were increased and extended to all workers. The cost of this benefit in 1976 was over $107 million;

3) The number of employees entitled to uniform allowances increased, so that by 1976 the City spent $19 million on uniform allowances;

4) Teachers, sanitationmen, and transit employees won the right to retire after twenty years of service at 50 percent pay. This benefit, when realized by teachers, was estimated to have increased the liability of the Teachers Retirement System by $1.2 billion immediately;[12]

5) Police officers, fire officers, sanitationmen, housing police, correction officers, and teachers won a third retirement benefit in addition to pensions and social security. This benefit, annuity funds, cost $35 million in 1976;

6) Several groups of employees won longevity payments, supplements to salaries based on length of service;

7) In the early 1970s, all retired employees, except teachers, were awarded supplemental welfare benefits. As a result, the City pays full health insurance and welfare benefits for those retired employees at a cost ranging from $427 to $1,368 per retiree;

8) The State Legislature approved a Heart Bill that places the burden of proof on the City to establish that heart disease of fire and police officers is not job-related. The cost of this benefit in 1976 was $17 million.

Pension benefits, for the most part, are protected by Article V, Section 7 of the New York State Constitution, which guarantees that public employee pension benefits cannot be impaired or diminished. Thus, the pension costs became long-term, basically uncontrollable obligations of the City with the exception of two temporary pension benefits that must be renewed by the State Legislature. One of these is the Heart Bill; the other is the Increased-Take-Home-Pay (ITHP) benefit under which the City assumed most of the required employee pension contribution.

Another retirement benefit over which the City could not exercise control was Social Security, since its costs and benefits are determined by the Federal government. In 1956, the first year Social Security was provided to municipal employees, the maximum cost to the City was $84 per employee; by 1975, it had increased over ten times to a maximum of $895 per employee, for a total cost to the City of $250 million. In the current fiscal year, the City's maximum Social Security cost per employee is $965, an amount that will increase rapidly and on a regular basis in the future.

4. Management Choices Involving Compensation and Public Services

The tremendous growth in labor costs that occurred in the post-1965 period had significant implications for municipal service

levels. New York City residents did not receive more in services for their increased taxes because the City's revenues were not adequate to support *both* increases in compensation and increases in employment, particularly in the most essential City services that are funded by local revenues rather than largely by a share of intergovernmental monies. The increases in compensation that were won in collective bargaining necessitated that employment in some municipal agencies decline or not increase by the magnitude suggested by increases in departmental budgets. Table IV-10 shows percentage changes in total labor costs, total labor costs adjusted for inflation, and municipal employment between fiscal years 1961-1975. For this period, total labor costs more than tripled, labor costs adjusted for inflation rose 125 percent, and employment increased 47 percent. In other words, real labor costs grew almost three times as fast as employment.

The "trade-off" that was made between compensation and employment becomes evident when the 1961-1975 fiscal period is divided into three separate periods. Between fiscal years 1961 and 1966, real labor costs increased 43 percent, while employment increased 23 percent. Approximately 50 percent of the increase in labor costs is attributable to real gains in compensation rather than employment. From fiscal year 1966 to fiscal year 1971, the ratio of increases in real labor costs and employment was the highest, over three to one. Real labor costs increased 48.3 percent compared to 14.7 percent in employment. In the 1971-1975 fiscal period, real labor costs rose 5.8 percent while employment rose 4 percent. Thus throughout the entire period, but particularly in the 1966-1971 fiscal period, the City provided real increases in employee compensation instead of purchasing more services or reducing total labor costs.

In those agencies that are funded by locally generated revenues, particularly fire, police, and sanitation services, the City's obligations for increased compensation eventually could be met only by absolute reductions in the work force. As it committed more and more of its revenues for the compensation of its workers, the City began to lose control over the level of services provided by agencies. Table IV-11 shows employment in seven municipal agencies that represent approximately 80 percent of the work force for fiscal years 1961-1975. During this period, only higher education and hospitals were able to sustain continued employment growth, and welfare showed only slight decreases in 1975, despite the benefits from intergovernmental monies for these agencies. The "tax-levy"

TABLE IV-10

Full-Time Employment and Labor Costs in the City of New York: Fiscal Years 1961-1975

($ in millions)

Fiscal Year[1]	Employment	Percentage Change	Total Labor Costs	Percentage Change	Labor Cost[2] (Constant $)	Percentage Change
1961	200,706	–	$ 1345.2	–	$1533	–
1962	206,223	2.7%	1461.2	8.6%	1633	6.5%
1963	219,684	6.5	1659.5	13.6	1939	12.6
1964	231,861	5.5	1820.1	9.7	1973	7.3
1965	236,181	1.9	1948.9	7.1	2086	5.7
1966	246,887	4.5	2098.2	7.7	2192	5.1
1967	248,105	0.5	2471.7	17.8	2499	14.0
1968	260,765	5.1	2721.1	10.1	2674	7.0
1969	278,161	6.7	2937.8	8.0	2734	2.2
1970	283,037	1.8	3535.2	20.3	3079	12.6
1971	283,103	–	3984.8	12.7	3251	5.6
1972	280,463	(0.9)	4240.4	6.4	3295	1.3
1973	284,377	1.4	4671.7	10.2	3469	5.3
1974	290,569	2.2	5174.2	10.8	3526	1.6
1975	294,522	1.4	5545.7	7.2	3439	(2.5)

Fiscal Period	Employment Percentage Change	Total Labor Costs Percentage Change	Total Labor Costs (Adjusted)
1961-1975	46.7%	312.3%	124.3%
1961-1966	23.0	56.0	43.0
1966-1971	14.7	89.9	48.3
1971-1975	4.0	39.2	5.8

[1] Employment data as of December 31 of each fiscal year.

[2] Adjustments to fiscal year constant dollars are based on U.S., Department of Labor, Bureau of Labor Statistics, Consumer Price Index for Urban Wage Earners and Clerical Workers, New York-Northeastern New Jersey. Calendar year 1967=100. See Appendix III.

Sources: Table IV-8; The City of New York, Department of Personnel, *Annual Reports of the Department of Personnel*, fiscal years 1961-1970; Office of Management and Budget, Service and Statistical Unit, *Full-Time Employment Data Analysis*, fiscal years 1971-1975.

agencies showed considerable declines in employment, with employment in the Police Department peaking in 1970. Although employment fluctuated for the next five years, the police force in 1975 had 1,300 fewer personnel than in 1970, a decrease of 3.6 percent. The reductions were even greater in the Sanitation and Fire Departments. Sanitation lost almost 7 percent of its work force between 1971 and 1975, while employment in the Fire Department declined 8.5 percent or 1,300 fire officers. Reduction in services caused by attrition is not, as Table IV-11 shows, only a phenomenon of the post-1975 fiscal crisis period.

The interaction of departmental expenditures, employee compensation, number of employees, and changes in the hours employees work substantially determines both municipal service levels and productivity. Table IV-12 details these interactions for the Police Department during the 1961-1975 fiscal period: In order to understand what increases in salaries and benefits meant to individual employees, the total compensation of a patrolman first grade is presented. Because there is a vertical parity relationship among patrolmen and superior officers, the percentage increases in total compensation were similar for superior officers. During this period, departmental tax-levy funding increased 292 percent; compensation increased 230 percent; and the number of police officers increased only 32 percent. Despite the increase in the number of police officers, the number of police hours available to the department increased only 21 percent because of reductions in the number of hours police officers work each year.

If the 1961-1975 fiscal period is divided into three subperiods, the trade-offs between compensation and employment in the Police Department become more evident, especially during the 1971-1975 fiscal period. In the 1961-1966 and 1966-1971 fiscal periods, departmental expenditures, the number of police officers, and compensation show similar changes: tax levy increased 65 percent and 63 percent, respectively; compensation increased 50 percent and 46 percent; and the number of police officers increased 15 percent and 17 percent.

In the 1971-1975 fiscal period, however, some startling trends appear. Per employee compensation, despite the increasing severity of the City's financial problems, rose 51 percent in four years, higher than in either previous four-year period; at the same time, the number of police officers dropped 2.1 percent, and total hours worked fell 3.7 percent. Thus in the course of four years, local taxes for police services rose $270 million, almost 50 percent; the

TABLE IV-11

Employment Changes in Selected Service Areas: Fiscal Years 1961-1975

Fiscal Year[1]	Police		Fire		Sanitation		Education[2]		Welfare		Higher Education		Hospitals	
	Total	Percentage Increase/ (Decrease)	Total	Percentage Increase/ (Decrease)	Total	Percentage Increase/ (Decrease)	Total	Percentage Increase/ (Decrease)	Total	Percentage Increase/ (Decrease)	Total	Percentage Increase/ (Decrease)	Total	Percentage Increase/ (Decrease)
1961	25,604	–	12,527	–	13,587	–	55,588	–	8,543	–	4,303	–	38,614	–
1962	27,356	6.8%	12,264	(2.1)%	14,058	3.5%	60,613	9.0%	9,606	12.4%	5,031	16.9%	38,263	(0.9)%
1963	28,019	2.4	13,048	6.4	13,924	(1.0)	69,770	15.1	10,266	6.9	5,597	11.3	39,719	3.8
1964	26,702	(4.7)	13,501	3.5	14,098	1.2	80,058	14.7	11,507	12.1	6,486	15.9	40,181	1.2
1965	28,214	5.7	13,653	1.1	14,257	1.1	80,182	0.2	13,241	15.1	7,052	8.7	40,042	(0.3)
1966	30,758	9.0	13,947	2.2	14,320	0.4	87,396	9.0	15,436	16.6	7,782	10.4	37,145	(7.2)
1967	32,053	4.2	13,945	0.0	14,116	(1.4)	84,067	(3.8)	18,556	20.2	8,400	7.9	38,395	3.4
1968	33,982	6.0	13,860	(0.6)	14,028	(0.6)	92,802	10.4	22,170	19.5	10,269	22.3	38,365	(0.1)
1969	35,489	4.4	14,523	4.8	13,867	(1.1)	104,794	12.9	26,393	19.0	11,542	12.4	38,894	1.4
1970	36,749	3.6	14,853	2.3	14,180	2.3	118,365	13.0	24,974	(5.4)	11,766	1.9	37,236	(4.3)
1971	34,730	(5.5)	15,309	3.1	15,327	8.1	82,810	–	25,205	0.9	15,217	29.3	40,036	7.5
1972	33,454	(3.7)	15,031	(1.8)	14,835	(3.2)	80,439	(2.9)	24,290	(3.6)	16,783	10.3	40,294	0.6
1973	31,574	(5.6)	14,759	(1.8)	14,959	0.8	78,861	(2.0)	26,259	8.1	18,261	8.8	42,756	6.1
1974	34,096	8.0	14,678	(0.5)	14,902	(0.4)	79,453	0.8	27,076	3.1	19,350	6.0	45,283	5.9
1975	35,411	3.9	14,003	(4.6)	14,295	(4.1)	79,852	0.5	26,768	(1.1)	20,009	3.4	46,780	3.3
Aggregate Change 1961-1975	9,807	38.3%	1,476	11.8%	708	5.2%	24,264	43.6%	18,225	213.3%	15,706	365.0%	8,166	21.1%

Note: Police, Fire, and Sanitation figures include civilian as well as uniformed employment.

[1] Data are for December 31 of each fiscal year.

[2] Discrepancies in accounting are responsible for the large reduction shown in fiscal year 1971 and explain why no percentage is indicated that year.

Sources: The City of New York, Department of Personnel, *Annual Reports of the Department of Personnel*, fiscal years 1961-1970; and data from the Office of Management and Budget, fiscal years 1971-1976.

TABLE IV-12

Selected Data Illustrating Components and Service Tradeoffs in the Police Department: Fiscal Years 1961-1975

Fiscal Year	Departmental Tax Levy	Police Officers[1]	Total Compensation	Hours Per Officer	Tours Per Officer	Aggregate Department Hours
1961	218.0	23,515	$ 8,319	1,879.9	223.8	44,205,844
1962	234.1	24,374	9,304	1,835.2	223.8	44,231,165
1963	260.5	24,827	10,292	1,785.6	223.2	44,331,041
1964	289.5	25,432	10,945	1,786.4	223.3	45,431,725
1965	313.5	25,887	11,741	1,784.8	223.1	46,203,118
1966	359.0	27,030	12,536	1,782.4	222.8	48,178,272
1967	380.8	27,429	13,182	1,770.4	221.3	48,560,302
1968	398.9	27,481	13,837	1,751.2	218.9	48,124,727
1969	463.5	29,904	15,387	1,739.2	217.4	52,009,037
1970	565.4	31,556	16,575	1,747.2	218.4	55,134,643
1971	585.9	31,680	18,245	1,752.0	219.0	55,503,360
1972	644.8	30,855	20,557	1,713.6	201.6	52,873,128
1973	650.3	29,700	21,328	1,716.2	201.9	50,971,140
1974	755.4	30,664	24,890	1,722.1	202.6	52,806,474
1975	855.2	31,012	27,511	1,723.0	202.7	53,433,676

[1] Figures do not include civilians employed by the Police Department.

Sources: The City of New York, *Expense Budget,* fiscal years 1961-1975; labor contracts on file at the New York City Office of Labor Relations; and the New York City Police Department.

compensation of police officers increased over 50 percent; and the number of police officers, and hours of police service delivered, actually declined. Because no fundamental changes in the methods of delivering police services occurred during the period, such as one-man patrol cars in low-crime areas, productivity declined very sharply.

The data for the Police Department illustrate the magnitude of the financial and service issues raised by the City's declining managerial capacity. During the 1961-1975 fiscal period, total labor costs increased from $1.9 billion to $5.5 billion, an average annual increase of 10.65 percent. The total sum of money spent on the compensation of City employees over that 14-year period was $45.6 billion. If, through better collective bargaining and management of the work force, it had been possible to hold the annual rate of increase in total labor costs to just *one-half of one percent less* than actually occurred, the cumulative savings to the City of New York over the 14-year period would have been $1.9 billion. Total labor costs in fiscal year 1975 would have been reduced by $362 million.

In the long-term, the savings that are possible from better management of both collective bargaining and the work force are enormous, as the example above shows. Again, the problem is linked closely to the short-run, long-run dichotomy and the absence of political incentives that would encourage future-oriented management in the City.

E. SUMMARY

Sections II and III could be construed to support a "captive-of-events" theory of the fiscal crisis in which the City of New York is conceived of as having little or no control over the events leading to the fiscal crisis. The "captive-of-events" theory is a popular one that is true in some respects. The City of New York largely was unable to control the transformations that occurred in the local population and economy or the intergovernmental relations process.

However, the "captive-of-events" theory also is popular because it tends to absolve local political leaders of responsibility for the fiscal crisis and buttresses the also-popular view that the solution to the City's financial problems lies in increased Federal and State aid rather than local political reform. The "captive-of-events" theory thus has political as well as theoretical underpinnings that provide a justification for previous City policies and a rationale for continuing them into the future.

This section demonstrates, however, that the "captive-of-events" theory is only partially correct as an explanation of the fiscal crisis. The local policies and practices examined in this section—taxes, debt, and management policies—contributed in substantial ways to the fiscal crisis.

While it is true that State and Federally-mandated medical assistance and welfare costs are very high in New York City, in excess of $3.6 billion in fiscal year 1975, pension and debt costs in the same year were almost $3.1 billion. Not only are pension and debt costs not mandated in the same way as medical assistance and welfare costs, but pension and debt costs, unlike medical assistance and welfare, are paid almost entirely from City tax-levy funds. If the City had not borrowed and bargained so liberally, or if the Federal and State governments had not discriminated against the City with respect to welfare and Medicaid financing, fiscal crisis would not have occurred in 1975 and perhaps never would have occurred.

Each of the policy areas analyzed in this section evidences a common trend, the proclivity of the City to engage in policies and practices that were inconsistent with rather obvious long-term needs. Taxes were raised beyond the point of economic rationality and helped drive out mobile businesses and individuals; debt was issued beyond the capacity of the market to absorb it at competitive rates and, ultimately, to absorb it at all; salaries and benefits were negotiated beyond the capacity of the local government to finance the increases except by reducing the work force, cutting essential public services, and worsening the quality of life in New York City. In each instance, it clearly was in the short-run interest of City officials to pursue policies that were destructive to the future. If the fiscal crisis proves anything, it is that short-term and long-run needs are not always consistent.

Footnotes

[1]Temporary Commission on City Finances, Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City,* December 1976.

[2]The tax differentials among cities may be accounted for, in part, by the range of municipal functions provided and the location of taxing authority within local governments.

[3]For a discussion of the underfunding of the pension systems, see the City of New York, Report of the Mayor's Management Advisory Board, *Pensions*, April 1976, pp. 15-22.

[4]Although the welfare strike was not the first public employee strike in New York City, there were only 5 strikes between 1954 and the welfare strike in 1965.

[5]Some administrative and clerical bargaining units in the Board of Education and the Board of Higher Education, however, elected to be under the New York City Collective Bargaining Law.

[6]See *New York Times*, February 18, 1976, p. 1 and February 19, 1976, pp. 29 and 34; also see *The Chief*, August 20, 1976, p. 1.

[7]Executive Order 52, "The Conduct of Labor Relations Between the City of New York and Its Employees," Section 5c, September 29, 1967.

[8]These data were provided by the City of New York, Fire Department. Only four job titles in the Fire Department are defined as managerial or executive: Deputy Assistant Chief of Department, Assistant Chief of Department, Deputy Chief in Charge, and Chief of Department.

[9]These data are from the Union Release Time files maintained by the City of New York, Office of Labor Relations.

[10]Compensation includes base pay, salary supplements (holiday pay, longevity, night shift differential), fringe benefits (health insurance, union welfare funds, and uniform allowance), and retirement benefits (social security, pension, and annuity funds).

[11]For many reasons, it would be desirable to show the changes in salary and compensation of an average municipal employee, but this computation involves a series of complex assumptions and the data generally are not available.

[12]Federick O.R. Hayes and Donna Shalala, "The New York City Teachers Retirement System," 1972, p. 21.

PART TWO

PROSPECTS FOR NEW YORK CITY

Section V

Socioeconomic Prospects

The next two sections examine the prospects for change in New York City's economic and demographic base and its intergovernmental fiscal relations. In the past these factors have had significant influence on the city's fiscal health and they should continue to do so in the future. Hence, reasonable assumptions about socioeconomic and intergovernmental change are important in setting the framework for local political decisionmaking in the years immediately ahead. Based on the following review of socioeconomic and intergovernmental prospects, some general conclusions about what the City of New York needs—and needs to do—in order to enhance its future are presented in Section VII.

From the trends identified in the Commission's Thirteenth Interim Report, *Economic and Demographic Trends in New York City: The Outlook for the Future*,[1] and summarized below, two things are clear: first, there is no reasonable basis to assume that the city's economy will experience a major revival in the next decade; second, there is a reasonable basis to assume that in the next decade the decline of the local economy can be slowed significantly and perhaps even halted. However, the second assumption is dependent on improvement in the various conditions that determine the competitiveness of New York City as a location for business activity.

Change, not stasis, always has characterized the city's economic processes. In recent years, however, the changes have been

almost exclusively negative rather than balanced or positive. What must be accomplished in coming years is a new "equilibrium" in the city's economy, an equilibrium in which decline no longer dominates, but is offset by growth.

A. ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

In its Thirteenth Interim Report, the Commission analyzed socioeconomic trends and prospects. Perhaps the most important conclusion of the Thirteenth Interim Report was that the city's socioeconomic future is indeterminate. The view that the fate of the city is not a foregone conclusion is contrary to the views of many, including pessimists who believe that the city is either dead or dying and optimists who believe recovery is "just around the corner." While certain basic social and economic forces will continue to affect the city, their magnitude and nature can be influenced, for better or for worse, by policy decisions made by the City, State, and Federal governments.

1. Economic Assumptions

In Section II, the post-1969 period was characterized as a depression. This is amply evidenced by the city's loss of over 600,000 jobs since employment reached a peak of nearly 3.8 million in 1969 and an increase in the unemployment rate from 3.6 percent in 1969 to 12.1 percent in 1976.

The local depression must be viewed in the context of two important national economic changes. First, the city has been responding to downturns in the national economy. The beginning of New York City's economic decline coincided with the 1969-1970 national recession and continued through the 1973-1975 recession. National business cycles, however, are not the only forces at work. There is also a massive regional shift underway in the U.S. economy. Even during the modest growth period of the 1960s, when sustained growth in the national economy contributed to the increase in employment locally, the city's share of national employment was falling. The local share of national employment declined even further in the depression period, falling from 5.5 percent in 1969 to 4.1 percent in 1976.

The significance of local and regional decline in the context of the national economy cannot be underestimated. While the political and fiscal consequences of regional decline are discussed more fully in Section VI, it is useful to outline the socioeconomic dimensions

of the problem here. Table V-1 shows shifts in population and nonagricultural employment in the 1960-1975 period for the four basic regions of the country, the Northeast, Northcentral, South, and West, as well as for the New England and mid-Atlantic States, New York State, and New York City. The city lost both people and jobs, 2.7 percent and 7.3 percent, respectively, in the 1960-1975 period. New York State gained people and jobs, but at lower rates than in the mid-Atlantic region, of which it is a part, and the New England region. The northeastern region, comprised of the New England and mid-Atlantic states, experienced greater population growth than the North Central region in the 1960-1975 period, but its employment growth was well below the North Central region's. Compared to the South, West, and the U.S. as a whole, population and employment growth in the Northeast and North Central regions was much lower. The shift in relative economic and political power among regions in the U.S., while only recognized in recent years as a significant national phenomenon, has been occurring for many years. Moreover, the rate of change among the nation's regions has accelerated in the 1970s.

The strength of these national forces does not mean, however, that the local economy inevitably will contract in absolute terms. As in the past, the performance of the local economy will be determined most by two factors, the state of the national economy and the competitiveness of New York City as a location for business enterprise. Projections by the Commission of New York City employment in 1980 and 1985 suggest that, while a major economic recovery will not occur, a strong possibility exists that job losses in the next decade will be modest compared to those in the post-1969 period. This, coupled with other economic and demographic changes that are occurring in the city, raises the possibility that a stable local economy can be achieved in the course of the next decade provided that public policies encourage rather than discourage private investment in New York City.

Table V-2 shows the Commission's projections for total nonagricultural employment in New York City in 1980 and 1985. The "most likely" forecast assumes a slow national recovery from the 1973-1975 recession and slight improvement in the competitiveness of the city, reasonable assumptions given developments in the course of the past two years. On the basis of these assumptions, employment by 1980 is projected to decline to about 3.105 million, a loss of about 175,000 jobs from the 1976 level. In 1985, the Commission's "most-likely" employment forecast is 3.05 million.

TABLE V-1

Regional Shifts in Population and Employment: 1960-1975

(in thousands)

Region	Population 1960	Population 1975	Population 1975 % of Total	Population 1960-75 % Change	Employment 1960	Employment 1975	Employment 1975 % of Total	Employment 1960-75 % Change
Northeast	44,678	49,461	23.2%	+10.7%	15,611	18,519	24.0%	+18.6%
North Central	51,619	57,669	27.0	+5.4	15,837	21,086	27.5	+33.1
South	54,973	68,114	32.0	+23.9	14,246	23,554	30.6	+65.3
West	28,053	37,878	17.8	+35.0	8,336	13,756	17.9	+65.0
Total U.S.	179,323	213,122	100.0%	+18.8%	54,030	76,915	100.0%	+42.3%

Within the Northeastern Region	Population 1960	Population 1975	Population % Change	Nonagricultural Employment 1960	Nonagricultural Employment 1975	Nonagricultural Employment % Change
New England	10,509	12,198	+16.1%	3,699	4,644	+25.5%
Mid-Atlantic	34,168	37,263	+9.1	11,912	13,875	+16.4
New York State	16,782	18,211	+8.5	6,181	6,721	+9.9
New York City	7,782	7,568	−2.7	3,538	3,276	−7.3

Source: U.S., Department of Commerce, Bureau of the Census.

TABLE V-2

"Most Likely" Projections for Nonagricultural Employment in New York City: 1980, 1985

(in thousands)

Sector	Actual 1965	Actual 1976	Projected 1980	Projected 1985	Annual Rate of Change 1976-1980	Annual Rate of Change 1980-1985
Manufacturing	865	527	480	440	−2.5%	−2.1%
Wholesale Trade	310	252	230	215	−2.1	−1.6
Retail Trade	438	377	360	345	−1.2	−0.9
Transportation, Communications, Public Utilities	318	262	255	250	−0.6	−0.4
Finance, Insurance, Real Estate	391	409	420	410	0	−0.5
Services	681	764	780	790	+0.5	+0.2
Construction	109	74	80	100	+2.0	+4.5
Total Private	3,115	2,665	2,605	2,550	−0.6	−0.4
Government	462	515	500	500	−0.8	0
Total Nonagricultural	3,577	3,180	3,105	3,050	−0.6	−0.3

	Low Employment Projection 1980	Low Employment Projection 1985	High Employment Projection 1980	High Employment Projection 1985
Total Private	2,500	2,300	2,750	2,800
Government	490	480	520	520
Total Nonagricultural	2,990	2,780	3,270	3,320

Source: Projections prepared by Karen Gerard, Vice President, The Chase Manhattan Bank and George Roniger, Vice President, Citibank. Actual figures are from U.S., Department of Labor, Bureau of Labor Statistics. The 1965 actual figures are annual averages; the 1976 actual figures are for the month of May, 1976. In computing rates of change for 1976-1980 estimates were made for annual averages in 1976 to allow for peculiarities in the May, 1976 figures, notably an apartment building employees strike.

The average annual rate of job loss is projected at .6 percent during the 1976-1980 period and .3 percent in the 1980-1985 period. The "low" employment projections shown in Table V-2, 3 million in 1980 and 2.8 million in 1985, also assume a slow national recovery, but incorporate the assumption that New York City's competitive position will continue to deteriorate in much the same fashion it has in recent years. The assumptions underlying the "high" projections are slow national recovery but pronounced improvement in the city's competitive position. The result of these favorable assumptions is modest growth in local employment: 3.27 million in 1980 and 3.32 million in 1985 compared to the 1976 total of 3.18 million.

The substantial range represented by the "high" and "low" projections, 280,000 jobs in 1980 and 540,000 jobs in 1985, is important because it represents the potential impact of local decisions, both public and private, on the future of the city. Both projections assume the same national economic conditions; the key variable is the extent to which the city improves its "competitiveness" in relation to other cities. New York City's competitiveness, which largely determines its attractiveness as a location for business, is something that the policies and practices of the City of New York can affect. Certain factors that bear heavily on the city's competitiveness—its "quality of life," infrastructure, transportation, local taxes, rents, and labor costs, to mention a few—are significantly related to local political decisions.

2. Demographic Assumptions

As explained in Section II, urban population trends are closely related to urban economic trends. The modest growth of the local economy during the 1960s produced a modest increase in the city's population; the depression in the post-1969 period has caused a substantial decline in the city's population.

The major compositional changes in the local population were described in detail in Section II. It is sufficient to say that the city's population is quite different today than it was two decades ago. The share of persons requiring government expenditures has increased, while the share of persons capable of financing government expenditures has decreased.

The economic trends outlined above point to a continued decline in the city's population. How substantial this decline will be depends on several factors that cannot be accurately predicted, particularly birth rates and migration patterns which are influenced by local economic conditions. The subtle interactions between and

among economic and demographic variables explain why the Commission's projections are intended to define general rather than specific parameters for future consideration by policymakers.

The population projections for 1980 shown in Table V-3 are based on different birth and migration assumptions that produce "high" and "low" estimates. Births, which are less important than net migration in determining population, were assumed either to stabilize or to decline by rates equal to the rate of decline in previous years. Net migration changes were assumed either to remain at 1970-1974 levels, a period of substantial net out-migration due to the contraction of the economy, or to fall to one-half of the 1970-1974 level. The high population estimate assumed significantly reduced migration and stable birth rates; the low projection reflects assumptions of continued rapid out-migration and falling births. Under the high estimate, the city's population is projected to fall 3.8 percent in the 1975-1980 period to approximately 7.2 million people. This rate of decline would be slightly lower than the 4.5 percent decline in the 1970-1975 period. The low estimate projects a rapid, 10 percent, population decline to 6.7 million by 1980.

The age composition of the city's population also will change significantly in the years ahead. Generally speaking, the same trends hold under either the high or low predictions. The number of persons 65 and over will fall under either assumption, reversing a century-long increase in the number of persons in this age group. Sharp declines also will occur in the 5-17 year-old group, reflecting the declining birth rate of the 1960s. The 35-44 year-old group will increase. The most significant difference between the two projections concerns the under-5 group. If birth rates fall as they have in the past, this age group will be considerably smaller than in 1975, 12.4 percent; if birth rates stabilize, the under-5 group will increase 6.8 percent.

3. Some Integrative Assumptions

Economic and demographic variables are highly interactive. Despite the projected decline in both the economy and population, several not altogether negative trends appear possible in the years ahead. First, the rate of future job loss probably will be lower than in recent years. In the course of two national recessions, high inflation, and severe local problems, it is possible (though not certain) that a Darwinian-like phenomenon has occurred whereby the city's marginal businesses have fallen by the wayside leaving a stronger remainder.

TABLE V-3

New York City Population by Age: 1970-1980

(in thousands)

	1970 Actual		1975 Actual		1980 Estimated			
					High		Low	
Age	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Under 5	626	8.0%	483	6.5%	516	7.2%	423	6.4%
5-17	1,651	21.1	1,576	20.1	1,425	19.9	1,381	20.6
18-24	834	10.7	885	12.7	829	11.5	806	12.0
25-34	1,048	13.5	1,183	15.8	1,066	14.9	996	14.8
35-44	893	11.4	728	9.7	833	11.6	746	11.1
45-64	1,804	23.1	1,611	21.6	1,541	21.5	1,468	21.9
65 and over	952	12.2	990	13.3	962	13.4	882	13.2
Total	7,807	100.0%	7,454	100.0%	7,173	100.0%	6,701	100.0%

	Percentage Change, 1975-1980	
Age	High	Low
Under 5	+6.8%	−12.4%
5-17	−9.6	−12.4
18-24	−6.3	−8.9
25-34	−9.9	−15.8
35-44	+14.4	+2.5
45-64	−4.3	−8.9
65 and over	−2.8	−10.9
Total	−3.8%	−10.1%

Source: Figures for 1970-1975 are unpublished data from U.S., Department of Commerce, Bureau of Census, "Current Population Survey", made available by the New York State Economic Development Board. Method of estimation for 1980 figure is explained in the text.

Second, the fact that the rate of population decline will exceed the rate of employment decline, suggests that unemployment rates may fall. This would reduce, to a degree, City expenditures that are related to unemployment. Third, personal income is projected by the Commission to grow at a rate somewhat faster than the inflation rate, producing real gains in income for city residents. Since 1970, personal income of New York City residents has declined, though not at a rate equal to the loss of jobs. However, it should be noted in this regard that transfer payments to city residents have grown by over 40 percent in real dollars in the 1970-1974 period. The likelihood of real growth in labor and proprietors' income and continued real growth in transfer payments suggests that moderate real increases in personal income are possible. Fourth, continued population declines, particularly in given age groups, will tend to reduce the need for certain public services. This will not occur across-the-board, but selectively from service to service.

There are, unfortunately, many socioeconomic trends that do not provide a basis for optimism. The number of low-income families in the city still is rising, and the number of middle-income and higher-income families is decreasing; young household heads are continuing to leave the city; and labor force participation rates remain low for the 25-34 year-old group which will increase in number in the next decade, as suggested in Table V-3.

B. CRITICAL VARIABLES FOR THE FUTURE

The preceding sections identify the general trends that will shape the city's socioeconomic future and, more importantly, indicate how indeterminate that future is. In the next decade, New York City's job base may grow slightly or decline; its population may stabilize at 7.2 million or continue to decline to well below that level. While some of the factors that will determine what actually happens, such as changing conditions in the national economy or changes in the size of families, are beyond the city's ability to influence, other critical variables are directly related to local resources and decisions. Five of these variables are discussed below.

1. The City's Export Base

Section II explained the importance of the city's export base to the local economy. The export base consists of those businesses (or individuals) that sell goods and services to other cities, regions, and increasingly, nations. In an important sense, the vitality of a city's

export base is a measure of a city's general economic vitality. New York City's export base, historically at least, always was able to change in response to changes in national economic demand. In recent years, New York City's export base has not been adapting to change. As a result, the export base and the larger city economy are in serious trouble.

Many factors affect the competitiveness and adaptiveness of the local export base, and the factors that affect manufacturing are often different than those that affect the corporate office component. In the Commission's Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City*, it was shown that manufacturing employment is particularly sensitive to local taxes.[2] While energy costs, labor costs, labor skills, and perhaps most importantly, space and transportation needs also affect the competitiveness of manufacturing, the Commission's report makes clear that in the absence of tax relief the role of manufacturing in the local economy will continue to decline.

The competitiveness of the local corporate office complex is affected by quite different forces: the deterioration of housing, particularly in and around the Central Business District of Manhattan; the deterioration of mass transit facilities for those who commute rather than walk or take taxis to work; the city's "quality of life;" and, in the final analysis, the city's local tax structure, including both personal income and corporate taxes.

Table V-4 shows employment changes in the city's export base in the 1965-1973 period. While the figures underscore the shift from modest growth during this period, they also emphasize the fact that New York City still has growth sectors despite the recent downturns. These growth sectors include banking, specialized corporate services, and the communications industry. These are the dynamic components of the city's economy that must be encouraged if the city is to reach a new economic equilibrium in the future.

The decline in the number of large (i.e., Fortune 500) corporations headquartered in New York City often is pointed to as evidence of trouble in the core of the city's leading export specialty, its corporate office complex. The number of Fortune 500 firms headquartered in the City dropped from 128 to 90 between 1965 and 1975, and several major corporations have since left or announced plans to leave.[3] The picture is not, however, entirely bleak. The net shift from 128 to 90 headquarters conceals the fact that over the decade six firms relocated *to* New York City and, more importantly, 22 firms not among the Fortune 500 in 1965 have grown sufficiently

to be included among the Fortune 500 while being based in New York City. Thus New York still has an attraction for the headquarters of certain types of firms, particularly rapidly growing ones. While the range and number of firms headquartered in New York has been declining, there are still prospects for holding and attracting many corporate offices.

TABLE V-4

Changes in New York City's Export Employment: 1965-1973

	1965-1969		1969-1973	
	Number	% Change	Number	% Change
Manufacturing				
Apparel Products	−13,884	−8.9%	−27,864	−19.5%
Leather Products	+3,449	+51.3	−3,694	−36.3
Miscellaneous Products	−1,724	−3.8	−10,429	−24.1
Transportation				
Air Transport	+9,812	+36.5%	−694	−1.9%
Other Transport	−8,942	−17.2	−9,532	−22.0
Communications				
Telephone and Telegraph	+4,841	+36.3%	+5,620	+30.9%
Radio and TV Broadcasting	+1,633	+24.3	+1,024	+12.3
Printing and Publishing	−914	−1.4	−12,299	−19.3
Wholesale Trade	−8,745	−8.5%	−10,697	−11.4%
Finance and Related				
Banking	+24,110	+52.6%	+6,139	+8.8%
Security Brokers	+45,323	+105.3	−22,679	−25.7
Insurance Carriers	−2,628	−6.5	−2,747	−7.2
Insurance Agents	+482	+6.7	+1,797	+23.3
Real Estate	−8,045	−12.0	−1,167	−2.0
Services	+35,265	+31.5%	+34,357	+23.3%

Source: Staff computations.

2. The City's Growing Internationalization

In some respects, the local economy is responding to changing international economic demands more favorably than to changing national economic demands. There are increasing signs that New York City is enlarging its share of the rapidly expanding international business in the U.S. economy and will continue to do so in the future. First, New York City is a growing center for international investment. Between 1970 and 1976, the number of foreign banks with offices in the city grew from 47 to 84.[4] Second, domestic corporations engaged heavily in foreign trade seem to favor a New York location for their headquarters. Recent estimates indicate that Fortune 500 firms remaining in New York City have, on the average, over 50 percent of their sales overseas. Third, the city's specialized business firms increasingly sell their services to international clients. The international dimension of the local export base, while difficult to measure, would appear to be expanding. Fourth, foreign trade is attracted to New York City's strategic location, though the condition of the city's ports does not enhance the city's foreign trade potential; neither does the effort to bar the Concorde. Fifth, New York remains a cosmopolitan city, apparently hospitable to foreign business and tourists. The city's museums, theaters, performing arts, restaurants, and ethnic diversity work to its advantage in this regard. Finally, by international, if not American standards, New York City is not a particularly expensive place in which to live, visit, or do business.

The city's increasing role in international business largely has been overlooked in assessing New York's economic future. However, it represents one of the relatively few growth factors existent in the local economy. As emphasized earlier, growth sectors must counterbalance decline sectors if a new equilibrium in the local economy is to be achieved.

3. The City's People

Despite the economic and population declines of the post-1969 period in New York City, and the immense regional shifts in the nation's population and economic structures over the last two decades, New York City remains at the geographical center of the largest consumer and labor markets in the nation. Over 46 million people, more than 20 percent of the total U.S. population, live in the corridor running from Boston to Washington, D.C. New York City, despite the decline in its population in the period since 1970,

still has nearly as many residents as the nation's second, third, and fourth largest cities combined, and the number of people who work in New York City exceeds Chicago's entire population.

While the city's population has changed rapidly in recent decades, the city's people problems are not unique among American cities. Other cities have a higher share of their populations on welfare, higher unemployment rates, and higher crime rates than New York City. What is unique is the scale and diversity of the city's people, two characteristics that long have been responsible for the city's greatness. It would be a serious mistake to underestimate the underlying strength of the city's people when considering New York City's future.

4. The City's Infrastructure

The city's physical plant, its infrastructure, represents another of the city's important long-term assets. Some aspects of the infrastructure are deteriorating beyond repair, like housing in certain areas of the city; other features, like the West Side highway, already have deteriorated beyond repair; some things were ill-conceived when built or have become unnecessary in the course of time; and, generally, the infrastructure is badly in need of maintenance. In the main, however, the city's physical foundation is unparalleled among U.S. cities. The enormous amounts of public and private money that were invested in the city's infrastructure over the course of decades produced a resource that, despite its many problems, remains highly functional in the present and, if properly maintained, also will serve the city's needs in the future.

In discussing the comparative advantages of "new" cities over "old" cities, it is sometimes overlooked that economic and population growth create very costly construction needs. New York City does not need a new airport, a mass transit system, large numbers of new office buildings, new railways, streets, roads and highways. The city's schools are built; so, for the most part, are its prisons, water tunnels, and hospitals. Its parks, museums, cultural institutions and even stadium needs are satisfied. Further construction may be required for economic development, such as a convention center. Funds for important construction projects have to be raised. But what is most needed is the maintenance of what exists. If the city's existing infrastructure is properly maintained, it should provide a substantial resource, and even a comparative advantage, in meeting future economic developments and social needs.

5. The City's Competitiveness

One significant and not fully appreciated consequence of the depression in the local private and public economies is that the city's cost structure is beginning to decline relative to other cities. This trend, if it continues over time, will make the city increasingly attractive for private investment.

For reasons more fully developed in the next section, it is unlikely that the city's future investment needs will be met through public investment. Emerging national, state and local demographic and economic patterns make it unlikely that an investment strategy for the future based largely on public monies will succeed. However, the city's cost structure, if it continues to decline on a relative basis, may induce private investment. Put simply, laws of comparative economic advantage that have contributed to the relocation of business activity and people outside New York City should begin to promote reinvestment in New York City as the city's relative costs decline. It is the potential of increased private investment rather than increased public investment that holds the key to the future of the city and, in large part, defines what the broad outlines of local public policy should be in the years ahead.

C. SUMMARY

The central conclusion of this section is that New York City's social and economic prospects are not preordained. While it is unreasonable to assume that the local economy will stage a major recovery in the next decade, the City of New York retains the ability to influence its performance by enhancing (or diminishing) the attractiveness of New York City as a location for business activity. The critical link between the City government and the performance of the local economy is the extent to which City policies and practices promote private investment in New York City, the only realistic means of achieving a new equilibrium.

Fortunately, important resources and assets in the socioeconomic city remain. These provide a foundation upon which political policies can be constructed. While many aggregate economic and population indices are negative, there are underlying trends, frequently not observed, that are positive. While the city's economy is declining overall, some sectors are growing; and although the population is shrinking, the manner of its contraction carries some positive implications for the future.

The City's policies should begin to reinforce rather than inhibit

the local economy, particularly those resources or trends with positive implications for the future, including relative cost declines, the city's infrastructure, and the international component of the local export base. Unfortunately, growth in the local economy, at least in the next few years, will not produce substantial new revenues to use for economic development purposes.

Footnotes

[1]Temporary Commission on City Finances, Thirteenth Interim Report, *Economic and Demographic Trends in New York City: The Outlook for the Future*, May 1977.

[2]Temporary Commission on City Finances, Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City*, December 1976.

[3]For a careful review of corporate headquarter locational activities in New York City since 1960 and the performance of corporations that have left the city compared to those that remained, see Karen Gerard and Myriam Otero, "Headquarter Firms in New York City: Does Location Affect Corporate Performance?" (Unpublished paper, Economics Group, The Chase Manhattan Bank, N.A., 1976).

[4]Data on foreign bank location and local corporate sales overseas provided by Dr. Mathew Drennan of New York University and the Conservation of Human Resources Project, Columbia University.

Section VI

Intergovernmental Prospects

Policies of both the Federal and State governments toward the City have contributed to the City's fiscal crisis. This section evaluates whether and to what extent reform of intergovernmental relations will enable the City to emerge from the crisis.

As Section III showed, the rapid growth in intergovernmental assistance in the 1960s helped create an imbalance in municipal finances, largely due to the unique burdens imposed on the City by the requirement that it finance 50 percent of nonfederal welfare and medical assistance costs. Then, in fiscal year 1969, the share of intergovernmental monies in the City's budget stopped growing, a surprising development in light of the previous decade and one that greatly complicated City finances in the first half of the 1970s.

Nearly every person or group that has studied the City's government and finances has concluded that reform of the intergovernmental system is important to the future health of New York City. However, it is not clear to what extent intergovernmental reform is likely; neither is it clear that intergovernmental reform alone will contribute to a resolution of local fiscal and economic problems.

A. THE POLITICAL AND SOCIOECONOMIC CONTEXT

For the City of New York to realize reform of the intergovernmental system, political decisions must be reached in Washington and Albany that, in effect, relieve the City of the burden of functions it

can support no longer. These decisions will be affected by, among other things, the influence of representatives of New York City in higher governments, the fiscal balance of the Federal and State governments, and the extent that political representatives of people outside New York City determine that providing fiscal relief to New York City serves broader interests as well.

Political change requires—indeed, is synonymous with—a redistribution of political benefits. This is why change is difficult to achieve within the City of New York and why change is difficult to achieve in the relationship of higher governments to the City of New York.

1. New York City in the National Context

Just as socioeconomic changes affect the politics of the City of New York, so do socioeconomic changes affect the politics of the State of New York and the Federal government. Table V-1 shows New York City's employment and population decline in the 1960-1975 period relative to New York State, the mid-Atlantic and New England states, and the four major regions in the nation, the Northeast, North Central, South and West. The redistribution of the nation's jobs and people that occurred in that 15-year period was immense: New York City declined relative to New York State, New York State declined relative to the Mid-Atlantic and New England areas, and the Northeast declined relative to the other regions of the country in almost every respect. Relative to the rest of New York State, the northeastern region, and the nation, New York City is much weaker now than it was two decades ago.

The loss of national political power for the Northeast and North Central regions, the so-called "snowbelt," is forecast by a 1976 study estimating the effect of national population shifts on representation in the House of Representatives.[1] It is estimated that after reapportionment in 1980 the Northeast region will lose seven Congressional seats, four from New York, and the North Central region will lose eight seats. The South, it is estimated, will gain ten seats in the House of Representatives, and the West will gain five seats.

Of course, New York is but one of many central cities in the U.S. that needs fiscal help. Reform of the intergovernmental system could occur in ways that treated New York City *sui generis*, as a special case, or it could occur in the context of a national urban policy designed to aid all cities.

Unfortunately, strong demographic trends are running against

TABLE VI-1

Net Metropolitan Migration: 1960-1975

Area	1960-1970	1970-1975
Central Cities	–3,449,000	–7,018,000[2]
Suburbs	+8,756,000	+5,423,000
Total Metropolitan Area[1]	+5,307,000	–1,595,000
Annual Migration Flow Rate:		
Central Cities	–344,900	–1,403,600

[1]Total Metropolitan area is the 1970 Standard Metropolitan Statistical Area.

[2]In the 1970-1975 period, 5.9 million persons moved from cities to suburbs and 1.1 million from cities to nonmetropolitan areas.

Sources: Thomas Muller, *Growing and Declining Urban Areas: A Fiscal Comparison* (Washington: The Urban Institute, November 1975), p. 5. Figures are from 1975 Bureau of the Census publications, and include population five years and older. Immigration from outside the U.S. is not included.

---

central cities generally as well as New York City in particular. For the first time in the history of the nation, the aggregate population of cities is declining. People and wealth began to shift to suburban locations in the 1960s; recently, suburban locations have begun to slip relative to exurban locations. Table VI-1 illustrates the magnitude of the exodus from central cities since 1960. Between 1960 and 1970, central cities lost 3.4 million people, but substantial suburban growth resulted in a 5.3 million population increase for metropolitan areas. But in the 1970-1975 period, a huge population decline in central cities, over 7 million, more than offset suburban growth and resulted in a net metropolitan decline (or net nonmetropolitan area gain) of 1.6 million people.

At the national level, New York City's political influence, at least as measured by its share of population, is declining. Compounding this micro phenomenon is a decline in the population of central cities generally. Nationally, it is clear that certain underlying dynamics are not running in New York City's favor. However, national political decisions, like local political decisions, do not simply reflect gross population characteristics. The skill and sen-

iority of legislative leaders clearly can intervene. Also, not all persons who live outside central cities have "anti-city" attitudes, although it is true that this long has been an important value in American culture.

Despite this perspective on New York City's political influence in the national context, the two major intergovernmental problems the City faces—reform of welfare and medical assistance financing—represent problems in many localities and states throughout the country. While it is true, as the Commission's separate interim reports on public assistance and Medicaid programs point out, that New York State and New York City are particularly disadvantaged by Federal policies, public and medical assistance costs elsewhere are difficult for state and local governments to finance given their relatively narrow, nonprogressive tax bases. New York City does not lack allies in its fight for reform of welfare and Medicaid financing.

2. New York City in the State Context

As Table VI-2 indicates, New York State suffered decline relative to the nation in population, income, and employment in the 1963-1975 period: the New York share of national population declined 8.6 percent; personal income, 16.5 percent; and employment, 20.9 percent.[2]

Table VI-3 shows that the population of New York City as a share of State population dropped steadily from well over 50 percent to almost 40 percent in the 1950-1975 period. Table VI-4 shows that New York City's share of state-wide employment also has steadily declined. Between 1960 and 1974, employment in the city declined 2.3 percent, while employment in the rest of the State increased 37.2 percent. Thus, socioeconomic trends would appear to be affecting the economic and political influence of New York City in the context of New York State in much the same way as they are affecting the influence of the city in a national context.

The State's financial commitment to the City appears to have peaked after passage of the special per capita aid to cities program in 1968. In fiscal year 1969, the percentage of the City's operating budget financed by State aid reached 32.4 percent, the highest up to and since that time. In fiscal year 1970, the percentage of State income tax receipts allocated to the revenue sharing program was reduced from 21 percent to 18 percent, causing State aid effectively to plateau. The percentage of State funds in the budget has slowly

TABLE VI-2

New York State and the Nation, Selected Comparisons: 1963, 1975

	New York as a Percentage of the U.S.		
	1963	1975	% Change
Population	9.3%	8.5%	–8.6%
Personal Income	11.5	9.6	–16.5
Urban Population	11.4[1]	10.4[2]	–8.7
Employment	11.0	8.7	–20.9
Per Capita Personal Income	122.0	113.0	–7.3

[1]Data are for 1960.

[2]Data are for 1970.

Sources: U.S., Department of Commerce, Bureau of the Census, *Governmental Finances*, 1963-1975, Table 26, and *Census of Population General Social and Economic Characteristics*, 1960, 1970; Department of Labor, Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939-1974*. Data for 1975 provided by Bureau of Labor Statistics, Regional Office, New York.

declined since 1970 from over 30 percent to less than 25 percent. While the State's fiscal problems are much less severe than the City's, strong political pressures have constrained substantially the State's willingness to assist the City of New York. Whether this will continue to be the case in the future is not, of course, certain, but since New York City represents such an important part of New York State's fiscal and economic existence, the lack of reform will undoubtedly affect the State in a negative way as well.

B. THE OUTLOOK FOR INTERGOVERNMENTAL RELATIONS

Strong national and state forces running against New York City suggest that fundamental reform of the intergovernmental system is problematic. However important these socioeconomic and political

TABLE VI-3

Population Trends in New York City and New York State: 1950-1975

Year	City Population	State Population	% of City to State
1950	7,891,957	14,830,192	53.2%
1960	7,781,984	16,782,304	46.4%
1970	7,895,563	18,241,266	43.2%
1975	7,567,900	18,211,000	41.8%

Percentage Change 1950-1975

New York City:	–4.1%
New York State:	+22.8%

Source: U.S., Department of Commerce, Bureau of the Census, *Census of Population and Current Population Reports*, Series P-25.

TABLE VI-4

Employment Growth in New York City and the Rest of New York State: 1960-1974

	New York City		Rest of State		State
	Employment	Percent Growth	Employment	Percent Growth	Employment
1960	3,538,000	–	2,643,500	–	6,181,900
1965	3,577,300	1.1	2,941,400	11.3	6,518,700
1970	3,744,800	4.7	3,410,000	15.9	7,154,800
1974	3,458,400	–7.6	3,626,400	6.3	7,084,800
1960-1974	–	–2.3	–	37.2	–

Sources: U.S., Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*; and the State of New York, Department of Labor, *Employment Review*.

trends are, or turn out to be, there remain some positive signs regarding intergovernmental assistance. Neither the new Federal administration nor the State administration evidence a negative attitude toward New York City. Moreover, as shown below, some specific changes in funding formulas have occurred recently that improve somewhat the amount of aid the City will receive in the near future. Despite these changes, permanent fiscal relief is a long way from being realized.

1. Federal Aid

The general revenue sharing program has been identified as a hopeful one for fiscally troubled localities, in part because of the broad discretion local officials have over the use of revenue sharing funds. The original revenue sharing program ran for five years, terminating in January 1977. The national allocations were fixed on an annual basis in 1972 and varied from $5 billion to $6 billion yearly. The City consistently has received about 6.5 percent of the national allocation annually, averaging $265 million over the past four years. In 1976, a five-year extension of the general revenue sharing program at a slightly expanded level was enacted, with funds scheduled at about $6.8 billion each year. Expansion in the City's share will increase about 10 percent to approximately $305 million a year. This includes the extra funds awarded to the City as a result of the decision on the part of the U.S. Treasury Department to honor a long-standing City request to consider the receipts of the stock transfer tax as local tax effort in computing the City's share of the New York State allocation. This change in policy will add about $2 million annually to the City's revenue sharing entitlement.[3]

In April 1977, Congress enacted an extension of the antirecession (countercyclical) revenue sharing program. Funds for this program are placed in the City's General Fund and may be used flexibly. The original program has brought $62 million into the City since July 1976; because of the $1.25 billion ceiling placed on the program by Congress, the funds ran out before the scheduled end of the program in September 1977. The newly-passed countercyclical program will supersede the original program and run for five quarters beginning in July 1977. The new program allocates $2.25 billion for the first four quarters and provides for reexamination of the distribution formula in July 1978. The new formula, changed slightly over the original one, provides additional aid to cities on the basis of each one-tenth of one percent that the local unemployment

rate exceeds the national "triggering" rate of 6 percent, rather than, as before, each one-half percent. This will greatly benefit cities with high unemployment rates, such as New York. Current estimates place the City's total share of antirecession aid at $135 million for fiscal year 1978.

Taken together, the new general revenue sharing program and the new antirecession revenue sharing program will provide the City with an additional $165 million in fiscal year 1978 over fiscal year 1977. The level of Federal revenue sharing funds probably will decline after fiscal year 1978 due to phasing out of the antirecession program and, hopefully, improvement in the local economy. Total revenue sharing funds will amount to no more than $335 million in fiscal year 1981 compared to $274 million presently.[4]

A major component in the City's budget-balancing effort for fiscal year 1978 is the expanded level of Federal Comprehensive Employment and Training Act (CETA) funds. The national allocation of CETA Titles II and VI, both of which provide funds for public service employment, has more than doubled for the period corresponding to the City's 1978 fiscal year. The City will receive $165 million in additional CETA money in fiscal year 1978 which is scheduled to be used to fund as many as 14,000 employees. Funds for the CETA program, however, are reallocated annually by Congress, and there is no guarantee that the program will continue at all, let alone grow significantly, beyond fiscal year 1978. With this in mind, the City has not included CETA funding in its revenue estimates beyond fiscal year 1978.

In other major Federal block grant programs, steps are slowly being taken to make distribution formulas more equitable. Partial action has been taken in Congress on the Community Development Block Grant program and the Urban Mass Transportation Act operating assistance program. However, the impact of the new, more equitable formulas will be neither immediate nor large.

The Community Development program offers the best opportunity for increased levels of assistance over the next few years. In fiscal years 1975 and 1976, the City received a "hold-harmless" grant of $102.2 million, or approximately the same amount distributed to the City under the seven categorical grant programs in effect before the passage of the Community Development Block Grant program. In September 1977, the "hold-harmless" provision expired, and New York City's entitlement will be calculated on the basis of the program formula. Thus, in fiscal year 1978, the City will receive about $151 million; in fiscal year 1979, due to a larger

national allocation, the City will receive about $156 million. Two contingencies may boost these amounts even higher. First, the Administration has proposed an expansion of the Community Development program that includes a change in the distribution formula. The proposal would add a factor representing the age of a city's housing stock, a change obviously favorable to New York City. Estimates place the increase in Community Development funds for the City at $78 million in fiscal year 1979, totaling $229 million. Second, if a cost-of-living adjustment were introduced into the formula, as is being considered, about 400,000 more city residents would be considered below the poverty line, resulting in as much as $12 million more for the City. Community Development funds also are among the most flexible block grants in terms of usage; they may be used for either capital improvements or operating purposes within broad functional areas.[5]

The Urban Mass Transit Administration (UMTA) Section 5 operating assistance formula stands to be changed in the near future. A proposal in the Senate would add a ridership factor to the formula, and hearings will be held in the House concerning a proposal that would establish a trust fund for mass transit using a certain percentage of the Federal corporate income tax. Either proposal would be beneficial to New York City, not because of an increase in direct aid, but because more Federal operating assistance to the Transit Authority might allow the City to reduce its subsidy. No estimate is currently available of the amount of City funds that would be released by such a change, but it is not unreasonable to assume that the City's savings would exceed $50 million.

Other expansions in Federal aid may be forthcoming, but for the most part they will be of a nonrecurring nature. For example, the sale of City and State-financed housing to the U.S. Department of Housing and Urban Development will result in a saving of $8.2 million to the City. On a much larger scale, the sale of the Westway project right-of-way will provide as much as $80 million in Federal money in fiscal year 1978. The City also will receive further Federal funds in the expanded Local Public Works Program, but these monies are received by the City on a one-time reimbursement basis. None of these sources of aid may be counted on in the future for significant relief.

2. State Aid

In the aggregate, State aid accounts for slightly more money than Federal aid. Exclusive of welfare and Medicaid funds, the City

relies heavily on State revenue sharing and State aid to public schools. In addition, the City is counting on the continuance of State take-over schedules for higher education and court costs. The State Executive Budget for fiscal year 1978, as originally proposed, indicated cuts in aid that the City claimed would increase its budget gap $77 million. However, the State Legislature passed a budget in March 1977 that effectively held the city "harmless" for fiscal year 1978 by restoring proposed cuts in the revenue sharing program, "ghetto medicine" program, Title XX social services aid, and welfare and Medicaid matching funds. While the State's fiscal condition is better than the City's, the proposals for cuts in State aid, even though largely restored, do not bode well for the future.

The City probably cannot expect major increases in the State revenue sharing program, although the distribution of funds to the City should grow with receipts of the State income tax. Growth of City revenue sharing funds is estimated by the State Division of the Budget to be no more than 11 percent over the next year. By fiscal year 1981, State revenue sharing may be as high as $650 million compared to the 1977 level of $470 million, due to growth in State income taxes rather than changes in the percentage of receipts the State shares with its localities.

Similarly, State aid to education cannot be expected to increase significantly, although the State Legislature has raised the maximum aid per pupil from $1,200 to $1,400 and restored aid for special reading programs. City projections place aid to public schools at $900 million in fiscal 1981 compared to $850 million in fiscal 1978, a small rate of increase and, in constant dollars, probably a decline. Short of major reform in the system of public school finance in New York, it is not reasonable to expect that aid to education will grow very rapidly in the future.

3. Public Assistance and Medicaid Reform

Increases in revenue sharing and block grant funding to the City will, at best, result in moderate financial help. However, New York City and other declining central cities need wholesale reform of intergovernmental relations. As noted time and again, the burden placed on the City by the Federal and State governments for welfare and Medicaid is perhaps the largest single obstacle to future stability of the City's finances.

Automatically, Federal and State funds for public assistance and Medicaid will continue to pour through the City budget, taking increasing proportions of City resources with them in the form of

matching funds. Presently, the City spends about $1.1 billion of its own funds on these mandated programs.

The advent of the new administration in Washington was a source of hope on the part of the City that welfare at last would be financed at the level which mandates its operation. In May 1977, the President declared that the present welfare system should be discontinued and a totally new system implemented, and that the financial burden on states and localities should be reduced as rapidly as Federal resources permit; however, the President implied that it might be impossible for federalization of welfare and welfare reform to occur before 1981. Thus, it is unlikely that the City will be relieved of the burden of welfare, at least by the Federal government, for several more years.

One announced goal of the Federal proposal for a new welfare system is to hold the initial costs of the program to its present level. Since New York State heavily supplements Federal welfare programs, and requires the City to fund 50 percent of the supplements, it is possible that the City ultimately may have to commit its own resources to welfare programs in order to keep benefits at their present levels. The federalization of welfare does not automatically mean that the City will be relieved totally of financial responsibilities.

Prospects for the shedding of the Medicaid burden are less bright than welfare reform. Neither the Administration nor Congress has proposed any form of federalization of health care costs or comprehensive national health insurance that would remove the $550 million burden from the City. Prospects for a State takeover of Medicaid costs are no better and perhaps worse than prospects for the takeover of public assistance costs.

In summary, the City cannot rely on intergovernmental assistance to solve its fiscal problems. Intergovernmental finances are improving slowly; the various programs mentioned in this section will bring an additional $520 million into the City in fiscal year 1978 (see Table VI-5) with the promise of slightly more in the next year, but no large-scale help of the magnitude that will alleviate New York City's unique burdens seems to be forthcoming. Ultimately, the sharing of the welfare and Medicaid burdens must and will occur, but not in the next few years. As Section VII suggests, even if reform of welfare and Medicaid financing occurs, this alone will not necessarily contribute to resolution of either the City's fiscal problems or the decline of the local private economy. Intergovernmental reform is neither a likely nor sufficient basis upon which to rest the future.

TABLE VI-5

Additional Integovernmental Aid to New York City: Fiscal Year 1978

($ in millions)

Federal	1977	1978	Increase
General Revenue Sharing	$279	$304	$25
Antirecession Aid	62	135	73
CETA	160	325	165
Community Development	102	151	49
Westway	–	80	80
Sale of Housing to HUD	–	8	8
Total Federal			$400
State			
Revenue Sharing	$472	$529	$ 57
Countercyclical Revenue Sharing	–	34	34
Aid to Public Schools	822	852	30
Total State			$121
Total Federal and State			$521

Sources: The City of New York, *Executive Budget*, fiscal year 1978, Message of the Mayor, pp. 9, 70-71; and the Department of Employment.

Footnotes

[1]*The New York Times,* January 23, 1976.

[2]Roy Bahl, *The Long Term Fiscal Outlook for New York State* (Syracuse, N.Y.: Maxwell School, Syracuse University, 1976), pp. 4-13.

[3]The City of New York, *Executive Budget,* fiscal year 1978, p. 8.

[4]*Ibid.*, pp. 70-71.

[5]Temporary Commission on City Finances, Fourteenth Interim Report, *The Role of Intergovernmental Relations in New York City*, May, 1977.

Section VII

Prospects for the City of New York

The City of New York is at a critical stage in its history. For the first half of the 1970s, the trends identified in Section IV continued at an accelerated pace under increasing budgetary pressures: taxes increased, debt increased (particularly short-term debt), and the maintenance of public services became more and more difficult.

The 1975 fiscal crisis injected a new element in the political dynamic of the City that made it more difficult for the City to maintain successfully the short-run orientation that increasingly dominated the City's political agenda in the previous decade. Earlier public policy goals have been altered somewhat by the City's inability to borrow money freely and the creation of new political institutions in the wake of the fiscal crisis. While total expenditures and debt have continued to increase since fiscal year 1975, the rate of increase has been reduced. The use of tax policy for narrow fiscal purposes has abated, and some taxes even have been reduced. Reform of the City's management procedures, including accounting and control techniques, has begun. Some things that were impossible to achieve prior to 1975, were achieved after 1975; some things that were possible before 1975, were impossible afterward.

Despite some constructive changes, the political pressures and groups that controlled local politics in the 1965-1975 period remain important and, for the most part, dominant. Political systems, particularly fragmented, decentralized systems like the City of New York, change slowly, more slowly than their environments. Conser-

vative interests quite naturally seek to conserve their traditional sources of political influence and tangible political benefits. The three groups that received over 85 percent of the City's expenditures in fiscal year 1975—recipients of welfare and medical assistance benefits, City employees, and creditors—clearly have important reasons for not wanting the local political system changed in fundamental ways. Fundamental change by definition means a reordering of public policies and public benefits.

Beyond the very real question of whether the City of New York can change in fundamental ways, is the prior question of whether it should change. There is no reason why the social and political difficulties that fundamental change inevitably involves even should be considered if local political change is unnecessary. In the final analysis, the need to change the local political system depends (or should depend) on a realistic appraisal of the future. If the resources necessary to maintain the existing political system and, at the same time, to create fiscal and economic equilibrium are likely to be realized in the next few years, there is no apparent reason why the City of New York (and New Yorkers) should go through the painful experience of reforming the local political system.

A. SOCIOECONOMIC AND INTERGOVERNMENTAL PROSPECTS

It is appropriate at this time to incorporate some of the central findings about the past and assumptions about the future into a framework for evaluating whether fundamental change of the local political system is needed. Part One established three primary causes of the New York City crisis which, taken together, define it more broadly than as simply a fiscal crisis. Socioeconomic transformation, evolving intergovernmental relations, and changes in the local governmental process caused the City of New York to experience fiscal crisis beginning in 1975. Sections V and VI are future-oriented, aimed at establishing reasonable assumptions about what changes can be anticipated in the socioeconomic city and intergovernmental relations in the next five to ten years. These assumptions should determine the City of New York's strategic policies in the future.

1. Socioeconomic Prospects and Local Political Change

Certain broad trends are evident with respect to the city's economy and population. Perhaps the most significant general con-

clusion is that no reasonable basis exists to assume that the city's economy will stage a major recovery in the next decade. Continuing employment losses are indicated, as is a continuing population decline.

It is unlikely, then, that expansion of the local economic base will provide the resources necessary to maintain the City of New York at its present size and shape. This finding in and of itself does not dictate that further change in the local political process must occur because resources that might make it possible to sustain the existing local government structure also may be provided by the State and Federal governments.

From a planning perspective, perhaps the most significant finding in Section V is the range between the Commission's high and low employment forecasts (Table V-2). The variance, 280,000 jobs in 1980 and 540,000 jobs in 1985, is explained not by differing assumptions about national economic growth, over which the city has no control, but rather by differing assumptions regarding the future competitiveness of the city as a location for business activity. Under an assumption of "continued rapid deterioration" of the city's competitive position, employment was projected at 2.99 million in 1980 and 2.78 million in 1985. However, under an assumption of "fairly permanent improvement" in the city's competitive situation, employment is forecast at 3.27 million in 1980 and 3.32 million in 1985.

The City of New York is capable of affecting positively the competitiveness of the local economy by, among other things, maintaining those services and facilities that most importantly define the city's "quality of life" and by contributing to a reduction in the cost of living and doing business in New York City. In the past, the City's policies have detracted from local economic competitiveness. Important services deteriorated, along with the city's public infrastructure, and local taxes sharply increased the cost of living and doing business in New York City. Even accepting the fact that a few factors determining the competitiveness of New York City cannot be controlled by the City of New York, a substantial role remains to be performed by the City with respect to local economic activity.

2. Intergovernmental Prospects and Local Political Change

Unfortunately, as Section VI suggests, it is unlikely that New York City will receive substantial increases in intergovernmental

assistance in the next few years. While some increase is indicated in both the amount of State and Federal aid and the flexibility with which it can be used, fundamental reform of the intergovernmental system should be a central assumption of local policymakers. The critical issue in this regard concerns reform of welfare and medical assistance financing. Federal reform, however necessary or "equitable" for New York City, does not appear imminent. Judging from the slow pace with which the State has moved to alleviate the City's financial problems (excluding its early reaction when MAC and the EFCB were created), it is unlikely that it will pump substantial new monies into New York City.

The issue of intergovernmental assistance is more subtle than is usually recognized. It is clear that major assistance from the Federal and State governments is needed, but it is not clear that more intergovernmental aid alone will be sufficient to restore stability to New York City. To the extent that the effect of intergovernmental aid is simply to permit the existing political dynamic to continue in the City of New York, the potential development impact of intergovernmental aid for New York City will be diminished.

By way of specific example, the assumption of all public assistance costs by the Federal government (or Federal and State governments combined) would "free up" approximately $500 million of City tax-levy funds presently devoted to the local share of public assistance costs. The allocation of the $500 million in the event of intergovernmental reform becomes an issue of critical importance. If, on the one hand, the bulk of the funds were used to maintain present "consumption-oriented" expenditure patterns, the developmental potential of increased intergovernmental assistance would be dissipated. On the other hand, if monies that were "freed up" by increased intergovernmental aid were used for "investment-oriented" purposes, their developmental impact will be increased substantially. Thus, in order to maximize the benefit of intergovernmental reform, the local political system must change. In this sense, fundamental reform of intergovernmental relations and fundamental reform of the local political process are interdependent.

B. THREE STRATEGIC OPTIONS FOR THE FUTURE

On the basis of the 1965-1975 period, perhaps the most reasonable assumption about the City of New York is that its policies will make the situation worse. However, as noted earlier, some constructive changes have begun since 1975. Three general options are

indicated for the future: bankruptcy, decrementalism, and developmentalism. None, unfortunately, can guarantee a healthy New York City in the future. In selecting which of the three strategies should be pursued, the major analytical and, ultimately, political problem is to determine which of the three strategies is most likely to meet the City's long-term needs within a framework of continuing resource scarcity.

1. Bankruptcy

Those who believe that New York City can regain financial stability only by reorganizing its debt through bankruptcy assume that the City's financial obligations are so great they cannot be met within the context of the prevailing political system with its attendant constraints. Furthermore, bankruptcy proponents contend that the means of scaling down expenditures that have been employed since the onset of the fiscal crisis are inconsistent with the needs of the city. The fact that a substantial share of the money saved by reduction of the work force by 60,000 since the beginning of the fiscal crisis has been spent to cover the carrying charges of new debt acquired since the financial crisis illustrates, for bankruptcy proponents, why debt must be reduced through bankruptcy. In essence, they argue, the dynamic of the existing system is inherently flawed and can be corrected only by radically changing it.

Chapter IX of the Federal Bankruptcy Laws was amended in April 1976 to clarify the procedures that would ensue in the event a municipality declared bankruptcy. Under the new legislation, the City would declare itself bankrupt, file a plan for reorganization of its debts, and contact as many of its creditors as possible to obtain their written authorization for its reorganization plan. Creditors would be divided according to the type of debt they were owed by the City (e.g., contractors, bondholders, noteholders). Agreement of at least 50 percent of the number of claimants and the holders of two-thirds of the amount of claims in each class would have to be secured to ratify the reorganization plan. This being accomplished, the Court would oversee the City's execution of the plan.

The powers of the Court in overseeing the City's execution of its reorganization plan are not clear. Ostensibly, the Court would not have the power to determine policy, only to approve or disapprove policies proposed by the City's elected officials based on the Court's interpretation of their effect on the City's reorganization plan. In this respect, the Court's role would be somewhat like that of the EFCB in monitoring the present Financial Plan. In theory, the

primary initiative for changing the City's financial or management policies after the reorganization plan was filed and accepted would remain with the City's elected officials.

The primary losers from bankruptcy would be the holders of New York City notes and bonds. Their repayment would be subordinated, according to the new bankruptcy law, to the maintenance of essential services. Holders of City securities could be forced to accept a lower rate of interest on their obligations and a deferral of the date on which principal would be repaid. The rationale for imposing such penalties on note and bondholders is that the interest which they sought to gain by investing in City securities was a measure of risk, a risk that was realized in the eventuality of bankruptcy.

There are serious problems with the bankruptcy option. First, it is not a democratic solution. While events of the last two years clearly have eroded the democratic process in New York City, bankruptcy almost certainly would cause an even more substantial erosion. Second, bankruptcy, in all likelihood, would prevent the City from entering the credit market for an extended period of time. It is impossible to estimate how long this would be, just as it is impossible to estimate when the City will be able to return to the credit market in the absence of bankruptcy.

Third, bankruptcy may not be a solution at all. There is substantial uncertainty about what bankruptcy would accomplish. Those who are attracted to bankruptcy because they believe it promises fundamental reform of the City should examine that assumption carefully. The 1976 amendments to the bankruptcy law specify that restructuring of debt is to be given a higher priority than restructuring other local government practices, like the scope and manner of delivering municipal services, that in the final analysis may pose as many problems as the City's debt. Also, those groups who oppose bankruptcy precisely because they are afraid it will lead to fundamental change of the local political system are not likely to be excluded from the politics of bankruptcy. These groups, which include the city's dependent population, civil servants, and creditors, have enormous stakes in maintaining the existing system as long as possible. Their political influence and strategies for maintaining those stakes would be operative despite the formalities of bankruptcy.

It is possible, of course, that bankruptcy may prove necessary at some time in the future. If so, the failure to declare bankruptcy now as opposed to later will be a costly one, particularly for those

who continue to loan the City money. Nevertheless, bankruptcy presently is not a constructive option.

2. Decrementalism

A more conservative and thus more popular strategy than bankruptcy is the decremental approach. This strategy, the basic elements of which are marginal reform of the local political process and fundamental reform of intergovernmental relations, has roots in the "captive-of-events" theory of New York City's decline that holds the local political process unaccountable for New York City's problems and places the blame instead on uncontrollable, external forces. The underlying assumption of the decremental strategy is that fiscal reforms such as those implemented in the past two years will buy the time required to restructure intergovernmental relations, thereby avoiding either bankruptcy or a more planned and democratic restructuring of certain key aspects of the local political process.

The obvious virtue of this strategy, if it works, is that relatively few painful changes will have to be made in the local political system. However, the decremental strategy is a high risk option. As Part One shows, the City's fiscal crisis is merely symptomatic of underlying causes—socioeconomic decline, intergovernmental fiscal burdens, and the short-run orientation of the local government. Without attacking each one of the underlying problems, it is difficult to see how the concrete manifestation of these problems—fiscal crisis—will be eliminated. The heavy reliance of the decremental approach on fundamental reform of intergovernmental relations appears, in light of Section VI, to be unrealistic. It does not appear that intergovernmental assistance will be sufficient to permit the City of New York even to maintain its existing expenditure base let alone provide the leeway necessary to promote the future competitiveness of the local economy. The City of New York possesses the potential to materially improve the competitiveness of New York City as a location for business activity, but the conditions of this require substantial public investment for purposes that, in turn, will stimulate private investment.

The policies that have been pursued during the period of the Financial Plan illustrate the inherent weaknesses of the decremental approach. While the fiscal crisis has been controlled temporarily, a policy framework for confronting the underlying economic problems of New York City has not been established. In terms of the outlook for the future, the decremental approach shows little likelihood of

achieving a permanent budgetary balance without even considering the issue of additional investments that are required in order to secure economic stability.

City budgetary policies during the period of the Financial Plan have been dictated largely by fiscal imperatives. The collapse of the City's borrowing capacity required the elimination of a huge deficit in the operating budget that previously was financed with short-term debt. From a narrow fiscal perspective, "technical" balance has been achieved between operating expenditures and income in fiscal year 1978. The essential problem, however, is that a balanced budget does not necessarily point in the direction of a permanent solution to the City's fiscal problems.

The main components of the program to eliminate the three-year budget deficit, estimated in April 1977 to have grown to $1.1 billion, are outlined in Table VII-1. Reduction in programs and personnel distributed among City agencies account for $502 million in expenditure cuts, about one-half of the total Financial Plan adjustments. Other actions by the City involve $329 million in cost savings and $28 million in additional nontax revenues. The bulk of increased revenue is the $430 million that results from actions taken by the State and Federal governments. The total amount of expenditure reduction and new revenues exceeds the projected three-year deficit by $158 million, a surplus that has been largely earmarked in fiscal year 1978 for a program of tax reduction that is discussed in Section VIII.

Without reform in the structure of labor costs, major savings were realizable only through reduction of the work force. The decrease in the number of City employees between December 1974 and March 1977, resulting from both attrition and layoffs, was over 60,000, as shown in Table VII-2. This loss of manpower, absent fundamental change in management and personnel policies, has ensured a decline in service levels and reduced the potential to improve services in the future. The failure to maintain services at reduced costs is one of the basic weaknesses in the implementation of the Financial Plan. From a long-term, developmental viewpoint, the City at least needs to maintain services, particularly essential services, rather than consciously choose to reduce services. If public services have anything to do with the quality of life in New York City, and they clearly do, the particular expenditure reduction effort under the Financial Plan has been counterproductive.

In addition to the problem of declining services, Table VII-2 shows that the most important City services—education, police, fire, and sanitation—have suffered employment losses proportional to the

TABLE VII-1

Major Components of the Three-Year Financial Plan to Eliminate the Budget Gap

City, State and Federal Actions	Savings or Revenue Increases (annualized amount)
I. REDUCTIONS IN CITY AGENCY PROGRAMS AND PERSONNEL	$502 million
II. INCREASE IN CITY-GENERATED NON-TAX REVENUES	$28 million
III. ACTIONS BY STATE AND FEDERAL GOVERNMENTS	$430 million
A. State assumption of Court costs	24 million
B. State assumption of City University senior college costs	126 million
C. Federal acquisition of Westway right-of-way	80 million
D. Increase in Federal Countercyclical Aid	135 million
E. Other Federal administrative actions	65 million
IV. REDUCTIONS IN OTHER CITY COSTS	$329 million
A. Reduction in non-mandated welfare costs	79 million
B. Reduction in fringe benefit costs	24 million
C. Savings in energy costs	23 million
D. "Stretch" of MAC debt	203 million
TOTAL OF ANNUALIZED SAVINGS OR REVENUE INCREASES	$1289 million
TOTAL CITY BUDGET GAP (April 1977 estimate)	$1131 million
Fiscal Year 1976 Actions	$200 million
Fiscal Year 1977 Actions	$379 million
Fiscal Year 1978 Actions	$552 million
BALANCE AVAILABLE	$158 million

Sources: The City of New York, *Financial Plan for the City of New York and Covered Organizations,* August 1976; *City of New York Financial Plan: Program to Eliminate the Budget Gap for Fiscal Year 1978,* January 1977; and *Executive Budget*, fiscal year 1978, Message of the Mayor.

overall decline in employment even though these services had lost disproportionate shares of workers in the years preceding the fiscal crisis due to attrition. As Table VII-3 shows, the same services have sustained larger spending cuts relative to areas with mandated costs such as welfare, pensions, and debt service. The shares of expenditure for social services (public assistance and medical assistance), miscellaneous items (largely pensions), and debt service increased for both total budget and City funds. The basic City services with a more controllable structure of costs—police, fire, education, and sanitation—experienced decline in their shares of relative expenditure. This uneven distribution in the City's allocation of manpower and spending reductions makes the improvement of management capability especially important in the basic services.

TABLE VII-2

Reduction in Full-Time City Employees: December 1974-March 1977

	Employment as of 12/31/74		Employment as of 3/31/77		Employment Change 12/31/74 to 3/31/77	
	Number	% of Total	Number	% of Total	Number	% Change
Social Services	26,768	9.1%	22,048	9.4%	−4,720	−17.6%
Education	79,852	27.1	64,308	27.5	−15,544	−19.5
Health Services	5,050	1.7	3,674	1.6	−1,376	−27.2
Hospitals	46,411	15.9	36,398	15.6	−10,382	−22.2
Police	35,411	12.0	28,371	12.1	−7,040	−19.9
Higher Education	20,009	6.8	14,457	6.2	−5,552	−27.7
Fire	14,003	4.8	11,198	4.8	−2,805	−20.0
Sanitation	14,295	4.8	11,636	5.0	−2,659	−18.6
Environmental Protection	4,779	1.6	4,220	1.8	−559	−18.6
Municipal Services	3,628	1.2	2,818	1.2	−810	−22.3
Transportation	5,616	1.9	4,454	1.9	−1,162	−20.7
Corrections	4,474	1.5	3,795	1.6	−679	−15.2
Parks and Recreation	4,705	1.2	3,265	1.4	—1,440	−30.6
Courts	7,145	2.4	5,846	2.5	−1,299	−18.2
All other Agencies	22,007	7.5	17,193	7.3	−4,814	−21.9
Total Full-Time City Employment	294,522	100.0%	233,681	100.0%	−60,841	−20.6%

Source: The City of New York, Office of Management and Budget, Office of Budget Review, Statistical Unit, employment data analysis as of 3/31/77.

TABLE VII-3

Change in Expenditure of Total Budget and City Funds by Function: Fiscal Years 1975, 1977

($ in millions)

	Fiscal Year 1975				Fiscal Year 1977			
	Total Budget		City Funds		Total Budget		City Funds	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Social Services	$2,603.4	19.9%	$ 593.7	8.3%	$2,846.8	21.0%	$ 828.6	10.1%
Education	2,771.0	21.2	1,383.7	19.0	2,784.2	20.5	1,481.2	17.9
Health Services	224.4	1.7	75.3	1.0	213.0	1.6	81.7	1.0
Hospitals	839.4	6.4	397.1	5.5	811.5	6.0	389.0	4.7
Police	908.4	7.0	864.2	11.9	887.6	6.5	864.1	10.5
Charitable Institutions	517.6	4.0	167.7	2.3	548.1	4.0	172.5	2.1
Higher Education	584.9	4.5	244.6	3.4	498.1	3.7	287.6	3.5
Fire	388.3	3.0	386.6	5.3	377.6	2.8	368.7	4.5
Environmental Protection	391.5	3.0	323.8	4.5	375.7	2.8	301.7	3.6
Municipal Services	119.0	0.9	96.7	1.3	118.4	0.9	91.5	1.1
Transportation	111.2	0.8	70.7	1.0	108.3	0.8	66.9	0.8
Corrections	93.3	0.7	92.3	1.3	99.2	0.7	94.3	1.1
Human Resources Program	183.3	1.4	23.8	0.3	215.4	1.6	13.5	0.2
Libraries and Cultural Institutions	70.1	0.5	54.4	0.7	74.4	0.5	55.8	0.6
Parks and Recreation	96.2	0.7	70.7	1.0	84.4	0.6	51.7	0.6
Courts	110.3	0.8	100.9	1.4	111.8	0.8	86.7	1.0
Miscellaneous	916.4	7.0	653.0	9.0	1,024.0	7.5	935.3	11.3
Debt Service	1,510.2	11.5	1,411.8	19.4	1,902.6	14.0	1,902.6	23.1
City	1,510.2	11.5	1,411.8	19.4	561.8	4.1	561.8	6.8
MAC	–	–	–	–	1,340.8	9.9	1,340.8	16.3
All other Agencies	645.4	5.0	240.7	3.3	486.1	3.6	170.8	2.0
Citywide Total	$13,084.8	100.0%	$7,256.7	100.0%	$13,569.3	100.0%	$8,244.2	100.0%

Sources: The City of New York, *Expense Budget*, fiscal year 1975-1976 (as modified figures for fiscal year 1975), and Office of Management and Budget data on functional expenditure and source of funds for fiscal year 1977.

The presence of nonrecurring, or "one-shot," revenue items and cost savings in the proposed fiscal year 1978 budget does not violate the statutory mandate to achieve a balanced budget. The extent of reliance upon nonrecurring items, however, indicates the continued existence of a fundamental imbalance between the City's operating costs and the capacity of its revenue base. The major items of a nonrecurring nature include: (1) reimbursements for the sale of rights-of-way in connection with the construction of the Westway project ($80 million); (2) special State countercyclical aid that is not likely to be repeated ($34 million); (3) Federal countercyclical assistance for which Congressional authorization is scheduled to expire in October 1977 (the loss to the City could range between $65 million and $100 million); (4) the fiscal year 1978 portion of the savings from the "stretch" of Municipal Assistance Corporation debt that will exceed the savings scheduled for the subsequent years of the deferral agreement ($78 million).

The 1978 budget proposal also includes an increase in the level of Federal funding for public service jobs under the Comprehensive Employment and Training Act (CETA). The utilization of CETA workers to restore manpower levels can also be regarded as a temporary measure. Since subsequent Congressional authorization is not assured, the City may be left with a choice of laying off Federally-funded employees or absorbing the cost with City funds.

The projections of City expenditures and revenues for fiscal years 1979, 1980, and 1981, and the assumptions upon which they are based, are shown in Table VII-4. The estimates indicate annual budget gaps that will result in a cumulative deficit of $373 million in fiscal year 1981. These projected deficits, however, are considerably understated.

The projections for expenditure do not estimate the potential costs of wage adjustments or collective bargaining agreements in the post-Financial Plan period. The pressure for increases in employee salaries, particularly following the wage freeze of the preceding three years, is likely to be substantial. Depending, of course, upon the terms of a City wage policy, increases in the cost of employee salaries could potentially double the deficits shown in Table VII-4.

The existence of a deficit in the years following 1978 that could potentially exceed $500 million represents a tremendous obstacle to development of an investment-oriented approach to the city's future. There will be no "surplus" for further reduction in taxes and debt or for investment in the city's infrastructure unless the entire process of retrenchment is managed differently. And the

TABLE VII-4

New York City Expenditures and Revenues: Fiscal Years 1977-1981

($ in millions)

	Budget 1977	Budget 1978	Projected 1979	Projected 1980	Projected 1981
Total City Expenditure	$13,569.3	$13,866.5	$13,428.4	$13,966.8	$14,245.0
Total City Revenue	$13,569.3	$13,866.5	$13,342.3	$13,598.6	$13,872.0
City Funds[1]	7,683.1	8,035.4	7,932.6	8,082.5	8,234.4
Federal Categorical	2,424.1	2,766.4	2,504.6	2,593.7	2,702.1
State Categorical	2,329.4	2,476.9	2,372.1	2,469.4	2,561.5
Capital Funds	571.7	712.9	658.0	578.0	499.0
Proceeds from Financing	686.0	–	–	–	–
Reserve for Federal and State Disallowances	(125.0)	(125.0)	(125.0)	(125.0)	(125.0)
Fiscal Year					
Fiscal Year 1979 GAP			$86	$86	$86
Fiscal Year 1980 GAP			–	$282	$282
Fiscal Year 1981 GAP			–	–	$ 5
Cumulative Three-year Budget Deficit			$86	$368	$373

[1] Includes State and Federal revenue-sharing.

Assumptions on Revenue – No further changes in the rate or base of City taxes is assumed, and projections of receipts are based upon national and local economic indicators. Federal and State categorical aid is estimated on the basis of the percentage shares of projected program costs.

Assumptions on Expenditure – Costs are projected on the assumption of constant service levels where controllable by the City, and on the basis of probable changes in service levels, enrollments, caseloads, and so forth, where not controllable by the City. Reasonable estimates of price increases for various other-than-personal services categories and fringe benefits have been applied to each agency. No adjustment is made for increases in personal service costs.

Source: The City of New York, *Executive Budget*, fiscal year 1978, Message of the Mayor.

---

budgetary relief that might be provided from new State or Federal initiatives, such as assumption of welfare costs, would be consumed by the continued expenditure-revenue imbalance.

In sum, the decremental approach that has characterized the post-1975 period offers no reasonable prospect for doing what is necessary if the underlying imbalance in the City's finances is to be corrected. Those things the City is potentially able to do to improve the competitiveness of the local economy and the quality of life cannot be done within the decremental framework. Absent these reforms, there is little reason to assume that economic decline can be arrested or fiscal balance achieved.

3. Developmentalism

The developmental approach is defined in Part Three of the Final Report of the Commission. It is oriented toward New York City's future, not its past or even its present. The dual emphases of the developmental approach on reform of the local governmental process *and* reform of intergovernmental relations is based on several central assumptions.

First, fiscal stability for the City of New York cannot be achieved until a new equilibrium is reached in the private sector. The relationship between the local public and private economies is complex, particularly because of intergovernmental revenue and expenditure flows, but it is clear that a declining private economy in New York City is inconsistent with stability in the finances of its local public economy.

Second, substantially increased investment in the local private sector is the prerequisite for its reaching a new equilibrium. Substantial numbers of new jobs will not be created unless substantial monies are invested.

Third, growth in the local economy and intergovernmental assistance, in and of themselves, will not be sufficient to provide for the city's investment needs. At present, continued though modest decline in the local economy is indicated; it appears that intergovernmental aid will increase but, again, modestly. The critical change variable, then, is the local government itself. It must set in motion the conditions for increased investment in the local economy and maximum utilization of whatever increases in State and Federal assistance occur.

The central concept underlying the developmental approach is the City's need to acquire slack (uncommitted) resources and, then, to dedicate them for long-term investment needs rather than short-term consumption needs. The means of acquiring slack resources are essentially three-fold: (1) improved management that permits

expenditures to be reduced at the same time essential services are maintained; (2) direct expenditure cuts; and (3) assumption by the Federal and State governments of financial responsibilities presently borne by the City of New York. The essential investment purposes also are three-fold: (1) reduction of taxes; (2) reduction of debt; and (3) maintenance of the city's infrastructure.

Even if fundamental intergovernmental reform occurs, the utility of intergovernmental aid will depend very largely on the uses to which slack resources arising from increased State and Federal aid are put. If slack resources are used in the future as they have been used in the past, that is, in an attempt to maintain an inherently imbalanced local governmental system, the long-term potential of intergovernmental reform largely and quickly will be dissipated. However, if slack resources are invested to promote the economy, intergovernmental reform will have a more positive and enduring impact.

This is why, according to the developmental strategy, the City of New York must be reformed fundamentally before its fiscal problems and the economic problems of New York City can be solved; and this is why incremental reform of the local political process and fundamental reform of intergovernmental relations will not suffice. If neither local governmental reform nor intergovernmental reform occurs, the prospects for New York City are not bright. If fundamental reform of the intergovernmental relations process and the local government occur, New York City's long-term prospects are much brighter.

The developmental strategy lies between the radical bankruptcy strategy and the conservative decremental strategy. As opposed to the bankruptcy option, the developmental strategy assumes that the local political process still retains the capacity to constructively adapt to New York City's future needs. And it is this call for fundamental local reform that distinguishes the developmental approach from the decremental approach.

Pursuing the developmental theory involves a reordering of local political priorities as recommended in Part III. At bottom, the developmental approach would engage the City of New York in policies and practices that are rational in an economic sense. But the developmental theory also would engage the City of New York in policies that, at least based on the post-1965 experience, may not be rational in a political sense. How well public officials in the City, State and Federal governments are able to integrate economic and political rationality in the next few years will determine much about New York City's future.

PART THREE

DEVELOPMENTAL POLICIES FOR THE FUTURE

Section VIII

Tax Reduction

Local taxes were identified in Section IV as an example of a City policy that played a direct role in causing the fiscal crisis. Local tax effort expanded, as did deficit financing, under the pressure of rapid expenditure growth. Aside from the absolute growth of local taxes, tax incidence shifted. The real estate and sales taxes became less important in the City's overall revenue structure, and personal income and business taxes became more important.

Local tax policy increasingly was determined by the need to narrow budget gaps. The impact of local taxes on economic development was a distinctly secondary consideration. The City's tax policy, in short, was wasting assets important to the future of New York City by failing to recognize the long-term counter-productivity of raising taxes to the point where they drove out revenue-producing individuals and businesses.

As shown in Section IV, per capita taxes in New York are much higher than in other major U.S. cities. New York City's tax disincentives are exacerbated by State taxes which, like the City's, are the highest in the nation on a per capita basis. Tax disincentives are not, of course, the only reason for the problems of the local economy and the out-migration of the middle-class; but in the absence of data showing that cost considerations play no role in the locational decisions of persons and businesses, it can be inferred that local tax policy contributed to the city's socioeconomic instability.

A. SOME GENERAL CONSIDERATIONS

The depression period, which began in 1969, resulted in the loss of approximately 600,000 jobs by 1977. While the precise impact of local taxes on the economic decline of the city cannot be identified, comparative data suggest strongly that the impact has been more than inconsequential. Table VIII-1 shows the state and local tax burden on a family of four at different family income levels in various U.S. cities. New Yorkers with family incomes of $7,500 and $12,000 paid the second highest percentage of income, 2 percent and 3.4 percent, respectively. This was roughly twice the national average. For New York City families with incomes of $25,000, the share was 6.6 percent, slightly more than in Minneapolis but almost two and one-half times the U.S. average. At the $50,000 income level, the New York City tax load was 11.1 percent, three times the national average.

The City's tax problems are complicated greatly by the State's taxes, particularly with respect to the personal income tax. At a taxable income of $25,000, the City's rate, 4.3 percent, is low compared to the State rate of 15 percent. This creates substantial financial incentives for persons to leave the city and the state. In 1976, prior to passage of the New Jersey income tax, it was estimated that New York City residents had to earn 9.9 percent more than someone who lived and worked in Connecticut or New Jersey to keep $25,000 in after-tax income. At very high income levels, the tax differentials are enormous. For a New Yorker to keep $150,000 after taxes, his or her income would have to be over $43,000 higher than in New Jersey or Connecticut.[1] There is little to be gained (and much revenue to be lost) from reducing the City personal income tax. (For a series of generally small but sensible personal tax reforms the City should make, see the Commission's Eleventh Interim Report, *The Effects of Personal Taxes in New York City: Some Proposals for a More Rational System.*[2])

With respect to business, however, the City's tax structure is particularly inhospitable. The State, like the City, has a business income tax of 10 percent, which means that profitable businesses with marginal Federal income tax rates of 48 percent pay combined City-State income taxes of approximately 10 percent. Businesses in New York City, however, are subject to additional tax burdens including a commercial rent occupancy tax of up to 7.5 percent, an unincorporated business tax, and, as will be shown, particularly high real estate taxes. Moreover, the City's 4 percent sales tax

TABLE VIII-1

Income Tax Burden on a Hypothetical Family of Four (State and Local Taxes)

Family Income	Order of Cities	Percentage of Income
$ 7,500	Minneapolis	3.9%
	New York	2.0
	Boston	2.0
	Chicago	1.2
	U. S. Average	1.1
	Denver	0.9
	Atlanta	0.4
	Los Angeles	0.1
	Seattle	0.0
	Houston	0.0
$12,000	Minneapolis	5.4%
	New York	3.4
	Boston	3.0
	Denver	1.9
	U. S. Average	1.8
	Chicago	1.7
	Atlanta	1.4
	Los Angeles	1.0
	Seattle	0.0
	Houston	0.0
$25,000	New York	6.6%
	Minneapolis	6.5
	Boston	4.0
	Denver	3.3
	Atlanta	3.1
	Los Angeles	3.0
	U. S. Average	2.7
	Chicago	2.1
	Seattle	0.0
	Houston	0.0
$50,000	New York	11.1%
	Minneapolis	6.9
	Los Angeles	5.6
	Boston	4.4
	Atlanta	4.1
	Denver	3.9
	U. S. Average	3.7
	Chicago	2.3
	Seattle	0.0
	Houston	0.0

Source: U.S., Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism, 1973-1974* (Washington, D.C.: Government Printing Office, February 1974).

extends to purchases of machines and equipment and, a particular problem for manufacturers, fuel and utilities.

An unpublished study by the State Economic Development Board indicates the differential impact of local tax burdens in various New York locations. The after-tax return on investment (ROI) is the criterion upon which a locational decision would be made in New York State. Since equal State and Federal tax rates apply throughout New York, the different returns on investment shown in Table VIII-2 are a function of local tax burdens exclusively. In every case, the New York City return on investment is the lowest available among the eight New York sites.

An Arkansas firm, for example, would earn the highest ROI by locating in Chautauqua County (11.95 percent). The New York City rate of return would be 10.7 percent, a difference of about 10 percent. If a California firm sought to expand in the state, it would realize the maximum ROI by investing in a site in Chautauqua or Onondaga Counties. For these two counties, the ROI would be 12.15 percent. The New York City return for the same investment would be only 10.95 percent, again a profit differential of 10 percent from the maximum return available in the state.

The intrastate analysis above shows New York City to be the least competitive locality in New York in terms of its "profitability" as a location for business investment. Other analyses show the same noncompetitiveness exists across state boundaries. The same Economic Development Board study compared the after-tax rate of return on investments in New York with those in twelve other states (Texas, New Jersey, Washington, North Carolina, Tennessee, Arkansas, Ohio, Indiana, Pennsylvania, Connecticut, Kansas, California). The data indicated that New York City ranked lowest or next to lowest in virtually all of the comparative examples studied. In short, New York City's business tax burden works against business activity and business investment in the future.

Aside from specific business taxes, commercial activity in New York City is adversely affected by a combination of high real estate taxes and discriminatory assessment policies. In the 1968-1978 fiscal period, the real estate tax rate increased 72.4 percent from $5.073 per $100 of assessed valuation to $8.745 projected in fiscal year 1978.

Increases in real estate taxes result in automatic cost increases for commercial renters due to escalator clauses in rental agreements. The problem is compounded by discriminatory assessment practices that increase taxes on businesses (and apartments) relative to residential properties (one and two-family houses) and vacant land.

TABLE VIII-2

After Tax Rate of Return Resulting from Expansion in Selected New York Sites for a Hypothetical Industry

	Broome	Chautauqua	Erie	Monroe	Nassau	Onondaga	New York City	Schenectady
Arkansas	11.85	11.95	11.90	11.80	11.85	11.90	10.70	11.85
California	12.05	12.15	12.10	12.00	12.05	12.15	10.95	12.05
Connecticut	11.30	11.40	11.35	11.25	11.30	11.40	10.20	11.30
Indiana	11.80	11.90	11.80	11.75	11.80	11.85	10.65	11.80
Kansas	11.85	11.95	11.85	11.80	11.85	11.90	10.70	11.85
New Jersey	11.25	11.35	11.30	11.20	11.25	11.35	10.10	11.25
North Carolina	11.10	11.25	11.15	11.10	11.15	11.20	9.90	11.10
Ohio	11.25	11.35	11.30	11.20	11.25	11.30	10.10	11.25
Pennsylvania	12.15	12.25	12.20	12.10	12.15	12.25	11.05	12.15
Tennessee	11.20	11.35	11.25	11.20	11.25	11.30	10.05	11.20
Texas	11.00	11.10	11.00	10.95	11.00	11.05	9.70	10.95
Washington	11.10	11.25	11.15	11.05	11.10	11.20	9.90	11.10

Source: New York State Economic Development Board.

Table VIII-3 shows the effective tax rates per $100 of full value (as opposed to assessed value) for various classes of property in New York City in fiscal year 1977. Nominal real estate tax rates were $8.795 in fiscal year 1977, but effective tax rates (based on full rather than assessed value) were lower. Most significant are the disparities in the effective tax rate among the various classes of New York City properties. Residential properties had an effective citywide tax rate of $2.20 per $100 of full value, ranging from a high in Manhattan of $4.31 to a low of $2.11 in Brooklyn and Queens. Income-producing properties, however, were taxed at much higher effective rates: $5.36 for industrial use and $5.54 for commercial use. Apartments paid effective tax rates of $5.54. Vacant land was taxed at an effective rate of $1.67 per $100 of assessed valuation, a practice for which there is no economic justification unless it is deemed economically rational to encourage undeveloped land.

Thus the City's assessment practices, which represent political decisions, affect the market in a way that discourages investment in income-producing activities. Because of the City's assessment policies, the owners of income-producing properties indirectly subsidize the owners of residential properties and vacant land in much the same fashion that owners of rent-controlled or rent-stabilized housing subsidize tenants. In a city where private investment must be dramatically increased if its economic base is to stabilize, assessment practices such as these are economically undesirable. They are, of course, politically attractive policies to a large number of voters, which explains why they exist.

To summarize, the implicit and explicit tax policies of the City of New York are inconsistent with New York City's developmental needs. Eventually, market forces react to local (and state) tax policies. Investment patterns change, just as travel patterns change when tolls are imposed on one bridge but not another. The City, however, is not free to overhaul its tax system overnight given its continuing needs for revenue. This means that efforts to reduce taxes must be well-informed, since the City has no more flexibility to waste money through tax cuts than through expenditures.

B. EVOLVING LOCAL TAX POLICY

In the future, the City's tax policy must be reoriented so that it promotes rather than retards the local private economy, even if this means further contraction of the local public economy. Three underlying principles should determine local tax policy. First, tax reduc-

TABLE VIII-3

Effective Tax Rates Per $100 Full Value for Property Classes in New York City: Fiscal Year 1977

Borough	Residence	Apartments	Industrial	Commercial	Vacant Land
Manhattan	4.31	4.93	6.51	6.24	1.32
Bronx	2.81	7.12	5.45	6.95	3.08
Brooklyn	2.11	5.54	5.01	5.19	1.85
Queens	2.11	5.45	4.31	3.17	1.50
Staten Island	2.20	3.78	2.90	2.81	1.23
New York City	2.20	5.54	5.36	5.45	1.67

Source: Center for Local Tax Research, "Effective Real Property Tax Rates in the Metropolitan Area of New York," September 1976, p. 7.

tion must be substantial. Existing disincentives for location or investment in New York City are such that marginal tax cuts will not significantly reduce cost differentials. Second, tax reduction must be selective, that is, targeted at those areas where the economic benefits of tax reduction will be greatest. Third, the commitment to tax relief must be based on long-term rather than short-term considerations. Individuals and corporate planners, particularly the latter, must be confident that commitment to tax relief is not linked to four-year electoral cycles.

In the past year or so, some positive changes have occurred in the City's tax policy. As late as December 1975, under pressure from the Federal government in connection with its acceptance of the seasonal loan program, tax policy remained dominated by fiscal rather than developmental considerations. But in 1976, three tax reforms occurred.

The first reform was the elimination of an ill-considered tax on bond transfers in New York City. The tax, which was passed in 1975, made no sense at all, and was a classic example of the short-run, fiscal rationale for taxation. In its First Interim Report, *The Effects of the Bond Transfer Tax*[3], the Commission found that the tax would yield only about one-half of estimated revenues in the first year because it could be avoided so easily. Tax avoidance, the Commission report showed, would dramatically reduce bond transfer business engaged in by the local banking and securities industries. The tax was repealed by the State Legislature shortly after issuance of the Commission's report.

In November 1975, the State Legislature authorized the City to impose an estate tax as part of the $200 million tax package suggested by the Federal government as a condition of its seasonal loan program. The Commission's Fifth Interim Report, *The Effects of the New York City Estate Tax*[4], recommended elimination of the estate tax for reasons similar to those cited in its report on the bond transfer tax. The estate tax, the Commission found, was deficient because of the ease with which it could be avoided (by simply changing residence) and the negative secondary effects of tax avoidance on other City and, particularly, State revenues. The report concluded that "the City would be a net revenue gainer from the tax but the State would be a net revenue loser."[5] Following release of the Commission's report, the State Legislature quickly killed the estate tax.

In May 1976, a State group, the Special Task Force on Taxation, among other things, recommended that so-called "market-

makers" (dealers, specialists, and traders who buy and sell securities in the normal course of their business) be permitted a credit against business income taxes equal to the stock transfer tax paid on "market-making" transactions.[6] Legislation embodying this recommendation was enacted in July 1976.

In 1977, proposals to reduce taxes have become almost commonplace. The City's proposed fiscal year 1978 budget included a $93 million program of tax reduction that would involve a small cut in the real estate tax rate ($8.795 per $100 of assessed valuation to $8.745); a 10 percent reduction in the commercial rent tax; and a roughly 10 percent cut in the corporate income tax (from 10.05 percent to 9.05 percent).

The City also has proposed elimination of the stock transfer tax over four years beginning in fiscal year 1979. Several factors, including new technology and changes in trading rules, are promoting a national securities market that would threaten New York City's comparative advantage. The City's proposal to eliminate the stock transfer tax is designed to "encourage the (local) industry in an increasingly competitive world" by eliminating "the largest single obstacle to the competitive position of the New York financial community in national securities markets . . . "[7] The tax yields, as of fiscal year 1977, about $250 million in revenues. If the current New York market share is held, revenues from the stock transfer tax are projected to increase to $301 million by fiscal year 1983; but if trading rules change and a national market system is introduced, it is estimated that the tax could yield as little as $126 million by fiscal year 1983. The City's proposal is substantial and long-term, reflecting two of the three basic criteria that should guide efforts to reduce taxes in the future; but it also is somewhat speculative given present uncertainty over the pace or extent of change in the securities industry. For this reason, the Commission, while generally supportive of the proposal, does not place as high a priority on elimination of the stock transfer tax as the other recommendations below.

C. RECOMMENDATIONS

Despite the changes that have occurred or have been proposed, the City's tax policy remains deficient in the context of future economic development needs. Elimination of the taxes on bond transfers, estates, and market-makers, while desirable, represent small, narrowly-defined reductions. Together, the three reforms reduced taxes by less than $100 million or about one percent of the total local

revenues. In fact, because the taxes were relatively easy to avoid, the net reduction over time probably would amount to much less than $100 million.

The tax cuts proposed in the fiscal year 1978 budget collectively would reduce taxes another $93 million, but there is serious question as to whether each of the proposals is so small that stimulative effects will be dissipated. The proposals in the fiscal year 1978 budget represent a "shotgun" approach to tax reduction, the distribution of relatively small amounts of tax relief to a relatively large number of taxpayers. The Commission's tax recommendations reflect more of a "bullet" approach, one that would provide larger amounts of tax relief to selected areas under the theory that this would maximize the aggregate stimulative effect.

1. Business Taxes

The Commission recommends that the general corporate income tax rate, presently 10.05 percent, be reduced one point each year over the next five years, to a rate of 5.05 percent. This proposal, which is directed at the corporate core of the local private economy, essentially would reduce local corporate taxes to slightly below mid-1960s levels. The general corporate income tax is estimated to yield $497 million in fiscal year 1978, up from $480 million in fiscal year 1977. The City's proposal to reduce the corporate income tax by a similar amount, but only in fiscal year 1978, includes the assumption that revenues from the tax will increase despite the cut due to "improvement in the business climate."[8] If this assumption is correct, at least the first year cut proposed by the Commission would not cause a revenue loss.

One rationale for the Commission's proposal is that a five-year halving of the tax would provide perhaps the most clear-cut signal possible that the City's commitment to business tax reduction was permanent. Section II showed that the corporate office complex was the most important part of the local export base. Stimulating this sector of the local economy should be the City's highest tax priority.

The Commission also recommends that taxes on manufacturers be reduced consistent with its earlier report on the subject. In its Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City*[9], the Commission recommended the following: (1) immediately halving the corporate income tax on manufacturers from 10.05 percent to 5.05 percent; (2) elimination of the 4 percent sales tax on the purchase of manufacturing machinery, equipment,

fuel and utilities; (3) institution of a 5 percent credit against the general corporate tax for the purchase of new manufacturing machinery, equipment, and structures; and (4) reduction of the commercial rent occupancy tax for manufacturers from 7.5 percent to 2.5 percent on all rentals in excess of $1,000 per year.

In its Ninth Interim Report, the Commission found that manufacturing in New York City was particularly sensitive to local taxes, and that the tax reforms recommended above would yield rather quick employment benefits with positive developmental and fiscal impacts. Implementation of the recommendations would reduce City revenues approximately $90 million over the course of the first two years; however, tax revenues related to manufacturing are projected to fall by a similar amount from contraction in the manufacturing sector that will occur in the absence of tax relief. Within three years, local revenues from manufacturing activity will be greater if taxes are reduced than if they are maintained. The fiscal effect of these recommendations is enhanced by the fact that employment increases in manufacturing would reduce certain social service expenditures for presently unemployed persons.

2. Real Estate Taxes

The Commission recommends the elimination of rent control and rent stabilization as a means of improving real estate tax revenues and the quality and quantity of the city's housing stock. Elimination of rent control and rent stabilization, as recommended in the Commission's Fifteenth Interim Report, *The Effects of Rent Control and Rent Stabilization in New York City*[10], would increase real estate tax collection by as much as $250 million over the next five years by promoting higher assessed valuation, reducing tax delinquency, and reducing the abandonment rate for controlled buildings. This reform, in conjunction with the Commission's recommendations in the area of debt management, would provide the basis for substantial, long-term reduction of real estate tax rates in New York City.

The Commission also recommends that the City begin to move toward real estate assessments that do not discriminate against commercial, industrial, and apartment properties in New York City. Discriminatory assessment practices in New York City result in negative consequences similar to rent restrictions, including the involuntary subsidization of one group by another and disinvestment in income-producing real estate. The political reasons underlying the City's assessment practices are similar to the political reasons under-

lying rent control. Both policies are inconsistent with the city's long-term economic development needs. Gradual elimination of existing assessment differences would stimulate increased investment in the city's jobs-producing private sector. The likelihood of a massive exodus of middle-class homeowners from the city is not great since effective tax rates for residential properties in suburban New York and New Jersey counties are substantially higher than in New York City. The City's assessment practices regarding vacant land, which discourage investment, should be changed as well.

3. Personal Income Taxes

The Commission recommends that the maximum rate of the State personal income tax be reduced 1 percentage point each year from the current rate of 15 percent on taxable incomes in excess of $25,000 to 10 percent on taxable incomes in excess of $15,000. This recommendation originated in the 1976 report of the State's Special Task Force on Taxation.[11] The City, as was indicated earlier, suffers heavily from the State's high personal income tax rate. Because the State's personal income tax rather than the City's much lower personal income tax is the crux of the problem it should be reduced for the benefit of the City and State. This proposal, if passed, would reduce State revenues by $225 million over a five-year period at current collection rates.

Footnotes

[1]Report of the Special Task Force on Taxation to the Council on the Economy of New York, May 1976, p. 20.

[2]Temporary Commission on City Finances, Eleventh Interim Report, *Personal Taxes in New York City: Some Proposals for a More Rational System*, February 1977, pp. 1-2.

[3]Temporary Commission on City Finances, First Interim Report, *The Effects of the Bond Transfer Tax*, November 1975.

[4]Temporary Commission on City Finances, Eighth Interim Report, *The Effects of the New York Estate Tax*, April 1976.

[5]Ibid., p. 10.

[6]Report of the Special Task Force on Taxation, pp. 28-30.

[7]Proposal of Mayor Beame Regarding the Stock Transfer Tax, May 1977, p. 1.

[8]The City of New York, *Executive Budget*, fiscal year 1978, Message of the Mayor, p. 11.

[9]Temporary Commission on City Finances, Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City*, December 1976.

[10]Temporary Commission on City Finances, Fifteenth Interim Report, *The Effects of Rent Control and Rent Stabilization in New York City*, June 1977.

[11]Report of the Special Task Force on Taxation, pp. 19-23.

Section IX

Improving Debt Management and the City's Infrastructure

In the decade or so prior to the fiscal crisis, the City's political and budgetary process was demand oriented rather than supply oriented. Expenditures were given, revenues were variable. Rather than attempt seriously to control expenses, primary emphasis was placed on increasing revenues through two primary means—higher taxes and increased borrowing.

The City's debt management policies involved abuses of both long-term and short-term debt. Short-term debt was used as a source of revenues and, instead of being retired, was rolled over in increasing amounts; long-term debt was used to finance operating expenditures. As a consequence, the amount of total debt outstanding increased enormously.

The siphoning off of money from the capital budget for expense budget items sharply reduced the supply of money available for legitimate capital purposes. The capitalization of expense budget items, coupled with a heavy emphasis on new construction in the 1965-1975 period, reduced the amount of money that was spent on maintenance (including renovation and rehabilitation) of New York City's physical plant or infrastructure. The city's infrastructure, however much in need of maintenance, represents one of its most important long-term assets. The City's debt management and capital budget problems and policies, as illustrated in this section, are highly interrelated, more so than most problems and policies.

A. DEBT MANAGEMENT

In fiscal year 1961, the City's total outstanding debt was $4.3 billion (see Table IV-5). Of this amount, only $100 million, or 2.3 percent, was short-term debt. In the next five years, total debt increased moderately, 28.3 percent, and long-term debt rose 20.2 percent; but short-term debt increased 364.8 percent (from $100 million to $466.7 million). In fiscal year 1966, short-term debt represented 8.5 percent of total debt compared to 2.3 percent five years earlier.

In the 1966-1971 fiscal period, total debt increased 45 percent; long-term debt rose only 12.3 percent; but short-term debt rose 397 percent from $466.7 million to over $2.3 billion. By fiscal year 1971, short-term debt accounted for 29.2 percent of total debt compared to 8.5 percent five years earlier and 2.3 percent ten years earlier. At the end of fiscal year 1975, just four years later, short-term debt accounted for 36.9 percent of total debt, almost doubling from $2.3 billion in fiscal year 1971 to $4.5 billion in fiscal year 1975. Long-term debt, unlike the previous period, increased sharply between fiscal years 1971 and 1975, jumping from $5.6 billion to $7.8 billion. In the 1971-1975 fiscal period, total outstanding debt increased almost $4.4 billion to a (then) record level of $12.3 billion.

1. Past Debt Management Policies

This enormous increase in debt—in short-term debt throughout the entire 1961-1975 fiscal period and in long-term debt particularly after fiscal year 1971—was caused by a number of debt policies that, while politically attractive because they enabled difficult choices to be postponed, were fiscally unsound.

First, with respect to long-term debt, the City increasingly financed operating expenditures through capital budget appropriations. Between fiscal years 1965 and 1975 (see Table IX-I) the amount of capitalized expense budget items grew from $26 million (3.6 percent of the total capital budget) to $724 million (52.6 percent of the capital budget). This practice was a textbook violation of sound long-term debt management policy, but it served the immediate purpose of allowing certain operations to continue without raising taxes or cutting other expenditures to finance them.

The basic purpose of short-term debt is to regularize the flow of monies for expenditures. During the course of a fiscal year, when revenue flows are not synchronized with City expenditure schedules, short-term borrowing bridges the gap between receipts and ex-

penses.[1] For example, revenue anticipation notes (RANS) are issued against receivables, usually anticipated Federal and State aid. By the end of fiscal year 1975, RANS accounted for $2.6 billion of the City's debt, over one-half of all short-term debt, and interest charges on RANS alone were $225.3 million in fiscal year 1975.[2] It is not at all clear that the City was borrowing in anticipation of intergovernmental monies that actually were forthcoming. The City's system of monitoring receivables was not good.

Tax anticipation notes (TANS) and bond anticipation notes (BANS) were other short-term debt instruments used by the City. The TANS were issued on the assumption that tax collections ultimately would provide the basis for their liquidation, but the fact was disregarded that not all taxes, like delinquent property taxes,

TABLE IX-1

Borrowing for Current Expenses in the City of New York: Fiscal Years 1965-1978

($ in millions)

Fiscal Year	Total City Funds	Borrowing for Current Expenses	Percentage of City Funds
1965	$ 720	$ 26	3.6%
1966	590	57	9.7
1967	538	68	12.6
1968	673	68	10.0
1969	619	84	13.6
1970	800	151	18.9
1971	1,004	195	19.4
1972	1,162	226	19.4
1973	1,342	274	20.0
1974	1,359	564	41.5
1975	1,376	724	52.6
1976	1,445	697	48.2
1977	713	572	80.2
1978	865	523 ($608)[1]	60.5 (70.3)[1]

[1] The $523 million figure represents the amount of capitalized expense budget items under the earlier definition. The $608 million figure represents the amount under the new definition.

Source: Data provided by Citizens Budget Commission.

would be paid. Thus, the City was borrowing against nonexistent receivables. The BANS were issued primarily in anticipation of bond sales for financing middle-income housing. However, the life of the notes was extended instead of being converted to long-term debt, as should have been done, when housing projects were completed. By the end of fiscal year 1975, the City had over $1 billion in housing BANS outstanding.

The deleterious impact of excessive short-term borrowing became evident in fiscal year 1975, when the City was forced to roll over or refinance its short-term (generally one-year) notes on a monthly basis at a time when interests rates were extremely high. The financial markets simply could not absorb the volume of the City's short-term offerings, which were running several hundred million dollars monthly, particularly when they were coupled with offerings of long-term securities as well. In spite of higher and higher interest rates (which reached 9.5 percent in fiscal year 1975, up from 3.4 percent just two years earlier), the ability of traders to market City obligations declined and eventually stopped.

When the City was unable to market its securities in May of 1975, default was prevented by obtaining advances of $800 million in State aid and prepayment of real estate taxes by large, corporate taxpayers. This relief, however, necessarily was short-lived. To the extent that these advances were applied to the liquidation of short-term debt in fiscal year 1975, cash-flow problems were created in fiscal year 1976. The creation of the Municipal Assistance Corporation (MAC) at the close of fiscal year 1975 provided a new source of funds, MAC debt, to cover the cash-flow problem created by the advances noted above. But when it became evident that the complete borrowing plans of MAC could not be realized, the City had to find other financing sources in order to avoid default. The final element in the successful strategy to avoid bankruptcy through fiscal year 1978, as outlined in Section I, was the City's ability to secure an agreement with the Federal government to provide seasonal loans to the City for the purpose of meeting its cash-flow problems.

Restructuring of the fiscal year 1976 budget carried out under the Financial Plan revealed that a substantial budget deficit remained that required new borrowings above and beyond the seasonal financing program of the Federal government. As a result, the City's total outstanding debt (including MAC obligations which, though not a "full-faith and credit" obligation of the City, are paid out of revenues that ordinarily would flow to the City) increased during both fiscal years 1976 and 1977.

Because the normal capital markets were closed to the City, agreements were reached to utilize the City's various pension system funds to purchase new bonds. In fiscal year 1977, some $1.7 billion of bonds was purchased by the pension systems, and an additional $893 million is scheduled to be bought by the City pension funds in fiscal year 1978.

While its total outstanding debt has increased over the last two years, a substantial part of the City's short-term debt, which stood at $4.5 billion at the close of the 1975 fiscal year, has been converted into MAC serial bonds. This has resulted in an increased "draw down" on City revenues, since the MAC obligations require annual amortization payments. The net result of an increased total debt, together with the fact that the conversion of City short-term paper to MAC bonds required amortization, was an all-time high in the City's appropriation for debt service in fiscal year 1977—over $2.3 billion, $400 million more than in fiscal year 1975.

Due largely to MAC's role, the City's short-term debt problem was reduced by the end of fiscal year 1976. The ability of MAC to issue $3.7 billion of its own long-term securities (plus $253 million of short-term debt) led to absorption of $2.8 billion of City short-term debt. However, the City's total debt outstanding, including MAC debt, at the end of fiscal year 1976 was $13.4 billion, $1.1 billion more than at the end of the previous fiscal year.

2. Future Debt Management Issues

One of the two basic debt problems has been alleviated substantially, at least in the short-run, by MAC's ability to convert City short-term debt into MAC long-term debt. The other problem, steadily increasing total debt, remains to be solved. The overriding debt management policy of the City of New York in the years ahead should be to reduce its outstanding debt.

Reduction of total debt is desirable for several reasons. First, reduction of debt gradually will reduce the cost of servicing debt. This, in turn, will make more monies available for maintenance of services or tax reduction, other key developmental goals that should be pursued. The City's fiscal year 1977 appropriation for debt service, over $2.3 billion, represents almost one-third of available tax-levy funds. This amount, coupled with City employee retirement benefit costs of almost $1.7 billion, represents an enormous drain on City resources.

Second, debt reduction would make it possible to reduce real

estate taxes, a basic developmental goal. Debt service for the major part of the City's obligations is provided from real estate taxes. Under the State Constitution, debt service payments are raised outside of the legal 2.5 percent real estate tax limit. Thus, any reduction in debt service also will require a reduction in the debt service portion of real estate taxes.

Third, reduction of outstanding debt would do much to contribute to increased investor confidence in City securities. Reentry of the City into the normal credit markets is essential; the sooner this occurs, the better. The City needs to borrow heavily in the future for capital purposes, and it also should strive to satisfy its seasonal financing needs through the credit market as soon as possible. As debt is reduced to manageable proportions, the price the City will have to pay for borrowed money gradually will fall, thereby reducing the City's debt service costs even further. While the City almost certainly will have to pay a premium for the right to borrow after it reenters the credit market, how long and to what extent will depend in no small part on its ability to reduce total debt.

The long-range goal, then, must be to gradually reduce the total amount of outstanding City debt (including MAC debt) to a point where the fixed cost of servicing debt does not work against maintaining services, reducing taxes, and undertaking legitimate capital initiatives, particularly maintenance of the existing infrastructure. However, reducing the City's debt presumes a long-range program of issuing less debt each year than is amortized. Linking the capital budget program to the City's scheduled amortization of debt is an essential ingredient of reducing outstanding debt.

B. THE CITY'S INFRASTRUCTURE

New York City's physical infrastructure—its streets, sewers, subways, and other capital facilities—is one of its most important long-term assets. But it is an asset of deteriorating quality. Despite heavy investments in new structures and facilities in the 1965-1975 decade, much of the infrastructure is old and, in too many cases, has suffered from inadequate preventive maintenance.

1. An Overview of the Capital Budget

As is the case with respect to its operating budget, New York City's capital budget addresses a broad range of public functions. In

addition to facilities serving the common municipal functions—such as police and fire stations, libraries and schools—New York City's capital budget authorizes funds for the subway and bus systems; a water supply system extending from Catskill reservoirs to water lines under local streets; an extensive array of parks, museums and other cultural facilities; containerport and wholesale market facilities; and the many campuses of City University.

The City's capital budget is financed primarily by the sale of long-term bonds and through the receipt of State and Federal grants. The capital budget for fiscal year 1978 anticipates a total of almost $1.4 billion in capital funds of which 64 percent, $865 million, would be City funds. If the City were to reduce its outstanding debt in fiscal year 1978, it would have to amortize more than $865 million. If it redeemed $965 million, total outstanding debt would be reduced $100 million. Federal and State capital funds (plus small amounts of private money) make up the remainder of the fiscal year 1978 capital budget, $494 million or 36 percent of the total.

The City's ability to raise capital funds is constrained both by the New York State Constitution and, more to the point at the present, the attitude of investors toward its bonds. The State Constitution limits the City's ability to incur debt, but only in a fashion. The maximum the City may borrow for general purposes is an amount equal to ten percent of the five-year average of full valuation of all taxable real estate in New York City. The City also may borrow an additional two percent of the five-year average of assessed valuation of taxable real estate for housing and urban renewal. However, under the State Constitution, borrowing for certain capital improvements is exempt from the debt limits described above. Water supply and water pollution control projects and revenue-producing improvements that are partially or totally self-supporting (such as garages, docks, markets and municipal stadiums) are exempt from constitutional borrowing limits. Because of the numerous exceptions, the City's outstanding debt is more than 50 percent greater than the apparent debt limit.

Despite the fact that the City's outstanding debt exceeds the nominal debt limit by several billion dollars, the Comptroller of the City estimates that as of June 30, 1977, the City will have an "unencumbered margin" (the portion of the debt limit available for new appropriation and expenditure at any given time) of $814 million. It is clear that the constitutional debt limits have not been particularly effective. The existence of an $814 million unencum-

bered margin is not particularly relevant at present since the City does not have access to capital markets.

2. Capitalization of Expense Budget Items

As noted earlier, the City of New York has utilized its capital budget to help finance items that should have been financed in the expense budget. The capitalization of expense budget items began in the mid-1960s, but it reached epidemic proportions in the years immediately preceding 1975.

The principal reason for this deviation from sound financial management was the scarcity of funds available to finance the tremendous growth in municipal operating expenditures that began in the mid-1960s. Capital funds, unlike operating revenues, were not scarce as long as the City's bonds were marketable and sufficient debt-incurring power remained under the constitutional limit. It is politically understandable, however unwise financially, that City officials supplemented scarce operating funds with relatively abundant capital funds.

The legal basis for the use of long-term debt to finance operating expenses is provided under Section 11.00 (a) of New York State's Local Finance Law which prescribes the items or activities a locality can finance through the issuance of indebtedness. For an expenditure to be bondable, a subsection of Section 11.00 (a) must assign a term to a bond issued for a special purpose. The underlying theory is that capital projects have a period of "probable usefulness" that justifies financing the expenditure on an installment rather than cash basis. The Local Finance Law was amended by act of the State Legislature many times during the 1965-1975 decade, usually at the request of the City of New York. These amendments, together with broad language used in the original text of the Local Finance Law, set forth "periods of probable usefulness" which made possible the use of long-term debt to finance items that properly should have been classified as operating expenses. For example, the Local Finance Law allows capitalization of the cost of long-term leases and of manpower training and job placement.

Some other items allowed as bondable under the Local Finance Law may be considered closer to legitimate capital purposes. For example, such programs as painting bridges or repairing schools or streets have a relationship to preventive maintenance which, in turn, relates to the life of a major capital project. The effort to restore proper relationships between operating and capital expenses should

not place preventive maintenance costs in competition with politically more attractive operating programs and cause maintenance to be foregone.

The City has been directed to reform its capital budget practices by the new City Charter and the 1975 Municipal Assistance Corporation (MAC) legislation. Under the MAC legislation, the City has until fiscal year 1985 to phase out inappropriate expense budget items, but the phase-out period may be extended if conditions warrant it. The Charter requires that, starting with fiscal year 1977, the City remove expense items from the capital budget at the cumulative rate of at least 10 percent a year from the total amount of expense items that were included in the fiscal year 1975 capital budget (retroactively determined to have been $797 million). The MAC legislation uses the same phase-out formula with fiscal year 1976 as a base year (with a retroactively determined base of $861 million).[3] Section 225 of the new City Charter stipulates that "no new or additional expense items or non-capital items shall be included in the capital budget during such period."

The City maintains that it could legally include in its fiscal year 1978 capital budget up to $638 million in expense items under the strictures of the Charter and up to $688 million in expense items under the requirements of the MAC legislation. Since it shows $608 million in expense items in its fiscal year 1978 capital budget, the City is ahead of each schedule. The $608 million excludes $105 million in legitimate capital expenditures that can be traced to particular capital projects.

For its three-year capital program (fiscal years 1979, 1980, and 1981), the City anticipates spending about $1 billion in City capital funds annually. If the same amount were raised each year through fiscal year 1985, the City would have $8 billion in City funds available for capital expenditures during that period. However, this figure would be reduced by the amount of capital funds that are diverted to operating expenses in the 1978-1985 fiscal period. If, according to the present plan, operating expenses are phased out over the remaining maximum period allowed, eight years, as much as $3 billion of the $8 billion of City capital funds would be diverted for operating expenses. Under these assumptions, only $5 billion of City monies would be available for capital purposes through the mid-1980s in addition to whatever State and Federal funds become available. Estimates of Federal and State capital funding are for approximately $550 million in each of the fiscal years 1979, 1980, and 1981.

3. Future Needs and Priorities

Capital spending needs are virtually unlimited; realistically, however, the City's capital spending capacity through the mid-1980s will be limited. There is no guarantee that the City will be able to raise $1 billion yearly through the sale of long-term bonds. The source of capital monies in fiscal year 1979 is unclear at present, as is the source of seasonal financing credit. However, assuming for the moment that bonds can be sold, and that the amount of bonds sold is less than the amount amortized, it is clear that the City's capital monies will be in very short supply relative to need. Before a judgment can be reached regarding the adequacy of the roughly $5 billion of available capital funds projected through fiscal year 1985, it is necessary to briefly evaluate and place priorities on the city's various infrastructure needs.

The basic priority should be for maintenance rather than new construction. Although maintenance under normal conditions should be an expense budget item, the type of maintenance discussed herein is of a capitalizable nature designed to overcome the effects of past neglect. Unless a clearcut showing to the contrary can be made, top priority for the expenditure of capital monies should be for maintenance. While the Commission has not studied the Convention Center issue in detail, there appear to be strong economic development reasons supporting an investment by the city in such an undertaking. The cases for construction of new transit lines and the third water tunnel do not seem as persuasive. Hospital and school construction, on the face of things, should not be the subject of capital expenditure because there is excess capacity in both systems.

The top priority with respect to maintenance expenditures is the transit system because of the critical role it plays in the city's economy. The poor condition of the city's streets and highways not only is aggravating but costly, particularly to industries that rely heavily on motor transport. The water supply system represents a high priority, as does water pollution control and solid waste disposal, for health and environmental reasons. Finally, from a "quality of life" rather than direct economic or life-supporting perspective, the city's park system deserves a high maintenance priority. New York City's parks, which have been badly neglected for several years, are in need of substantial maintenance.

Based on unpublished materials made available to the Commission, the minimum capital needs for these priority items, largely though not exclusively for maintenance, will approximate $6.8 bil-

lion through 1985, of which $2.2 billion, largely for transit, streets, and water pollution control and solid waste disposal, can be expected from State and Federal funds. This suggests a necessary City contribution of $4.6 billion for the 1978-1985 fiscal period. Under the earlier assumption that approximately $5 billion of capital monies would be available (after subtracting approximately $3 billion for operating expenses) for legitimate capital purposes, it appears at first glance that the City may be able to meet essential, however minimal, capital needs. However, the historical pattern of underestimating the cost of future capital needs no doubt will be repeated in the future. A conservative conclusion, then, is that $5 billion for capital purposes for the fiscal period 1978-1985 will not be adequate, particularly given the need to reduce borrowing in order to reduce total debt outstanding.

C. RECOMMENDATIONS

The most important debt management goal is reduction of total outstanding debt. The Commission recommends that the City pursue a debt policy whereby it issues less debt each year than it amortizes. This would have a number of important consequences, including the reduction of debt service costs, reduction of real estate taxes, and enhancement of the City's return to the financial markets.

In this connection, the Commission also recommends that the Federal seasonal loan program be continued beyond the end of fiscal year 1978. How long this program should continue, and how much money should be loaned the City, cannot be foreseen at present. However, the seasonal loan program should not be viewed as a long-term solution to the City's short-term financing needs. The best interests of the City will be served when it is able to reenter the market for its seasonal and long-term needs and borrow at competitive interest rates. If the developmental strategy is pursued, extension of the Federal seasonal loan program need not be dependent upon extension of the statutory powers of the present Emergency Financial Control Board.

The first recommendation requires linking the City's debt management and capital budget processes. This, in turn, raises issues concerning the city's infrastructure. In order to increase the likelihood that total debt outstanding and adequate maintenance of the infrastructure can be achieved, the Commission recommends that the withdrawal of expense budget items from the capital budget be accelerated. Both primary goals—reduction of debt and maintenance of the infrastructure—are too important to be jeopardized by a

process of withdrawal slated to take eight years. Precisely how much faster the withdrawal should occur cannot be identified.

With respect to the utilization of capital budget monies, the Commission recommends that maintenance rather than construction receive the highest priority, particularly maintenance of the mass transit system. Capital spending for new construction should be limited to projects like the Convention Center where there is a strong, demonstrable nexus with economic development.

Finally, the Commission recommends that the State Legislature reexamine the issue of the State constitutional debt limits. The fact that the City's outstanding debt grew so large so quickly suggests that the present constitutional debt limit served no effective purpose.

In summary, important debt management problems remain, despite the reforms that have been accomplished since the onset of the fiscal crisis, particularly the ability of MAC to market its securities. Debt policy, like tax policy, needs to be more carefully developed in terms of its long-term developmental impacts and not simply short-term fiscal impacts.

Footnotes

[1]Temporary Commission on City Finances, Third Interim Report, *Synchronizing State and Federal Aid to New York City,* January 1976.

[2]*Ibid.*, pp. 12-13.

[3]See, for more detail, *Executive Budget*, fiscal year 1978, Message of the Mayor, pp. 19-20.

Section X

Management Improvement

Of the issues confronting New York City, none is more complex or more important than improving the management of the City of New York. In order to meet economic development and quality of life objectives, the City must be able to provide adequate services at greatly reduced levels of expenditure. In order to do this, the City must develop a more effective managerial capacity than exists today.

The need for an efficient and productive municipal government never has been greater. The historically weak managerial capacity of the City faces new challenges because of the fiscal crisis. The reduction of the municipal work force, accomplished through a combination of attrition and layoffs, has changed the basic characteristics of the work force in a way that has negatively affected the ability of the City to maintain services and achieve increased productivity. As a result of the City's recent employment policies, the City's labor force not only is 20 percent smaller, but it is also older, less representative by race and gender of the general population, and better compensated. The collective impact of these changes complicates greatly the managerial challenge facing the City.

Total municipal employment has declined over 60,000 since the fiscal crisis began. Employment decline in the City's essential services, however, has been greater than in other functions, thereby making the maintenance of service a difficult objective for agencies

whose services benefit all residents and are necessary to preserve the quality of life. As of December 1976, employment in the Board of Higher Education was still larger than in 1969, and employment in the Department of Social Services was at 1967 levels. Employment in the Police Department, however, had dropped to its 1964 level; employment in the Fire Department was at its 1952 level; and employment in the Sanitation Department had fallen to its 1929 level.[1]

Not only is the City's work force smaller, but it is older. Without hiring young workers in the next two years, almost one-half, 48 percent, of the work force will be 45 or older by 1980, and only one-fifth of the work force will be younger than 35.[2] Although aging may add a positive dimension to a person's ability to perform well in some City jobs, the aging of the work force has serious implications for those services where strength, agility, and stamina are required. For example, in the Fire Department, an agency for which there is universal agreement on the need for physically-fit employees, 53 percent of the employees were 40 years or older in 1975, and only 9 percent were under 30 years. By 1980, without substantial hiring of young firefighters, 72 percent of the employees in the Fire Department will be 40 or older; less than 1 percent will be under 30 years of age.[3]

Also, because of the City's recent employment policies, the City's work force is less representative of the composition of the city's residents by race and gender. During the expansion of the City's work force in the late 1960s, the number of minority and women employees increased substantially in many agencies that traditionally had been staffed largely by white males. In some instances, the City itself moved aggressively to institute employment policies designed to eliminate discrimination. The employment gains achieved by minorities and women, however, were reversed by the layoffs that occurred in fiscal years 1975 and 1976. This reversal occurred because the City's layoff policy is based on the seniority principle, which mandates that last hired employees be the first fired. Minorities and women thus constituted a larger proportion of those laid off than did white males. An April 1976 study by the New York City Commission on Human Rights showed that, after the majority of layoffs had been made, employees in mayoral agencies were 74 percent male and 72 percent white, whereas in 1974 mayoral agency employees were 71 percent male and 67 percent white.[4]

The lack of women and minorities in lower-level positions means that they will be severely underrepresented in supervisory or

managerial positions in the future because entry to higher-level jobs in municipal agencies is restricted by Civil Service regulations to those in lower-level positions within agencies. For example, in December 1975, only one percent of patrol positions in the Police Department were held by women.[5] Therefore, in five to ten years, only a few women will be officers.

A further consequence of using attrition as a primary retrenchment strategy without at the same time reforming personnel policies is that the critical choices of who is to remain in the work force and which positions are to be filled are subject to a random process. This process is governed by the number of employees who choose to retire or who find employment alternatives in the private sector or other governments. The resulting lack of control over primary personnel decisions already is affecting the City's ability to deliver services since the particular mix of skills, training, experience, and ability of municipal employees who remain is largely beyond the ability of managers to influence, and does not necessarily fulfil the manpower requirements of an agency so that services can be maintained.

The randomness of the attrition policy underscores the short-run orientation of the City's retrenchment policy: expenditure reductions were made with little overall regard for maintenance of effective agency performance and service delivery. Compared to the alternative method of reducing labor costs, reducing benefits, attrition had much to offer politically, although managerially it has created serious problems.

Finally, the managerial problems aside for the moment, attrition and layoffs are not even particularly effective ways to cut costs, unless the reduction in the work force is explicitly coordinated with a labor relations policy that has as its goal overall reduction in labor costs. For example, in the 1975-1977 fiscal period, a 20 percent employment reduction in the Fire Department resulted only in a 5 percent reduction in expenditures.[6] That employment must be reduced very substantially in order to reduce departmental expenditures even marginally occurs, in part, because employees who remained in the work force continued to receive increases in overall compensation. While tax-levy spending increased .7 percent and employment in the Police Department fell 17.7 percent in fiscal years 1976 and 1977, compensation increased 8 percent.[7]

Three other factors also make it difficult to reduce labor costs, even with a reduction in employment: 1) employees who retire continue to receive a number of benefits, such as health insurance coverage and welfare funds; thus the City does not save the full

amount of their labor costs; 2) earlier-than-anticipated retirements increase pension costs; and 3) in some agencies, the random process of attrition results in an insufficient number of employees to meet minimum staffing requirements, which creates high overtime costs.

Because the City has fewer but better compensated employees, managerial inefficiency in the future will impose an even greater fiscal burden than in the past; and, as noted earlier, changes in the basic characteristics of the labor force also will make the City's managerial task more difficult. Fundamental reform of managerial and personnel policies is needed if services are to be maintained and costs reduced.

During the past two years, several proposals designed to improve managerial efficiency have been recommended, and some have been accepted: a Management Planning and Reporting System designed to measure agency performance was instituted; the Integrated Financial Management System (IFMS) began operation on July 1, 1977; and changes in the City Charter were approved in November 1975 that, if implemented, should create an effective managerial service. The Department of Personnel has responsibility for formulating the specific management service plan, and the City has until January 1, 1978 to implement it. More recently, in March 1977, the Mayor's Management Advisory Board issued a report, *Personnel,* that includes a number of excellent recommendations which, if enacted, would contribute substantially to the improvement of managerial capacity in the City.[8]

While many of the changes that have been implemented are helpful, other important changes remain to be enacted. Still others, having been recommended, no longer are under active consideration. Rather than detailing the status of all the recommendations made in this area within the past two years, it is more useful to examine the broad types of managerial changes that are required to strengthen the City's managerial capacity. Basically, four broad categories of change must occur if the City is to be able to maintain services at reduced levels of expenditure. First, at the mayoral level, fiscal and managerial control must be centralized in the hands of officials who are politically accountable. Second, an effective management service must be created. Third, the formal and informal rules that govern the selection, training, and deployment of the work force must be modernized. In connection with this third objective, the City must develop a wage policy that is geared to the more efficient provision of municipal services at reduced levels of expenditure. Fourth, the City must support innovative means of

organizing and delivering municipal services at lower costs and in ways that promote greater citizen responsiveness.

A. CENTRALIZED MANAGEMENT

Management at the highest municipal level centers on the power and authority of elected public officials to formulate and implement fiscal and managerial policies for which they can be held accountable. Many institutional and structural arrangements weaken mayoral control and blur mayoral responsibility. The three recommendations described below are designed to facilitate direct mayoral control of essential management responsibilities and correct weaknesses described in Section VII.

First, the City must develop a comprehensive wage and compensation policy for nonmayoral, independent agencies as well as mayoral agencies. This reform is necessary if the City is to gain greater fiscal control over labor costs which represent by far the largest expense of the City. Although the City makes substantial financial commitments to nonmayoral agencies, the mayor has no direct role in these contract settlements (except in the case of the Health and Hospitals Corporation). Nonmayoral contract settlements directly affect wage settlements in mayoral agencies: it is difficult for the City to negotiate a wage policy with mayoral employees that is less generous than that of other municipal employees in nonmayoral agencies. Changes should be enacted that would enable the City to limit its financial obligations to nonmayoral agencies in order to prevent the City from having to pay for labor cost increases that are more generous than those the City itself negotiates.

Second, the Commission endorses the recommendation of the Mayor's Management Advisory Board that the present City Office of Labor Relations be merged with the City Department of Personnel. The consolidated agency would have responsibility for developing a City wage and labor relations policy, with guidance from the mayor, that is consistent with Civil Service, collective bargaining, and other personnel policies. This reform would integrate the collective bargaining process with the needs of other key municipal overhead and line agencies.

Third, public employee strikes should be legalized except in essential services where strikes would threaten vital public interests. More than a decade of formal collective bargaining experience in the City suggests that legalizing most public employee strikes would rationalize the collective bargaining process. This action would convey a right to City employees that is possessed by private sector

employees. Moreover, for all nonessential bargaining units, the responsibility for achieving settlements equitable both for municipal employees and the City would rest clearly with the mayor and municipal union leaders. The use of third party neutrals to resolve bargaining impasses would be substantially limited, restricted to those few employees for whom the strike ban was not lifted.

B. AN EFFECTIVE MANAGEMENT SERVICE

A prerequisite for the development of a strong managerial capability is the existence of a sufficient number of employees who perceive their roles in managerial terms. As indicated in Section IV, only 2 percent of the City's present work force is managerial or executive. If there is to be this identification, three reforms must be instituted. First, the definition of managerial employees should be expanded to include all those who actually exercise managerial and supervisory responsibilities, thereby removing such employees from inclusion in the collective bargaining process. As a corollary measure, managerial compensation should be increased so that an appropriate differential between managerial and nonmanagerial employees is maintained, a situation that does not exist in the City.

Second, the rules and regulations establishing a managerial service must be carefully designed so that the potential for effective management is, in fact, created. Selection for the managerial service should be based on criteria that reflect managerial feasibilities, experience, performance, and specific job knowledge. There also should be access to the managerial service from outside the system, so-called lateral entry, as opposed to the present practice of promotion from within the system prescribed by Civil Service rules. Pay increases should be made on the basis of merit rather than automatic pay steps, a reform that would make the earnings of managerial employees more dependent on successful performance of the division, agency, or task for which they were responsible.

Third, greater flexibility among managers is required. Agency heads should have the authority not only to deploy managers flexibly but to promote and to discipline them as well. Additionally, if managerial employees are to exercise decisionmaking responsibility, set performance standards, be held accountable, and be judged on the basis of merit, they must receive requisite training and skills development, something that is almost completely lacking today.

The voters of New York City approved an amendment to the New York City Charter in November 1975 that mandates some of

these changes. Other changes that would promote an effective managerial service, such as removal of supervisors and managerial employees from collective bargaining, were recommended in the report of the Mayor's Management Advisory Board, *Personnel.* Although these changes are supported by some groups within the City, they are controversial because they represent change. Change, however, is necessary in this and other areas of the local political system.

C. EFFECTIVE PERSONNEL AND WAGE POLICIES

The third key element in the development of an effective managerial capacity is reform of the personnel system and, most importantly, formulation of a labor relations policy that will permit the City to achieve the productivity gains necessary to maintain, if not increase, municipal services at lower costs.

Basic personnel reforms are included in the new City Charter and have been recommended in the Management Advisory Board's report, *Personnel.* The reforms involve the rationalization and simplification of the Civil Service classification system for municipal employees. The current 3,000 job titles should be consolidated into a few, broad classification categories. This would permit the more flexible deployment and utilization of personnel, who no longer would be restricted in their work by narrow job descriptions. A consolidation of job titles should be accompanied by improved Civil Service examinations that are job-related and measure abilities that are required for satisfactory job performance.

An even more fundamental challenge than personnel reform is the development of a labor relations policy that will permit significant productivity gains. A wage policy must be developed that provides wage increases for municipal workers while at the same time reducing overall labor costs. This goal can be accomplished only by having a more effectively utilized, but smaller, municipal work force.

The City's current wage policy set forth in a Memorandum of Understanding, covering fiscal years 1977 and 1978, mandates a wage freeze but provides for Cost of Living Adjustments (COLAs) to be funded by either new revenues or cash generated by productivity:

> No agreement shall provide for increases or adjustments to salaries or wages, including those based upon increases in the

> cost of living, unless such increases or adjustments are funded by independently measured savings realized, without reductions in services, through gains in productivity, reductions of fringe benefits or through other savings (or other revenues) . . .[9]

This wage policy has serious limitations for use in the future for two reasons. First, by funding COLAs with cash savings from productivity, the focus of reform tends to be limited to those changes that yield immediate cash savings. The areas in the municipal government where productivity can produce immediate cash savings, however, are relatively few and will be exhausted in the near future. For example, under the 1976 wage agreement, only 40 percent, slightly over $3 million, of the $7.8 million to provide for the first COLA payment for 74,000 of the City's non-uniformed employees came from productivity savings; $4.5 million was from new revenues.[10] A basic problem with the existing wage policy is that it provides no incentive for employees or managers to make fundamental improvements, such as more effective deployment of personnel, that would not generate immediate cash savings but would provide more or better services.

Second, the current wage policy not only makes it difficult to achieve significant productivity advances but may, in fact, lead to declining productivity. To the extent COLAs have to be funded with new revenues because cash from productivity improvements cannot be achieved, productivity declines as labor costs increase and service levels remain constant.

Rather than a wage policy consisting of a wage freeze and COLAs funded according to the terms of the Memorandum of Understanding, the City's future wage policy should provide general wage increases that are linked to the City's ability to pay and to productivity that is achieved by fundamental changes in the deployment of personnel, work rules, and methods of delivery of public services. Wage increases, however, also must be linked to the City's ability to pay. Productivity rather than cost of living increases must define the size of general wage increases until the economy of the city is stabilized. Wage increases based on increases in the Consumer Price Index, and funded with new revenues or short-term productivity gains, simply will push the City's budget further out of balance, complicating the City's ability to invest for the future. Fundamental changes in the deployment of personnel, work rules, and methods of delivery of public services, however, would achieve

the type of productivity that would ensure the continued maintenance of services and would generate savings sufficient to fund general pay increases and to invest in the future.

The rational utilization of personnel, more effective matching of employee skills to job requirements, more flexible deployment of employees, use of staffing patterns that reflect service needs, reduction in the rate of employee absenteeism, greater use of civilians in the uniformed forces, increased involvement of citizens in the delivery of services, and improved service delivery structures are all changes that would permit the City to achieve meaningful productivity. In theory some of these changes could be initiated by the City, but the support of municipal employees is needed. To a large extent, bureaucratic change must be bargained between the City and its municipal unions.

Meaningful productivity gains would permit the City to maintain essential services, if not improve them, with a smaller work force. The City would realize substantial savings from reductions in the work force, large enough to finance wage increases and to invest in the future. As an illustration of the magnitude of the savings that could be recognized, the following example is provided. If the work force were reduced by 25,000 additional employees, it would be at 1960 levels, a time when the City had 500,000 to 1,000,000 more residents than it is expected to have in the early 1980s. This decrease in the work force would permit a reduction of $300 to $500 million in annual expenditures, an amount that would be available to finance wage increases for existing municipal employees and invest in the future.[11] It is important, however, to stress that municipal services only can be maintained if changes in the development of personnel and the organization of the delivery of services accompany reduction in the work force.

The broad impact on services and costs that management can produce can be seen in the example of the Police Department. Although the reforms listed below apply principally to police and other uniformed personnel, they indicate approaches to change in other agencies that also would permit the City to maintain services while reducing costs. The reforms, which could be negotiated by the City and municipal police unions, would have the overall effect of providing the same amount of police protection that is currently available and generating savings of over $100 million.[12]

Three changes in leave benefits would enable the City to provide the same level of services with a reduction in force of 2,350 officers for a savings of $60 million annually: (1) reduction of paid

meal time from one hour to one-half hour (an additional 2.6 million hours annually, the equivalent of hiring 1,500 officers); (2) elimination of two days of paid leave for donating blood (an additional 10,000 days, the equivalent of 50 officers; and (3) institution of an eight-hour tour of duty, rather than the current 8¼ hour tour (an additional 160,000 tours per year or the equivalent of 800 police officers).

Further savings of over $40 million could be achieved by other reforms that, while not an inclusive listing, indicate the types of changes that would permit maintenance of services at lower cost: (1) elimination of the Heart Bill (savings of $10 million annually); (2) replacement of one-half of the approximately 4,000 police officers currently assigned to clerical, administrative, or technical tasks with qualified civilian employees (savings of nearly $30 million); (3) reduction of night-shift differentials from 16 hours to 12 hours (savings of $4 million annually); (4) elimination of special holiday pay for personnel assigned to routine staff work who do not work on holidays (savings of $1.4 million annually); and (5) elimination of uniform allowance for the 5,000 police officers who are not required to wear uniforms in the performance of their duties (savings of $1.3 million).

In addition to these changes, significant service benefits or savings (or both) could be recognized by more effectively deploying existing personnel (less than one-third of the total patrol force is on patrol duty on any given day); by reducing the need for police overtime (almost $14 million in 1976); by reducing absentee rates (which currently average 18 days per year because sick leave is unlimited for both line-of-duty and non-line-of-duty injuries; for the first eight months of fiscal year 1977, over 273,000 days were lost due to absence for sick leave); by using one-man patrol cars and street patrols in selected areas; and by the increased utilization of auxiliary police. If the City is to be able to maintain services and City workers are to be able to receive wage increases, reforms like these, some of which seemingly should have been accomplished since the beginning of the fiscal crisis, will have to be made.

D. INNOVATION IN SERVICE DELIVERY

Finally, the service delivery process should be the subject of experimentation and innovation. There must be a new and receptive attitude toward innovation and experimentation in the City's bureaucracies, which, over the years, have become enormously resistant to change.

First, the city's residents must be more involved in the delivery of public services. The use of volunteers has been criticized on the grounds that volunteers take jobs away from municipal employees. There is, however, a transcendent issue, the maintenance of services at a time when the city's future demands this. Virtually every service provided by the City—hospitals, parks, police, schools, libraries, children's services, social services—would benefit from increased volunteer efforts.

Second, experimentation in the means of delivering services is timely. For instance, there is no reason why experiments like that proposed by the New York City Productivity Council to create worker-cooperatives in the Sanitation Department should not be attempted. Indeed, a competitive experiment involving the contracting out of sanitation services could be attempted in conjunction with a worker's cooperative experiment. Also, community groups could assume responsibility for the care and maintenance of local parks as part of an experiment not only to cut costs but to promote neighborhoods and neighborhood pride.

These four broad categories of reform—centralization of fiscal and managerial control at the mayoral level, creation of an effective management service, fundamental changes in the rules governing the deployment of personnel and a new wage policy, and innovation in the delivery of municipal services—are necessary to ensure that the City will meet the difficult challenge of providing adequate services to city residents at reduced costs. None of these basic reforms can be implemented easily without the support of elected officials and municipal employees; without these reforms, however, the quality of life in New York City will continue to deteriorate as labor costs increase and essential services are not maintained.

Footnotes

[1]The City of New York, Department of Personnel, *Annual Report*, fiscal years 1928-1960.

[2]These figures were computed from data contained in the following membership records on file at the New York City Department of Personnel: New York City Employee Retirement System, Teachers Retirement System, Police Pension Fund, Fire Department Pension Fund, and Board of Education Retirement System. The data include all permanent City employees and those provisional employees who elected to join a retirement system as of June 30, 1975. Projections for 1980 are based on the assumptions that there will be no new hirings and that the rate of retirements and

age distribution of retirees will be the same as the average rate and age distribution for fiscal years 1973, 1974, and 1975.

[3]These figures were computed from data contained in the membership records of the New York City Fire Department Pension Fund. Projections for 1980 are based upon the same assumptions mentioned in footnote 2.

[4]The City of New York, Commission on Human Rights, *City Layoffs: The Effects on Minorities and Women*, April 1976, pp. 7-9.

[5]Data provided by New York City Office of Management and Budget. On December 31, 1975, there were 22,415 patrolmen and 259 patrolwomen in the Police Department.

[6]The City of New York, *Expense Budget,* fiscal years 1976 and 1977. Employment data are from the New York City Office of Management and Budget Service and Statistical Unit. Fiscal year 1977 employment data are as of December 31, 1976.

[7]The City of New York, *Expense Budget*, fiscal years 1976 and 1977. Employment data from the New York City Office of Management and Budget Service and Statistical Unit. Fiscal year 1977 employment data are as of December 31, 1976. Compensation figures derived from data provided by the City of New York, Office of Labor Relations and the Police Department. The compensation data are for fiscal year 1976, since the contract covering patrolmen for fiscal years 1977 and 1978 is currently in arbitration. Therefore, the 8 percent figure eventually may be higher.

[8]See Mayor's Management Advisory Board, *Personnel.*

[9]Memorandum of Interim Understanding dated June 30, 1976, as to the Collective Bargaining Negotiations for the 1976-1978 contract between the City of New York and the municipal labor unions.

[10]*The New York Times*, March 28, 1977, April 1, 1977; *New York Daily News*, March 26, 1977. Tacitly recognizing the difficulty of generating cash for COLAs by productivity savings, City officials have allocated $50 million for COLA payments in the Expense Budget for fiscal year 1978, approximately one-half the amount required to fund COLAs.

[11]This calculation is based on the assumption that the City would save between $12,000 and $20,000 for each employee. Although the total range of employee compensation is higher, the City does not realize the benefit of full compensation savings because retired employees continue to receive health insurance and welfare fund payments, and the City may incur some additional pension costs from earlier-than-anticipated retirements.

[12]At the time of this writing, agreement on the 1976-1978 contract between the City and the Patrolmen's Benevolent Association (PBA) has not yet been reached. It is therefore possible that some changes in these items will be agreed to.

Section XI

Expenditure Reduction

The City of New York needs to reduce its expenditures further because the substantial sacrifices of the past two years have been insufficient. The City's expenditures continue to exceed its recurring revenues by substantial amounts. The fundamental imbalance in the City's budget has been confronted but not yet eliminated.

The importance of expenditure reduction is not limited simply to the achievement of a balanced budget in the near future. The developmental strategy necessary to permanently resolve the City's fiscal problems requires presently committed monies to be made available for investment purposes like tax reduction, debt reduction, and the maintenance of the city's infrastructure. Implementation of this strategy depends on the ability of the City to alter the basic cost structure upon which it now operates as well, of course, as reform of the City's intergovernmental fiscal relations.

Achieving permanent contraction in the base of City expenditures is a complicated, painful process. The actions the City can take on its own initiative, as evidenced during the period of the Financial Plan, are subject to enormous legal and political constraints; agreements with higher levels of government to assume the responsibility for certain City functions are slow to be realized; the policy of reducing spending through diminution of the work force results in a reduction of services rather than costs when there is no reform of the management process; and, finally, the significant areas of the budget where expenditures are mandated cause short-term

spending reductions to have an uneven impact throughout the City government.

Despite these problems, further contraction of the City's costs not only is possible but necessary. First, labor costs can be reduced through a combination of managerial reform and rationalization of the present system of fringe and pension benefits. Second, costs can be reduced further through efforts to narrow the scope of the City's functional expenditure commitments. Third, changes in the conduct of certain administrative support activities can generate additional savings.

A. REDUCTION OF LABOR COSTS

Labor is the largest object of expense in the City. Labor expenditures—for salaries, fringe benefits, and retirement benefits—totaled over $5.5 billion in fiscal year 1975, nearly one-half of the City's budget. Despite a decline of 60,000 employees since the beginning of the fiscal crisis (a 20.4 percent decline), the City's labor costs have not declined; and they are scheduled to increase in fiscal year 1978. The recommendations to strengthen the managerial capacity of the City outlined in the preceding section, if implemented, could permit further shrinkage in the work force without reducing the City's essential services and, at the same time, shrink the annual cost of the City government by an estimated $300 million to $500 million. A substantial portion of this saving must be used to finance a wage policy that, coupled with reform of the service-delivery process, provides City workers a general wage increase. But not all savings so realized can be returned to City workers; a portion also must be used for long-term investment purposes.

Reform in the provision of retirement and fringe benefits to City workers constitutes the second major approach to the reduction of labor costs. Since the beginning of the fiscal crisis only one major change has occurred in the $2 billion fringe and retirement benefit structure of City employees, a halving of the Increased-Take-Home-Pay (ITHP) effective January of 1976. The retirement and fringe benefits of City employees were analyzed in two previous Commission reports, the Sixth Interim Report, *The Fiscal Impact of Retirement Benefits: Some Proposals for Reform*,[1] and the Seventh Interim Report, *The Fiscal Impact of Fringe Benefits and Leave Benefits: Some Proposals for Reform*.[2] The recommendations contained in these two interim reports would reduce the cost of the fringe and retirement benefits of present and past City workers by

$232 million, which is less than 12 percent of the total expenditure on these benefits.

1. Pension Reform

The cost to the City of providing retirement benefits, $1.7 billion in the current fiscal year, is composed of contributions to the actuarial and non-actuarial pension systems, contributions to union annuity funds, and contributions to the Federal Social Security program. The total cost of these benefits in fiscal year 1975 was over $1.1 billion. In the 1961-1975 fiscal period, retirement costs increased 338 percent. This increase is understated, however, because of the chronic underfunding of the City's actuarial retirement systems. As shown in a 1976 report of the Mayor's Management Advisory Board, *Pensions*, the City's pension funds have unfunded liabilities of $8.5 billion.[3]

The growth of retirement costs, particularly those involving the actuarial pension systems, is the consequence of changes in the benefits and methods of funding the City's retirement programs. On the benefit side, pension systems were gradually liberalized during the 1960s with respect to matters like retirement age and length-of-service requirements. On the funding side, the original concept of employer-employee cost sharing was gradually modified to provide greater cost assumption by the City and lesser contributions on the part of employees.

The Sixth Interim Report of the Commission pointed out that the bulk of the City's retirement benefits are protected by the New York State Constitution and cannot be reduced unless the Constitution is amended. Several pension benefits, however, can be changed without constitutional amendment.

First, the Increased-Take-Home-Pay (ITHP) benefit should be eliminated. The original funding philosophy for the actuarial retirement systems was that the City and employees would share equally the cost of providing retirement benefits. Gradually, this funding relationship was changed. Currently, uniformed employees and teachers theoretically are supposed to pay one-fourth of the cost of providing their retirement benefits, and most other City employees, again theoretically, are supposed to pay one-third of their retirement costs.

Over a period of time, however, the net effect of the ITHP benefit was to render the five actuarial systems virtually non-contributory on the part of the employee. Under the ITHP measure,

introduced in 1960, the City assumes a fixed portion of the employee's pension contribution. For most of the years during which ITHP has been in effect, these percentages were fixed at 5 percent of pay for uniformed personnel and teachers and 4 percent of pay for all other employees. Because employees contribute "after tax" dollars to the retirement systems, ITHP in effect results in a tax free salary raise for employees.

At its 1975 level, ITHP was estimated to cost the City $187 million annually. However, the State Legislature reduced the ITHP benefit by one-half, effective January 1, 1976, to 2.5 percent for uniformed employees and teachers and 2 percent for other employees. The Legislature, which normally has provided for the renewal of the ITHP benefit on an annual basis, should allow this measure to expire. Elimination of ITHP would save the City an estimated $94 million annually. Termination of ITHP also has been recommended by the Mayor's Management Advisory Board which has estimated that, as a result of such action, the employee contribution as a percentage of the total cost of funding the pension in each of the five actuarial systems in no case would exceed 20 percent and, in most cases, still would be considerably less than 20 percent.

Second, the Heart Bill should be eliminated. Under the Heart Bill, which like the ITHP benefit is not constitutionally protected and is customarily enacted by the State Legislature on a year-to-year basis, any disability due to heart disease among police and fire officers is presumed to be service-connected, thereby entitling retired employees to accidental disability retirement at three-quarters of final pay. In the Fire Department, for the first five years the Heart Bill was in effect, 50 percent of all retirements were accidental disability retirements. In previous years, before the Heart Bill, accidental disability retirement averaged less than two percent of total retirements.

As in the case of the ITHP benefit, elimination of the Heart Bill also was recommended by the Mayor's Management Advisory Board in its study, *Pensions*. The annual savings to the City would equal $17 million, a savings that in no way would eliminate the three-quarters of pay disability benefit for fire and police officers. The only effect would be to remove the presumption of service-connected disability.

Third, union annuity benefits should be terminated. Since 1960, the City has contributed per diem amounts for the purchase of annuities payable upon retirement to certain employee groups. These payments, currently about $35 million annually, constitute a third

layer of City employee retirement benefits, on top of pensions and Social Security, for those employees who receive them. With the exception of the teachers' union, annuity fund payments are made directly to the employee unions that administer the funds. Payments on behalf of teachers are made directly to the Teachers' Retirement System and are constitutionally protected. Elimination of the annuity benefit, excepting the constitutionally protected benefit as applied to teachers, would save the City $24 million annually.

These three retirement benefit reforms, if implemented, would reduce City expenditures by $135 million without reducing the overall retirement benefits of City employees to "second-class" status. The $135 million savings, while substantial, only would reduce overall retirement benefit costs by 8 percent. But to save an equivalent amount, the work force would have to be reduced through attrition by approximately 8,000 employees, an alternative that for reasons discussed in the previous section makes little sense.

2. Fringe Benefit Reform

The cost to the City of providing fringe benefits to its employees is composed primarily of expenditures for health and hospital insurance, contributions to union welfare funds, and payments for uniform allowances. During the 1960s, collective bargaining agreements provided for new fringe benefits and the liberalization of existing benefits. The consequence in terms of the cost to the City, as shown in Section IV, was to increase fringe benefit expenditures from $15 million in fiscal year 1961 to $283 million in fiscal year 1975. In the current fiscal year, fringe benefit costs are approximately $300 million.

By far the most expensive of the City's fringe benefits is employee coverage for health and hospital insurance. Until 1965, 50 percent of the cost of the City's health insurance programs was funded by employee contributions. The City's full assumption of this cost in 1966 and skyrocketing health insurance rates have driven the present cost of health insurance to $184 million annually. The yearly increases in health insurance rates, the scope of benefits provided to City workers, and the City's assumption of the total cost have served to lock the City into a pattern of health insurance expenditure over which it has virtually no control.

In addition to the basic health and hospital insurance plan, the City also provides a supplemental benefit known as the union welfare fund. This benefit, which is virtually unique to New York City, is funded wholly by the City but is administered by the individual

municipal employee unions. In fiscal year 1976, this benefit cost the City $107.4 million, bringing the City's combined health benefit costs to more than $290 million.

Uniform allowances, a third significant fringe benefit, are paid directly to workers regardless of whether the need exists to spend money on uniform purchase or maintenance. Uniform allowances also are provided to many City workers who are not required to wear uniforms in the performance of their duties. In fiscal year 1976, the City spent $19 million on these allowances. Thus the total cost to the City of its existing fringe benefits is over a third of a billion dollars, $360 million to be exact.

The Seventh Interim Report of the Commission documented the growth in both the cost and level of fringe benefits. It found, in general, that the City's fringe benefit system was more liberal than benefit systems in other major U.S. cities. Fringe benefits as a share of salary range from 3 percent to over 10 percent depending on the employee group. When retirement benefits ranging from 33 percent to 54 percent of salary are included, the total non-salary cost as a percentage of salary ranges from 36 percent to 62 percent.

First, health insurance costs should be shared by the City and its employees at a 75-25 percent ratio rather than being fully paid by the City. This arrangement would resemble the cost-sharing policies utilized by most public jurisdictions. This reform would save the City $44 million annually at present health insurance rates.

Second, the City should provide health insurance to cover retired employees only when they reach age 62 rather than, as now, at the time of their retirement regardless of age (which, in some agencies, may be the early 40s). This reform would save $7.5 million annually at the existing health insurance rates and retirement levels.

Third, the City's basic health insurance plan should be integrated with the supplemental union welfare fund benefit and administered directly by the City. This reform would maintain, and probably improve, employee health benefits overall and would save an estimated $30 million at present cost levels.

Fourth, welfare fund benefits now provided to retired employees should be discontinued. Elimination of this provision, first enacted in 1973, would save $7.5 million annually at present levels of cost.[4]

Fifth, protective services employees, after 5 years of service, should receive one-half of the amount currently provided by the City for uniform allowance, and a similar reduction should be made

for all other City employees after 3 years of service. This reform would save the City $8 million of the current $19 million cost of uniforms.

These five recommendations, if implemented, would reduce the City's expenditures for fringe benefits by almost $100 million without, again, reducing fringe benefits below levels that customarily are provided by the private sector and other governments. To achieve equivalent savings by reducing the work force, about 7,000 jobs would have to be eliminated.

B. CONTRACTION OF FUNCTIONAL EXPENDITURES

Efforts to narrow the scope of municipal responsibility constitute the second major approach that should be taken to contract the City's expenditure base. The City developed a broad range of functional commitments for reasons that were explained in Section III. The City's evolution has been such that it is extensively committed, financially and administratively, in service areas in which most other local governments are not involved.

The Citywide distribution of expenditures among functions, as seen in Section III, has changed substantially since fiscal year 1961. Generally, the variable municipal functions have grown faster than common municipal functions, thereby consuming increasing shares of both total budget and local tax-levy funds. The common municipal services have exhibited a pattern of slow growth overall and declining shares of financial and manpower resources. And during the period of the Financial Plan, as seen in Section VIII, the impact of budget cutbacks has fallen more heavily on the controllable expenditures for basic services than in the less essential services where intergovernmental relationships limit the City's fiscal control. The present range of City functions, like many other aspects of the local government, must be reduced.

Several functions the City performs should be assumed by higher levels of government. The social welfare function, mainly public assistance and medical assistance, should be financed entirely through the more progressive revenue structure of the Federal government. Higher education and the criminal justice functions (courts, probation, and correction) should be assumed by the State. This process, "loading-shedding," is discussed in detail in the next section.

Even if these changes in intergovernmental functional relationships occur, the City still will have a broad public service role that exceeds its fiscal capacity. The strategy for expenditure reduction in

the basic municipal services—education, police, fire, and sanitation—must involve primarily the reforms in labor costs and management that have been discussed previously. What remains as a problem from the standpoint of functional expenditure obligation is the complex set of policy questions related to the City's subsidization of public hospitals, public housing, and mass transit. Table XI-1 indicates the importance of City financial support to the independent authorities that have responsibility in these areas. City subsidies provide over one-fourth of the revenue for mass transit and hospitals and a smaller, but growing, portion of the operating monies for public housing. The City's subsidies for these activities are necessary because operating costs exceed revenues from user fees and other sources. The subsidies cannot be discontinued immediately, although policies can be pursued that would limit and, in some cases, reduce the City's financial obligations.

1. Mass Transit

The Commission analyzed this area in its Fourth Interim Report, *Financing Mass Transit in New York City*.[5] The operating deficit of the New York City Transit Authority has been financed in the past decade from a combination of City, State, and Federal sources, and through transfers from "profitable" operations of the Metropolitan Transportation Authority. The subsidies from the City are composed largely of reimbursement of reduced fares for the elderly and school children, debt service, and, since 1974, a joint City-State program to maintain the fare. As seen in Table XI-1, the City subsidy, $300 million in fiscal year 1976, accounts for over one-fourth of the Transit Authority's operating revenues (excluding the cost of the support for Transit Authority police, also a City expense).

The City is not in a position to terminate each of its transit subsidies. The debt service subsidy reflects obligations incurred by the City for funds it has borrowed; as the owner of transit facilities, the City also must make future capital expenditures, as emphasized in Section IX. State assistance to transit operations includes matching requirements for City funds; and conditions for the receipt of Federal aid contain provisions for maintenance of local effort and guarantees of half fares for the elderly.

Efforts can be made, however, to contain the level of annual City subsidization. The Commission's Fourth Interim Report recommended that transit deficits in the next several years be reduced through improved operations in the Transit Authority. By the 1980s,

TABLE XI-1

City Subsidization of Mass Transit, Public Hospitals, and Public Housing: Fiscal Years 1971-1976

($ in millions)

Fiscal Year	New York City Transit Authority[1]			Health and Hospitals Corporation			New York City Housing Authority[3]		
	Expenditure	City Subsidy	City Subsidy as a % of Expenditures	Expenditure	City Subsidy[2]	City Subsidy as a % of Expenditure	Expenditure	City Subsidy	City Subsidy as a % of Expenditure
1971	$ 777.5	$212.3	27.3%	$631.9	$200.3	31.7%	$263.9	$13.9	5.3%
1972	839.6	215.7	25.7	652.7	204.2	31.3	296.5	19.4	6.8
1973	875.2	306.2	35.0	747.7	172.8	23.1	300.7	17.4	5.8
1974	978.6	397.2	40.6	816.9	189.1	23.1	361.0	34.1	9.4
1975	1096.0	299.9	27.4	963.6	273.3	28.4	408.8	47.2	11.5
1976				989.3	226.0	22.8	441.8	42.2	9.6

[1] Excludes Transit Authority Police.

[2] Excludes City share of HHC Medicaid revenue.

[3] Excludes Housing Authority Police.

Sources: The City of New York, *Annual Report of the Comptroller*, fiscal years 1971-1976, Part 2-A, Statement 5 & 6; *Expense Budget*, fiscal years 1971-1977; New York City Housing Authority, *Consolidated Financial Statements*, March 31, 1971-March 31, 1976; and Temporary Commission on City Finances, Fourth Interim Report, *Financing Mass Transit in New York City*, March 1976.

however, new sources of revenue other than City funds must be developed. Because of the critical role that mass transit plays in the local economy, the Commission does not favor forcing riders to entirely close the operating deficit by raising fares. More equitable State and Federal aid formulas, as discussed in the next section, can meet a portion of the system's growing financial need. But if operating economies and increased State and Federal support are insufficient to avoid deficits, additional local revenues other than City subsidization must be found. These options include, among others, higher parking and gasoline taxes and new forms of regional taxation earmarked for mass transit. The justification for some form of regional tax effort is substantial given the importance of mass transit to the region as a whole.

2. Municipal Hospitals

The City's tax-levy support for the Health and Hospitals Corporation, in excess of $225 million annually, is exclusive of the municipal share of Medicaid costs. The future of the total system for hospital care in New York City is, like so many others, a difficult one to deal with politically, managerially, and financially. The introduction of Medicaid in 1966 altered the role of municipal hospitals significantly since they no longer were the exclusive source of care for the City's indigent. The City, however, through its continuing responsibility to finance operating deficits of the public hospitals, has been forced into the difficult position of residual financier of the municipal hospital system and, through its share of Medicaid costs, a purchaser of services in the city's private and voluntary hospitals.

Despite the complexity of the issue, there is one overriding fact about which there is no dispute: the entire hospital system in New York City has an enormous excess bed capacity that significantly adds to the city's overall hospital costs. As shown in a Commission study on hospitals in New York City: (1) New York City has 5.7 beds per 1,000 people compared to the national average of 4.5; (2) New York City days of care per 1,000 people averages 1,750 compared to 1,218 nationally; (3) the average length of hospital stay in New York City is 11.2 days compared to 7.7 nationally. Overall, within New York City, the bed occupancy rate is 86 percent in the proprietary hospitals and 89 percent in the voluntary hospitals, while the municipal hospitals have an occupancy rate of only 75 percent.[6]

A number of studies have indicated excess bed capacity in a

range of 4,000 to 7,000 beds. The Health System Agency reported in 1976 that there were over 5,000 surplus beds, and that this number would grow to 6,500 in 1985. The Health and Hospitals Planning Council also reported in 1976 that closing 4,000 beds would increase the city's overall occupancy rate to 95 percent, contributing to a decline in average length of stay that would not affect patient care adversely. One major problem in the city's hospitals is that, because of reimbursement formulas that are based on average per diem costs, incentives exist to prolong length of stay when excess bed capacity exists.

In view of these findings, 5,000 beds should be eliminated, one-half of these in the municipal system. To the degree practicable, entire hospitals should be closed. The Commission's study of hospital expenditures indicates that bed elimination would reduce overall City expenditures from $51 million to $152 million and City tax-levy expenditures from $13 million to $37 million, depending on the extent to which excess bed elimination was accomplished by closing individual beds in many hospitals (the low cost-savings estimate) or closing entire hospitals. Given the rapid escalation of hospital costs, approximately 14 percent annually, the long-run savings from eliminating excess beds would be enormous.

Beyond the short-run need to reduce excess beds is the larger question of whether the City of New York should directly provide hospital services at all. If a form of national health insurance ultimately is enacted, this undoubtedly will result in even lower utilization of municipal hospitals, similar to the response following the passage of Medicaid. The problems involved in the City ending its role as a direct care provider would be enormous, but the Commission believes increased efforts to achieve this goal are necessary.

3. Public Housing

The New York City Housing Authority is currently responsible for the management of 170 Federally-sponsored, low-income housing projects, 52 State-sponsored projects, and 18 City-sponsored projects. The City provided a $42.2 million subsidy in fiscal year 1976, an amount comprised of its $32.2 million share of the operating deficit of the State-sponsored projects and its $9.9 million obligation for the entire deficit of the projects under its own sponsorship. The cost of support for Housing Authority police, also a City expense, is not included in this amount.

Under the current provisions of State legislation, the State

subsidy to the projects which it sponsors is determined by a formula in which the maximum payment is tied to interest charges for the financing of project construction. The City is required to provide the balance of the operating deficits for the State projects in New York City. Recent attempts have been made to amend the legislation so as to mandate complete State subsidization of the deficits incurred by its projects. This action would save New York City the entire amount of its current share, $32.2 million in fiscal year 1976.

Federal assumption of those projects now sponsored by the State and City also would relieve the City of its housing subsidy cost. The terms for Federal sponsorship of public housing projects provide for the complete financing of operating deficits, with no cost required of the local management authority. Transfer of the financial responsibility for both State and City projects to the Federal government would eliminate the need for any housing subsidy payments on the part of the City. Eleven of the State's 52 projects already are scheduled to be transferred to the Federal government in July 1977.

C. ADMINISTRATIVE SUPPORT COSTS

While the bulk of the City's expenditure reduction must come from the reduction of labor costs and the elimination or containment of functional expenditure commitments, substantial savings also can be achieved through changes in the conduct of certain administrative support activities. These functions—leasing, purchasing, and contracting—involve hundreds of millions of dollars in City expenditures each year.

The Office of the Comptroller has conducted numerous studies on the efficiency of City operations by auditing administrative support functions in various City agencies. These audits indicate that nearly $30 million in potential savings could be achieved through the improvement of administrative procedures and practices in the agencies examined.[7]

1. Leasing

The City currently pays about $85 million annually in rent on space that is leased for office, warehouse, and other uses. According to the records of the Department of Real Estate, up to 10 percent of leased space is vacant at any one time, but rents continue to be paid. Changes in agency need, as a result of site relocations or personnel redeployment, often leave leased space unoccupied. Over-

estimation of space needs on the part of agencies frequently results in rental of space that is not used for the entire life of the lease.

Most leased space is presently obtained by the City for periods of 10 to 25 years. Even with careful planning, such long rentals can result in unoccupied space. The City should move toward negotiated leases that include a five-year limit and clauses that permit cancellation of leases for space that becomes unnecessary.

2. Contracting

The City currently contracts for certain services that are not performed by City personnel, most notably in areas of physical maintenance such as office cleaning, minor building repairs, and street light maintenance. The bidding procedure for these contracted services often favors present vendors by failing to allow sufficient time for submission of bids from competitors and by contracting for jobs on a scale that only certain companies can perform. The lack of competitive bidding over the years has kept the cost of many contracted services unusually high.

Monitoring for contract compliance on the part of the City also has been inadequate in many cases. Payment vouchers often are processed for work that has not been completed in accordance with contractual specifications, and penalty clauses for failure to meet contractual obligations are seldom invoked.

3. Purchasing

The Comptroller's audits have concluded that the City is paying too high a price for many of the supplies and equipment that it purchases. The problem, again, is lack of competitive bidding, which could be improved through more active solicitation of potential vendors and modification in bidding specifications. According to the Comptroller's estimates, the City could save $1 million annually for each one percent reduction in the average price paid for City purchases.

D. CONCLUSION

The total savings that could be generated from the implementation of the recommendations in this section are summarized in Table XI-2. The approximately $300 million in cost reductions identified in this section does not include the previously identified range of savings possible from improved management, a portion of which should be committed to employee wage increases.

TABLE XI-2

Summary of Cost Savings from Section XI Recommendations

Recommended Saving	Annualized Amount
I. RETIREMENT BENEFIT REFORMS	$135 million
A. Elimination of Increased-Take-Home-Pay Provision	$94 million
B. Elimination of the "Heart Bill"	$17 million
C. Termination of Union Annuity Fund Benefits	$24 million
II. FRINGE BENEFIT REFORMS	$97 million
A. City-Employee Sharing of Health Insurance Costs	$44 million
B. Elimination of health insurance benefits to retired employees under the age of 62	$7.5 million
C. Integration of Union Welfare Fund Benefits with Basic Health Insurance Plan Benefits	$30 million
D. Elimination of present Welfare Fund Benefits now provided retired employees	$7.5 million
E. Reform in Uniform Allowance Benefits	$8 million
III. HEALTH AND HOSPITALS BED CLOSINGS	$13-37 million
IV. REDUCTION IN COST OF ADMINISTRATIVE SUPPORT ACTIVITIES[1]	$30 million
TOTAL SAVINGS	$275-$299 million

[1] Based upon audits completed by the Office of the Comptroller since the beginning of 1976.

Source: Staff computations.

The Commission's proposals for intergovernmental reform are discussed in Section XII. Intergovernmental reform is essential, although as noted previously it is not assured in the next few years. Because of uncertainty over the pace and extent of change in Federal, State, and City fiscal relations, the recommendations in this Section and in Section X are critically important.

Before the City can begin to invest for the future in the ways recommended in Sections VIII-X, new or "slack" resources must be generated. The City cannot afford to count on or wait for reform of intergovernmental relations.

Footnotes

[1]Temporary Commission on City Finances, Sixth Interim Report, *The Fiscal Impact of Retirement Benefits: Some Proposals for Reform*, May 1976. All data related to City expenditure for retirement benefits and recommended savings are from this report.

[2]Temporary Commission on City Finances, Seventh Interim Report, *The Fiscal Impact of Fringe Benefits and Leave Benefits: Some Proposals for Reform*, June 1976. All data related to the City expenditure for fringe benefits and recommended savings are from this report.

[3]Mayor's Management Advisory Board, *Pensions*, April 1976, pp. 8-15.

[4]Commission member Dr. Emanuel Saxe recommends that welfare fund benefits now provided to all retired employees should be discontinued only for those retirees who have not yet reached the age of 65.

[5]Temporary Commission on City Finances, Fourth Interim Report, *Financing Mass Transit in New York City*, March 1976.

[6]Data relating to hospital capacity and estimated cost savings from bed elimination are contained in an unpublished report of the Temporary Commission on City Finances by Richard Nathan, *Recommendations for Reducing City Expenditures for Hospital Care*.

[7]The City of New York, Office of the Comptroller, *Audit Reports*, April 1, 1976 to December 31, 1976.

Section XII

Intergovernmental Reform

The developmental approach to the fiscal and economic recovery of New York City is based on important local reforms, but also on reforms in the way the Federal and State governments deal with the City. Meeting the City's future investment needs through tax reduction, debt reduction, and investment in the city's infrastructure can be partly accomplished by further public expenditure reduction and improved public management, but intergovernmental reform also is essential. Briefly stated, intergovernmental reform is a necessary, although not sufficient, condition for New York City's recovery.

The essential ingredient of intergovernmental reform is the reassignment of financial and functional responsibilities among the City of New York, the State of New York, and the Federal government. Increases in traditional forms of State and Federal aid will help ameliorate, but will not eliminate, the City's underlying fiscal imbalance.

For New York City, as well as other central cities, to become viable once again, three changes in the conception of federalism must occur. First, the provision of human services for the needy in urban areas must be redefined as a national interest. The migration of service-demanders to urban areas basically is the result of a national, not local, dynamic. Second, due to the evolutionary assignment of the more progressive tax structures to the higher levels of government, the State and Federal governments must tend toward the role of provider of basic support rather than using fiscal assis-

tance as local inducement to carry out State or Federal initiatives. Third, a more rational unified system of aid to urban areas must be formed that molds the two concepts above into a national urban policy.

From New York City's point of view, these conceptual changes translate into the major points discussed in this section: the shifting of extraordinary functions to the State and Federal governments, the expansion of basic support grants and the examination of inequitable block grant formulas, the expansion of capital grants, and the synthesis of the Federal aid system into a unified national urban policy that treats the nation's largest city equitably and encourages its recovery.

A. FUNCTIONAL REASSIGNMENT

The shifting of functions that have become inappropriate for the City to bear is central to the City's future fiscal stability. In such a uniquely large urban area as New York City, it is clear that human services such as income maintenance and medical assistance must be provided and that high-quality systems of higher education and criminal justice services must be readily available to its citizens. However, these functions cannot be financed at the municipal level.

1. Public Assistance

The problem of welfare is addressed in the Commission's Twelfth Interim Report, *Public Assistance Programs in New York City: Some Proposals for Reform.*[1] In 1975, over 1.25 million residents of New York City, or almost 17 percent of its population, received public assistance. Payments totaled $1.9 billion, 11 percent of the City's operating budget. Although almost three-quarters of that amount was financed by the State and Federal governments, the City was compelled to pay the balance, $507 million, from its own revenues, an amount equal to approximately one-half of total revenues from the City's personal and business taxes in that year.

The City of New York's problem with respect to financing public assistance results from two basic financial inequities, plus a number of other variables over which it has little control. First, New York State requires that each county and the City of New York pay one-half of the nonfederal share of public assistance costs, a unique requirement. Only six other states require any local sharing of costs for the major Federal welfare program, Aid to Families with Dependent Children (AFDC). New York State also has man-

dated the highest benefit levels of any state in the nation; the State supplements Federal programs, including the Federally-funded Supplemental Security Income program (SSI), and provides its own welfare program, Home Relief, for persons who are not eligible for Federal programs. Localities must pay 50 percent of these supplemental programs. The State of New York, for this and other reasons, bears a substantial responsibility for the City's financial problem.

Second, Federal financial arrangements also contribute to the City's unique burden. The current Federal reimbursement formula for the AFDC program is based on the relationship of a state's per capita income to the national average, a narrowly-conceived standard that disregards regional differences in the cost of living, the proportion of public assistance recipients to the total population, benefit levels, and local economic conditions. States with low per capita income levels and low AFDC benefits are favored by the Federal formula, while states such as New York are, in effect, penalized. New York State receives the lowest share of Federal reimbursement, 50 percent, permitted by Federal law.

Welfare costs in New York City, for which the City of New York bears the unique financial responsibilities described above, will continue to increase, and the City will continue to be unable to affect the increase. The City's AFDC caseload has grown by 370 percent since 1961, an annual growth rate of 8.5 percent, and expenditures grew from $570 million in 1968 to $1.01 billion in 1975. In 1975, only 2.3 percent of AFDC cases were closed each month, and only a small number of these closures resulted from a welfare recipient's gaining employment. Given the depressed state of the local economy and a number of other reasons, including the disincentives for work built into welfare programs, there is little reason to believe that the number of welfare recipients will decrease substantially in the future.

In short, the City has little control over public assistance costs. There is always room for improvement in the City's administration of welfare, but comparative data suggest that the City's administrative performance is comparable to other governments and that it becomes uneconomic to endeavor to improve it beyond a certain point.

That the Federal government long has financed public assistance programs signals a partial acceptance of what is an important fact: poverty is a national problem that is manifested in particular states and localities because of powerful economic and demographic

forces; states and localities did not cause and cannot cure poverty problems in the nation. In view of these findings, the Federal government should assume the full cost of the AFDC program and the Emergency Assistance to Families (EAF) program, a minor Federal program for families who have suddenly become indigent.

Until the Federal government assumes the full cost of public assistance, the State of New York should assume increasing shares of the nonfederal costs of AFDC and EAF and of local costs of State-mandated public assistance programs including the SSI supplement, Home Relief, and Emergency Assistance to Adults (EAA). Because Federal assumption of welfare costs does not appear likely in the short-run, and because the State bears substantial responsibility for the City's public assistance dilemma, it is essential that the State immediately begin to assume more of the City's public assistance costs. If, for example, the Federal government assumed 75 percent of welfare costs, the State could finance the entire nonfederal share without increasing its present welfare costs.

The administration of public assistance programs should also be assumed by the State. This reform not only would relieve the City of administrative costs, currently about $75 million annually, but it would lead to substantial statewide savings by improving administration and reducing duplicative efforts.

Shifting the total burden of financing public assistance would make available over $500 million of City monies for other purposes that are necessary to improve New York City's long-term prospects. Federal assumption of AFDC and EAF alone would free at last $325 million of City funds. State assumption of administration alone would free $75 million of City funds (see Table XII-1).

2. Medical Assistance

The City's Medicaid program was discussed in the Commission's Sixteenth Interim Report, *The Medicaid Program in New York City: Some Proposals for Reform.*[2] The issues involved in welfare are similar to the City's medical assistance burdens. The State of New York requires its counties and New York City to pay 50 percent of the nonfederal costs of Medicaid, the benefits for which are set by the State. In 1976, 1.4 million New York City residents were eligible for Medicaid, and $1.9 billion was paid for Medicaid benefits. Some $9 million was spent by the City on administration of the program. Together, expenditures for benefits and administration consumed 16 percent of the City's 1976 operating

TABLE XII-1

Summary of Savings to City of New York Due to Implementation of Functional Reassignment Recommendations[1]

($ in millions)

Function/Program	Assumed by Federal Government	Assumed by State Government	Savings to City
A. Public Assistance[2]			
AFDC	$(320)	–	$ 320
EAF	(5)	–	5
HR	–	$(120)	120
SSI Supplement	–	(70)	70
Total	$(325)	$(190)	$ 515
B. Medical Assistance[3]			
Medicaid	$(545)	–	$ 545
C. Higher Education[4]			
CUNY baccalaureate & graduate	–	$(55)	$ 55
D. Criminal Justice[5]			
Courts	–	$(25)	$ 25
Corrections	–	(90)	90
Probation	–	(10)	10
Total	–	$(125)	$ 125
Grand Total	$(870)	$(370)	$1240

[1] Based on immediate takeover of functions.

[2] Based on 1975 expenditures, rounded to higher $5 million, from State of New York, Department of Social Services, *Statistical Supplement to the Annual Report for 1975.* Assignments based on recommendation that Federal government take over financing of benefits and administration of AFDC and EAF, New York State take over benefits and administration of HR and SSI supplement, assuming no immediate Federal reform of welfare system. Rounded administration costs for 1975 included in figures.

[3] *Ibid.* Based on full, immediate takeover of all Medicaid costs, including administration, at regionally adjusted benefit levels.

[4] Figure rounded up from actual $53.6 million contributed by City for CUNY operation costs in City fiscal year 1978. This amount was placed in the City's fiscal year 1977 budget in connection with the fiscal 1978 plan to eliminate the budget gap.

[5] Based on budgeted City tax-levy contributions to listed programs in City fiscal year 1977. Based on immediate full takeover by State; staged takeover as recommended is not reflected in table.

Source: Staff computations.

budget, even more than public assistance. Of the total costs, $541 million was financed by City tax-levy funds. Medicaid and public assistance together consumed more than $1 billion of the $7 billion the City raised in local revenues in 1976.

The cost of providing Medicaid benefits in the City is inordinately high and increasing rapidly. Since 1968, the first fiscal year the Medicaid program was in effect, the City's tax-levy spending on Medicaid has increased at an average annual rate of 11 percent. This high rate of increase is due to several factors: the large number of eligible persons, including high benefit users in the Medicaid-only category, the program's fragmented and inefficient administrative process, and most significantly, the spiraling costs of basic health and hospital service provision.

As in public assistance programs, the Federal government leaves the decision of providing various service options to the states. Only Minnesota and New York provide all seventeen optional services, although New York State has moved to eliminate two of the options, podiatrists' and chiropractors' services. Although the optional services are extensive, they account for only about 10 percent of total program costs.

The rationale for shifting the cost of Medicaid from the City's fiscal structure is much the same as that for relieving the City of the cost of public assistance, except that medical assistance costs represent payments to service-providers rather than service-recipients. Health and hospital costs are increasing very rapidly. Because of this, the City's Medicaid problem represents an even greater threat than the public assistance problems.

It is essential that the Federal government assume local medical assistance costs in the near future. The rising costs of medical care should be financed by the progressive tax structure of the Federal government. Federalization of all medical assistance costs probably will come in the form of national health insurance. Until such time as the costs of the Medicaid program are assumed by the Federal government, either in its present form or through a national health insurance program, the State should assume an increasing share of the nonfederal portion of Medicaid.

3. Specific State-City Relationships

The City's functional and financial role in higher education, courts, probation, and corrections represent further areas in which intergovernmental reform is required. State-City relations in regard

to courts, corrections, and probation were examined in the Commission's Second Interim Report, *State Assumption of Court, Probation, and Correction Services in New York,*[3] and the higher education issue was examined in its Tenth Interim Report, *The City University of New York: Proposals for the Future.*[4]

As indicated in the Tenth Interim Report, the City no longer can afford to continue its traditional sponsorship of the City University system. The financial circumstances of the City require that its commitment to higher education be limited to support for community colleges in a manner similar to other county governments in New York State. The senior colleges of the City University must be financed by the State government on a basis comparable to the baccalaureate and graduate institutions in the State University system.

The Legislature already has committed the State to accept responsibility for public baccalaureate and graduate education in New York City. The basis and the timetable on which the State assumes this responsibility, however, remain to be determined. The State will fund 75 percent of the City University senior college costs in fiscal year 1978. The City is providing the remaining share, $54 million, in its fiscal year 1977 budget. The State should move to assume the *full* senior college cost, but the University should remain a comprehensive, independent system oriented to the higher education needs of New York City.

In 1976, the State agreed to assume the local costs of the City's courts on a four-year phased basis beginning in fiscal year 1978. This plan is similar to the recommendation of the Commission in its Second Interim Report. Under the State's plan, it was to pay 25 percent of the local costs of the City's criminal, civil, and family courts. However, in the State budget for fiscal year 1978, the takeover was reduced to 12.5 percent of local costs. This reduction, which purportedly does not jeopardize full, four-year assumption, complicates the City's finances.

Now that the State has taken the initial step in assuming local court costs, corrections and probation services also should be financed and operated by the State. Administrative efficiency as well as cost and programmatic efficiency of corrections and probation services would be enhanced by State assumption. Corrections and probation services should be assumed in conjunction with the four-year phased takeover of courts. The inclusion of corrections and probation services in the staged takeover would result in savings to the City of as much as $125 million over four years.

Load-shedding must be an integral part of any agenda to facilitate the recovery of New York City. Over $1 billion of City tax money would be freed. Table XII-1 outlines the savings that would be realized by the shifting of financial responsibility to either the Federal or State governments as recommended by the Commission.

B. FEDERAL AND STATE BLOCK GRANT PROGRAMS

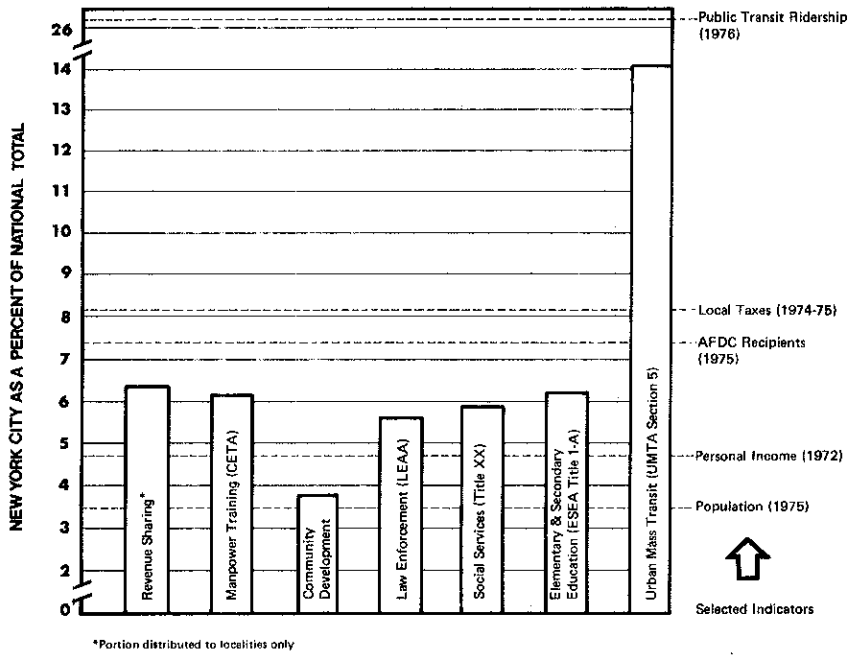
New York City bears an unjust proportion of the responsibility for functions that should be the responsibility of the State or Federal government. These include the functions discussed above: public assistance, medical assistance, courts, corrections, probation, and higher education. For these functions, the City receives intergovernmental aid, but the aid may be used for these purposes only, and City tax-levy contributions are required. This form of grant is known as the mandated categorical, and it accounted for roughly $2.5 billion, about 45 percent, of the total $5.6 billion in Federal and State aid the City received in fiscal year 1975 (excluding the special State advance during that year).

For other local functions, notably education, manpower training, community development, supportive social services, and special law enforcement programs, the City receives Federal and State aid in the form of block grants. Block grant funds may be used for virtually any planned purpose in broad functional areas, as long as approval is given to the planned usage by the issuing government. The City also receives revenue sharing funds from both the Federal and State governments that are placed directly in the City's General Fund and may be used for any purpose. Federal and State block grant funds and revenue sharing funds together accounted for about $2.2 billion in fiscal year 1975. The remaining $800 million in 1975 came in the form of nonmandated categorical grants.

With respect to Federal block grants, New York City in general receives a fair proportion. Graph XII-1 shows the funds New York City received in fiscal year 1976 under a variety of major Federal grant programs as a percentage of the national total for these programs in comparison with the city's share of national population, personal income, AFDC recipients, local taxes, and transit ridership. The City received a share of the national allocation greater than its population share in all of the grant programs viewed. The City received a share of funds equal to or greater than its share of public assistance recipients in only two programs, but in only one of these instances (aid to disadvantaged public school children) is this an appropriate indicator of need.

GRAPH XII-1

New York City's Share of Receipts from Major Federal Aid Programs: 1976



New York City did comparatively well under the Federal general revenue sharing program, achieving a level about halfway between its national share of population and its share of local taxes. The heavy influence of population factors in the distribution formulas for such Federal programs as social services (Title XX), manpower training (CETA), and Community Development were responsible for the City's somewhat smaller shares in these areas.

There is room for improvement in the functioning of the Federal block grant entitlement formulas. The formulas are devised for the purpose of assuring equity on the national level, but they often exclude factors that would take into account the special needs of large urban areas, especially New York City, and often include

factors that discriminate against urban areas. An example of a formula factor that is unfair to New York City is the frequently-used poverty index. The poverty factor as presently used in three large block grant formulas, Elementary and Secondary Education Act (ESEA) Title I, Community Development, and CETA Title I, fails to distinguish among sources of income, thereby including government transfers such as public assistance and unemployment compensation.

The administrative interpretation of the poverty factor also fails to adjust the data for regional cost-of-living factors. In those cities with a high cost of living, such as New York, thousands of people who are not presently counted as having incomes under the poverty level would be counted if an adjustment for the high living costs in the city were included in the formula.

A factor excluded from most grant formulas is one that measures the extent of the tax burden a state or city places upon itself. Presently, only the general revenue sharing formula includes such a factor. There are significant tax effort variations among states due to tax base disparities and significant service level disparities within and among states. New York State has the highest per capita tax burden among the states, and New York City residents are the most heavily taxed in the nation. The inclusion of a tax effort factor in Federal grant formulas could be used to restore equilibrium among states and reduce funding disparities.

Other problems with block grant formulas, from New York's point of view, include size limitations that restrict the funds available to large states or localities. The Educationally Deprived Children program (ESEA Title I) allows county areas to receive only up to 120 percent of the national average per pupil expenditure regardless of the state per pupil expenditure. Since New York State spends about 172 percent of the national average, the limitation severely penalizes local school districts in the state.

Furthermore, the block grant formulas tend to spread money so evenly that, for certain programs, the neediest recipients do not receive a full share based on a measurable indicator of need. Mass transit operating assistance (Urban Mass Transit Act Section 5) is awarded to all urbanized areas in the nation regardless of whether the area has a major mass transit system. New York City, therefore, receives only 14 percent of the nationwide distribution of mass transit operating assistance, but has 26 percent of the national ridership for all modes of public transit and almost 40 percent of the national ridership for surface, elevated or subway train ridership.

The Commission supports recent Federal actions to revise funding formulas in order to deal more fairly with urban areas. In the first half of 1977, revisions already have been made in the Community Development formula, the antirecession revenue sharing formula, and the Urban Mass Transit operating aid formula. The Community Development formula has an added factor that takes the age of the housing stock into consideration. This factor clearly works to New York City's benefit. The extended antirecession or "countercyclical" revenue sharing program will be paid on the basis of each tenth of a percent that a city's unemployment rate is over 6 percent, rather than each one-half a percent as in the original formula. This change will mean a substantial increase in aid for cities, such as New York, with unemployment rates of 6 percent or more. The new Urban Mass Transit operating aid (Section 5) formula will include a factor reflecting transit system usage, a boost for New York City.

The Commission urges reform that would make block grant programs more equitable. Other actions that the Federal government could take to help New York and other major cities are the removal of the limits on education aid (ESEA Title I-A) and expansion of the general revenue sharing formula by tying the amount of the total allocation for any given year to a fixed percentage of Federal income tax receipts. Basic Federal support to cities and states thus would increase with the growth of the economy and Federal income tax receipts.

On the State level, New York City would come up short on statewide distribution of State aid were it not for the Special Revenue Sharing to Cities program. The City receives massive amounts of aid for social services (public assistance and Medicaid primarily), but the aid carries with it mandates for matching City funds. The inequity is not in how much aid the City receives for social services, but in how much the City must put up in matching funds for social services compared to the rest of the state's localities. City residents, who comprised 41.6 percent of all state residents in 1975, and whose combined incomes represented about 46 percent of total personal income in the state, were required to finance 75 percent of the nonstate, nonfederal cost of public and medical assistance in the state. The rest of the state, with 58.4 percent of the population, financed only 25 percent of all local public assistance and medical assistance costs. The effect of New York State's imposition of one-half of all nonfederal cost of these programs on its localities has fallen in a highly disproportionate way on New York City.

As shown in Graph XII-2, apart from social services, New York City received 39.5 percent of all aid distributed by the State in fiscal 1975, somewhat less than its 41.6 percent share of State population in that year. Although the discrepancy may appear slight, it is difficult to find any valid rationale whereby the City's per capita share of non-social services aid should be less than that of the remainder of the state. In fact, if it were not for the State's revenue sharing program, under which New York City received 60.5 percent of the total distributed in fiscal year 1975, the City's position with regard to State aid for other than social services would be almost as disastrous as its position with regard to social services.

Apart from revenue sharing and social services, New York City received only 35.9 percent of State aid distributions in fiscal 1975, well below its 41.6 percent share of total state population. The State aid category most responsible for the city's poor showing was aid to public schools, where New York City benefitted from only 26 percent of total State aid, somewhat below its 30 percent share of total public school enrollment.

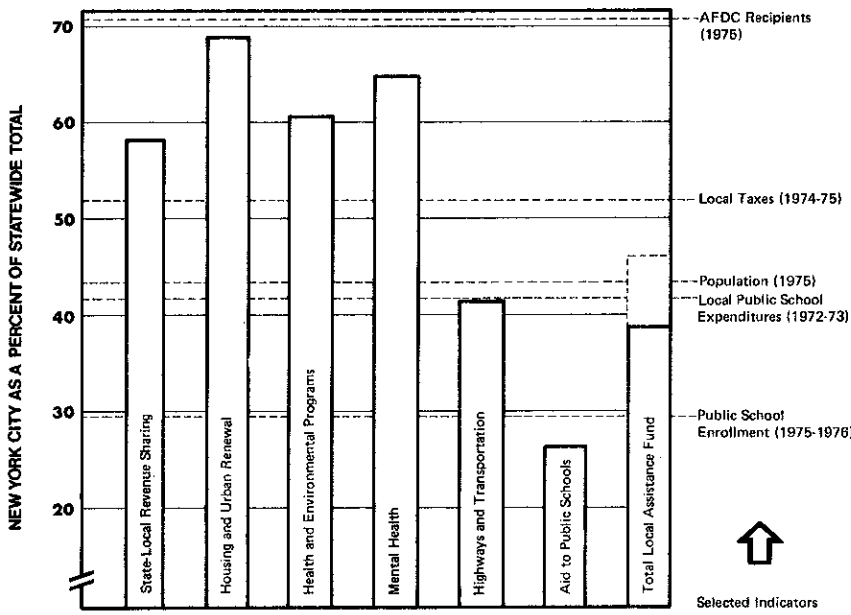
The bulk of State aid to education is provided under an aid formula that declares as its intention equalization of the funds available per pupil throughout the state. This objective is sought by means of a "foundation amount" approach that is designed to supplement resources available to each school district through its own revenue sources with additional State aid payments to bring the total funds available up to a minimally acceptable level.

However, the State aid formula assumes that assessed valuation per pupil is an acceptable measure of local revenue raising capacity. This assumption ignores very real differences in responsibilities among local governments, as well as differences in the cost of providing services between large cities, on the one hand, and suburban or rural areas, on the other. By assuming that these other factors have an equal effect from one community to another, the State aid formula seriously falls short of meeting the need for educational finance assistance in urban centers. The State aid formula also provides aid per pupil on the basis of average daily attendance, ignoring the costly problems encountered by urban centers where attendance is far lower (as a fraction of total enrollment) than in other parts of the state.

The State aid to education formula should be changed to eliminate these inequities. The system of financing elementary and secondary education, both in New York State and the nation, stands on

GRAPH XII-2

New York City's Share of State Local Assistance Fund Programs: 1976



*Includes Social Services **Excludes Social Services (primarily public assistance and Medicaid)

the brink of major change; the educational finance system in New York State contains complex and inequitable elements that will not yield readily to resolution.[5]

State aid for rapid transit operating costs also is inequitable. The present State allocation discriminates against the City in that it allocates only 61 percent of State transit funds for the region to the New York City Transit Authority, even though the Transit Authority carried 94 percent of the transit passengers in the region and accounted for 79 percent of passenger-miles travelled in the region in 1975. A State transit operating aid formula based on passenger-miles by mode of transportation would go far to provide New York City's transit system with a more equitable State subsidy.[6]

C. GRANTS FOR PUBLIC CAPITAL INVESTMENT

In addition to aid for operating purposes, the City of New York receives a significant amount of money for capital construction from the Federal and State governments. Between fiscal years 1970 and 1977, the City received $3.7 billion from the Federal government and $1.6 billion from the State. Most Federal and State capital aid was awarded for water pollution control projects and public transit. As indicated in Section IX, intergovernmental grants for capital investment are critically important.

An important recent development in capital construction assistance is the expansion of eligible activities that permits recipient communities to choose between using Federal funds for either construction or operating purposes. The first major step in this regard was the Federal Model Cities program. Subsequently, as the Model Cities program was combined with other HUD grant programs into the Community Development Block Grant program, localities were given broad discretion in the use of grants for land acquisition, construction, or operating programs. The Urban Mass Transportation program includes both operating and construction assistance and, under special provisions, allows some substitution of construction grants for operating purposes. The City has utilized this flexibility to subsidize the Transit Authority's operating budget, though at considerable cost with respect to maintenance.

The program plan for the Community Development (CD) entitlement in fiscal year 1976 emphasized the use of the money for promoting industrial expansion and job development, as well as preserving the infrastructure which supports the city's housing and businesses. The City may choose to use CD funds for capital construction, renovation, and rehabilitation of existing structures or for operating purposes. The trend has been towards using CD funds for operating purposes such as meeting Federal matching requirements for other grant programs, or supporting fire, police, recreation, and sanitation activities in Model Cities neighborhoods. Consistent with the high priority it places on maintenance of the city's infrastructure, the Commission urges that these funds not be used so extensively for operating purposes.

Another important source of outside funds for the capital budget is the Federal Economic Development Administration (EDA). Presently, the City receives project grants from EDA that cover up to 80 percent of the construction or renovation costs of public works that promote business opportunities. The City received about $25

million under this program in fiscal year 1977, and the funds support such developments as the College Point Industrial Park in Queens, the Zerega Avenue Industrial Park in the Bronx, waterfront and pier renovations in Brooklyn and Manhattan, and marina and containerport facilities in Staten Island.

Another large amount of money for public works projects will come from the Federal EDA Local Public Works Program, begun in 1976 and recently expanded by the Congress for the next fiscal year. The original program, passed in July 1976 over a Presidential veto, allocated $2 billion for the construction of public works in areas of high unemployment. Of the total, New York City received $102.2 million for 51 projects, primarily school and street maintenance. In May 1977, the Local Public Works program was extended and allocated $4 billion nationwide for additional public facilities and public employment. New York State, including the City, will receive about $500 million of this allocation.

New York State also will provide capital funds for the city. The Rail Preservation Bond Issue, approved by the State electorate in 1974, will provide about $45 million for rail freight facilities in New York City.[7]

The April 1977 decision of the U.S. Supreme Court that struck down legislative efforts to force the Port Authority of New York and New Jersey to spend bond proceeds on rail mass transit threatens future rail transit projects in the city that have long been planned, such as the Second Avenue Subway, the Queens subway extensions, and the Kennedy airport rail link. The court decision appears to halt all funding of rail projects by the Port Authority, including the $120 million commitment made by the Port Authority for commuter rail extensions in New York. It also jeopardizes matching federal funds for rail projects. The Supreme Court's opinion noted that the upholding of the bond convenant may preclude the use of revenues for these purposes until all the bonds issued under the covenant have been retired in 2007. However, the decision may be narrow enough to permit continued funding of mass rail transit projects using Port Authority revenues without increasing the risk to bondholders. The decision does not state, for example, that the covenant may not be modified in any way. In order to improve public transportation in any significant way, the Port Authority must accept a significant role in assisting mass transit in the future.

The Commission questions the continued transfer of capital funds for mass transit operations. The practice of utilizing the Urban

Mass Transportation Act (UMTA) Section 3 (h) provision, whereby one-half of the Federal funds already approved for major capital programs may be used to cover operating expenses of mass transit systems if the funds are repaid by the end of the fiscal year following their use, represents a form of borrowing to cover operating expenses, a procedure that was partly responsible for the fiscal crisis.

The Commission supports efforts in the Senate and House to modify the UMTA Section 5 program which provides either operating or capital funds. As discussed above, New York City is treated inequitably by the Section 5 formula. Efforts are presently being made in the Senate to introduce a ridership or system utilization factor into a formula for operating assistance only. In the House, hearings are being conducted in order to find suggestions to finance a national mass transportation trust fund which could be used to make grants for both operating assistance and capital projects.

D. TOWARD A NATIONAL URBAN POLICY

As this report strongly suggests, the condition of New York and all other urban centers in the nation is inextricably related to the intergovernmental fiscal system. The Commission believes that the recommendations made above with regard to functional reassignment, limited expansion of basic support grants, and correction of inequities in Federal and State aid distribution represent necessary steps in the revitalization of urban areas. However, these programs must be integrated into a national urban policy.

The Federal government is not presently committed to dealing with urban problems in a comprehensive, unified manner. Neither Congress nor the President has taken on the complex problem of how to achieve the most effective relationships among the three levels of government. Few Federal policies, for example, deal with the structural changes in the economy and society that underlie the continued decentralization of people and jobs. Nor do they attack the structural rigidities in the market that force low-income, minority families to remain in the central cities. In the design of programs, Federal agencies have failed to recognize that their discrete initiatives could work at cross-purposes with each other. The often-cited comparison of highway construction and urban renewal programs is just one of many instances that evidence conflicting program goals and impacts. Furthermore, most policies imply a single solution for a problem, thus ignoring both the varieties of urban

experience across American cities and the different impacts of metropolitan and regional changes on individual cities. Federal programs are diffused throughout the federal system, bypassing states in some cases, mandating unrealistic matches in others.

Three needs exist in reforming national urban policy. First, a strong partnership among the three levels of government is needed to solve urban problems, and the partnership depends on the fiscal strength of each partner. Such a partnership cannot exist if one partner holds the greater part of the expenditures to meet. Second, private investment is essential to the revitalization of urban areas. Third, and most far-reaching, political and economic boundaries in urban areas need to be better related geographically.

The agenda for achieving fiscal balance in the intergovernmental system already has been described in detail. The reassignment of financial responsibilities, especially the shifting of welfare and Medicaid costs to the Federal level, the expansion of basic support grants to states and localities by the Federal government, and to localities by state governments, and the correction of inequities in Federal and State formula grants would go a long way toward achieving a strong federal-state-local partnership.

The specific policy initiatives to be formulated, however, must realize the futility of Federal attempts to reverse major social and economic structural shifts. It is unrealistic to think that Federal policy, even on a grand scale, can or should relocate people and jobs away from new suburban and regional locations and back into the older central cities. What Federal government action can do, however, is compensate for the inequitable and deleterious impacts of these shifts, particularly in the older cities. The poor who are trapped in central cities and experience economic and social dislocation from declining employment opportunities, declining housing accommodations, disintegrating neighborhoods and inadequate public services need help. A national urban policy must stress an urban development strategy with a primary commitment to the low-income families in central city locations.

A frequently-mentioned suggestion for a mechanism that would serve as the vehicle for helping large cities is a national urban development bank. The bank, which might be placed either in the Department of Treasury or the Department of Housing and Urban Development, would make short-term loans to governments to provide money for operating expenses until expected seasonal revenues became available. The bank also would make long-term loans to refinance outstanding debt as it matured and for the purpose of

restoring pension funds to actuarial balance. In addition to making loans, the suggested development bank would provide Federal guarantees for state and local bond issues, loan insurance programs financed by premiums payed by lenders or borrowers, and direct interest subsidies for bond issuers that choose a taxable bond option. Furthermore, a development bank for localities would require borrowing municipalities to disclose financial data thus imposing outside monitoring on cities with fiscal problems. Such a mechanism, combined with functional reassignment and expanded basic support grants, would go far toward restoring fiscal balance among the three levels of government.

The urban development bank would not only provide loans to municipal governments and lower borrowing costs for the purpose of fiscal relief, but its more important role would be to encourage economic growth. While stabilizing the fiscal affairs of central cities and lowering interest costs would contribute to the restoration of a more favorable economic climate in central cities, an urban development bank could make loans to private businesses and not-for-profit organizations as well, in order to facilitate infrastructure investment and to create employment opportunities. The primary criteria for making a loan to a nongovernmental organization would be the contribution of the project to the economic development of the area, and the ability of the borrower to repay the loan. The development bank would serve as a planning center for the cities, making low-interest loans for projects regarded as too risky by the private lenders, but which the bank can project as safe within the context of the whole economic development effort.[8]

Making central cities attractive locations for investment by offering low-interest loans through an urban development bank is only one part of a national agenda for urban economic development. Economic activity did not move away from the cities solely because of a low level of aggregate investment, but rather because of congestion, new transportation technologies, cheaper land outside the central city, and cheaper fuel costs, among other reasons. With this in mind, it is clear that a source of relatively inexpensive capital must be joined by a neutralization of the comparative advantage suburban areas presently enjoy. Central cities should be availed of complements to Federal actions that have encouraged growth in the suburbs. The cities could have a complement to Federal mortgage subsidies to eliminate the effective penalty for staying in the city and renting a home or business facility. The cities could have a complement to a blanket Federal tax cut in order to encourage

investment in central cities. Most importantly, there could be a Federal complement to the Highway Trust Fund to serve the mass transportation needs of inner cities.[9] Other aspects of an urban redevelopment policy could include an expansion of Federal funds for on-the-job training allowances for employees in high unemployment areas, and further Federal funding for rehabilitation of existing infrastructure.

At the root of the problems of older central cities is the lack of ability on the part of the central city to act on a metropolitan basis in service provision or financing. Cities provide a wide range of urban public services benefitting a large number of people who do not contribute tax dollars for the services. Conversely, there are a number of functions that could be provided more economically on an areawide basis, but because of the fragmentation of the metropolitan area into a myriad of incorporated municipalities, the function is also fragmented or assigned to a special purpose authority over which the central city has no fiscal or policy control. Although a full-blown regional government is a nearly unattainable vision, especially in metropolitan areas that cover more than one state, there are steps that can be taken by the Federal government and state governments in the context of a national urban policy that would begin to correct the inequities of central city exploitation, diseconomies of scale, and the proliferation of uncontrollable special districts.

Federal initiatives could come in the form of modified categorical grant programs that encourage local government cooperation. Modifications should include the use of bonuses in Federal matching funds for projects tailored to regional needs, rather than strictly local needs; expanded use of procedural requirements for metropolitan review of Federal grant applications from local governments in the same geographic area; and the elimination of programs that encourage the creation of special districts in the metropolitan area. Both State and Federal governments should strive toward uniformity between state-established districts and Federally-sponsored multijurisdictional organizations.[10] State efforts should be directed toward regionalizing major functions that clearly involve more than local considerations: water pollution control, air pollution control, and most importantly, mass transportation. In the New York metropolitan area, the fate of quality mass transportation lies with it becoming a truly regional function.

Finally, the Federal government should approach the framing of a national urban policy in a formal manner. In order to coordi-

nate the billions of dollars that would be distributed under the aegis of such a comprehensive policy, assuring that programs relate to one another and do not run at cross purposes, the Commission feels that a Federal agency should be created, perhaps at the Cabinet level and certainly connected with the operations of an urban development bank, charged with the drafting of an urban policy and with the on-going task of coordinating Federal programs born of the integrated policy. This agency should work closely with state and local officials in the setting of urban priorities, and in the restoration of the fiscal balance that the Commission believes is so essential to the fate of urban life.

Footnotes

[1]Temporary Commission on City Finances, Twelfth Interim Report, *Public Assistance Programs in New York: Some Proposals for Reform*, February 1977.

[2]Temporary Commission on City Finances, Sixteenth Interim Report, *The Medicaid Program in New York City: Some Proposals for Reform,* June 1977.

[3]Temporary Commission on City Finances, Tenth Interim Report, *The City University of New York: Proposals for the Future,* January 1977.

[4]Temporary Commission on City Finances, Second Interim Report, *State Assumption of Court, Probation, and Correction Services,* January 1976.

[5]All data in part B of this section, unless otherwise stated, are from Temporary Commission on City Finances, Fourteenth Interim Report, *The Role of Intergovernmental Fiscal Relations in New York City,* May 1977.

[6]Temporary Commission on City Finances, Fourth Interim Report, *Financing Mass Transit in New York City*, March 1976.

[7]The City of New York, Department of City Planning, *Economic Recovery: New York City's Program for 1977-1981,* December 1976.

[8]U.S., Department of Housing and Urban Development, Office of Policy Development and Research, *Urbank: An Idea Whose Time Has Come?* (Washington, D.C.: May 1977).

[9]Stephen Berger, "New York Under the Carter Charter," *The New York Times*, January 23, 1977.

[10]For an expanded discussion on the problems of jurisdiction and power, see U.S., Advisory Commission on Intergovernmental Relations, *Improving Urban America: A Challenge to Federalism*, M-107 (Washington, D.C.: September 1976).

Section XIII

Conclusion

It is appropriate, in conclusion, to step back from specifics and examine the major assumptions underlying the Final Report of the Temporary Commission on City Finances. The first assumption is that the City of New York can affect its future, more so than many people believe. It has become increasingly popular to assume that the governments of large cities like New York cannot do much about the future. It is true that the City of New York is less able to affect its future now than it was a decade ago because of decisions the City reached and decisions it did not reach. Despite this, those who perceive the City of New York as a captive of larger events misread the past and complicate the future. New York City's resources are scarce enough without diminishing them further by not using them.

The second assumption underlying the Final Report is implicit rather than explicit: acknowledgement of New York City's condition and that of its local government is a necessary first step to planning for the future. The fear of self-fulfilling prophecy leads some to shun acknowledgement of what is. Although New York City's condition is not strong, neither is it so fragile that critical analysis of the present and the future is destructive. The failure to realistically appraise the City's problems and prospects has imposed far greater costs in the past than has critical analysis.

The third assumption is that change is inevitable. The most constant feature of New York City is change: as always, New York

is a city in transition. The ability of the city to respond to change has been its most important characteristic. The city's assimilation of different people and its economic adaptiveness made New York the nation's leading city. The primary public policy challenge facing the City of New York is to define and implement policies that recognize change as inevitable. Policies that attempt to recapture the past or even maintain the present are doomed to failure.

The need to recognize and embrace change is linked closely to a fourth basic assumption: change is necessary. The city no longer has the resources to support a local government of the size and shape of the current government. For the foreseeable future, resource scarcity will be the dominant fact of governmental life in New York City. If the city's prospects included a major recovery of the local economy and reform of intergovernmental relations, the need to change would not be so great. Realistically, however, neither can be assumed in planning for the future. It took a decade for the City of New York to move from a stage of relative financial stability to fiscal crisis. It probably will take as long to secure financial stability once again.

Fifth, the likelihood of continued economic scarcity not only means that the local government will have to continue to contract but that it will have to rationalize the use of its resources. In order to put the City of New York into harmony with the larger city's developmental needs, what now is politically irrational will have to become politically rational. Reforming some of the City's key public policies and managerial practices involves the reordering of public priorities and, ultimately, the redistribution of public benefits and costs. It is not entirely clear that the political process in New York City has the capacity to reform itself in fundamental ways, but the consequences of not engaging in fundamental reform are all too clear.

This raises the sixth and last basic assumption underlying the Commission's Final Report. Before public priorities and public benefits and costs can be reordered, public values have to change. In the final analysis, the local governmental process came to place a much higher value on short-term goals than long-term goals because this was consistent with the political values of most New Yorkers. This is why the Final Report of the Temporary Commission on City Finances is written as much to the people of New York City as to its political leaders.

Appendix I

Primary Recommendations of the Temporary Commission on City Finances

The primary recommendations of the Final Report of the Temporary Commission on City Finances are presented below.

Tax Reduction (Section VIII)

1. The City's General Corporation Tax should be reduced by one percentage point a year from its present rate of 10.05 percent to 5.05 percent.
2. The tax reductions and credits for the city's manufacturers recommended in the Commission's Ninth Interim Report, *The Effects of Taxation on Manufacturing in New York City* (December 1976), should be implemented.
3. Rent control and rent stabilization should be eliminated as recommended in the Commission's Fifteenth Interim Report, *The Effects of Rent Control and Rent Stabilization in New York City* (June 1977), and the City should move to eliminate assessment disparities that discriminate against commercial, industrial and apartment properties.
4. The maximum rate of New York State's Personal Income Tax should be reduced by one percentage point a year from its present maximum rate of 15 percent on taxable income over $25,000 to 10 percent on taxable income over $15,000.

Improving Debt Management and the City's Infrastructure (Section IX)

1. The City should gradually reduce its outstanding debt by issuing less debt than it retires each year.
2. The Federal government should continue its seasonal financing program to the City of New York after June 31, 1978.
3. The limited amount of funds available for capital expenditures in the coming years should primarily be used to rehabilitate and maintain the City's physical plant. Exceptions should only be made for projects like the Convention Center where new construction would provide a definite stimulus to the city's economic development.
4. The City should accelerate the rate at which it withdraws expense budget items from the capital budget.
5. The State Legislature should reexamine the State's constitutional debt limit to ascertain whether it should be revised.

Management Improvement (Section X)

1. Fiscal and managerial control must be centralized in the hands of officials who are politically accountable. A comprehensive wage compensation policy must be developed to cover both nonmayoral and mayoral agencies. The labor relations functions should be strengthened and better integrated with important municipal overhead and agency functions by merging the Office of Labor Relations and the Department of Personnel, as recommended in the Mayor's Management Advisory Board's report, *Personnel*.
2. The City must ensure that an effective managerial structure is created that would encompass all employees with managerial and supervisory responsibilities, allow for entry and promotion on the basis of experience and performance, and provide management personnel with greater latitude in the execution of their responsibilities.
3. The City's personnel policies should be reformed to enable it to deploy its labor force in as productive and cost efficient a manner as possible. This reform includes the development of a wage policy that links wage increases to the City's regaining managerial control over the deployment of its work force.
4. The City must support innovative means of organizing and delivering municipal services in ways that promote greater citizen responsiveness and lower costs.

Expenditure Reduction (Section XI)

1. The City's pension and fringe benefit systems should be revised in the manner recommended in the Commission's Sixth and Seventh Interim Reports, *The Fiscal Impact of Retirement Benefits: Some Proposals for Reform* (May 1976) and *The Fiscal Impact of Fringe Benefits and Leave Benefits: Some Proposals for Reform* (June 1976).
2. The City should consider methods of limiting the subsidies it presently provides for housing, mass transportation and the municipal hospital system.
3. The city's hospital capacity should be immediately reduced by 5,000 beds, half of which should be closed in the municipal hospital system and half in the city's private and voluntary hospitals.
4. The City should make substantial reforms in its leasing, purchasing and contracting procedures.

Intergovernmental Reform (Section XII)

1. The Federal and State governments should assume the cost of public assistance and Medicaid presently borne by the City (more than $1 billion annually) as recommended in the Commission's Twelfth and Sixteenth Interim Reports, *Public Assistance Programs in New York City: Some Proposals for Reform* (February 1977) and *The Medicaid Program in New York City: Some Proposals for Reform* (June 1977).
2. The State should assume all criminal justice functions involving corrections and probation in conjunction with the four-year staged assumption of local court costs already in progress.
3. The State should move to assume the full cost of the City University system as recommended in the Commission's Tenth Interim Report, *The City University of New York: Proposals for the Future* (January 1977).
4. The Federal and State governments should move to implement the reforms of their block and categorical grant programs as recommended in the Commission's Fourteenth Interim Report, *The Role of Intergovernmental Fiscal Relations in New York City* (May 1977).
5. The Federal government should commit itself to developing and implementing a comprehensive national urban policy to deal with the economic and social problems afflicting not only New York City, but cities everywhere in the nation.

Appendix II

Summaries of Interim Reports of the Temporary Commission on City Finances

REPORT: *The Effects of the Bond Transfer Tax*, First Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: November 1975

SUMMARY:

The basic mandate of the Temporary Commission on City Finances is to evaluate and make proposals concerning the long-range financial problems and prospects of the City of New York. Specifically included in the mandate is the responsibility to evaluate critically the entire revenue structure of the City. Because of this mandated responsibility, Mayor Abraham D. Beame requested that the Temporary Commission on City Finances report on the effects of the bond transfer tax.

Most evidence points to the conclusion that the bond transfer tax is a poor tax: Its revenue potential appears to be only one-half to two-thirds the amount initially estimated; liability under the tax is easy to avoid; and the securities and banking industries in New York City are affected negatively by the tax.

Specifically, the Temporary Commission on City Finances finds that:

1. While more experience under the bond transfer tax would enable revenue to be projected with more confidence, it appears at this time that revenue from the tax will fall in a range of $14 million-$17 million, considerably less than the $25 million originally estimated.

2. There are strong indications that the bond transfer tax adversely affects the profitability of the local securities and banking industries and threatens their position with respect to competitors outside New York City.

3. The securities and banking industries represent important growth sectors in New York City's troubled economy with respect to employment, income, and tax revenues.

Members of the Revenue Subcommittee:

Robert V. Tishman, Chairman
George Champion
John A. Coleman
Charles A. Goldstein
Lewis Rudin
A. Robert Towbin

Research Staff:

Denis V. Curtin
H. Andrew Decker
Dennis C. During
Robert P. Shay, Jr.

REPORT: *State Assumption of Court, Probation and Correction Services in New York.* Second Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: January 1976

SUMMARY:

In August of 1975, Mayor Abraham D. Beame requested that the Temporary Commission on City Finances examine the financing and administration of court, probation, and correction services in the City of New York. As this report shows, the reasons why the State of New York should both finance and administer court services in New York, including probation functions, have been expressed repeatedly in a number of comprehensive studies completed during the last decade. This report also suggests that the costs and administration of local correction activities should be assumed by the State provided that certain conditions are met that ensure the quality of inmate services.

The Temporary Commission on City Finances concludes that:

1. In order to promote the highest possible degree of integration among these three important and functionally interrelated services, it is desirable that the State assume administrative control and financial support of court, probation and correction services in New York City. The incremental cost to the State of assuming these three functions at once in New York City would be approximately $273 million—$130 million for courts, $18 million for probation, and $125 million for corrections. The incremental cost of the State assuming immediately all three functions in communities outside New York City, including the cost of leveling up State salaries, would be approximately $244 million—$116 million for courts, $26 million for probation, and $102 million for corrections. Thus, the maximum total incremental cost to the State of assuming all three functions at once would be approximately $517 million—$246 million for courts, $44 million for probation, and $227 million for corrections.

2. In the event that it is not feasible for the State to assume financial and administrative responsibility for all three systems immediately, the Temporary Commission on City Finances recommends that court and probation activities in New York City be

REPORT: *Financing Mass Transit in New York City*, Fourth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: March 1976

SUMMARY:

In August 1975 Mayor Abraham D. Beame requested that the Temporary Commission on City Finances examine the finances of the New York City Transit Authority. This report focuses on the financial problems facing the New York City Transit Authority in fiscal years 1977 and 1978, and makes general recommendations concerning the long-term problems after fiscal year 1978.

The Temporary Commission on City Finances concludes that:

1. The financing deficits of the New York City Transit Authority for fiscal years 1977 and 1978 should be closed through reductions in operating costs. Assuming scheduled subsidies continue, the current (1975-1976) financing deficit of $4 million will increase to $70 million in fiscal year 1977 and to $109 million in fiscal year 1978. These deficit estimates are predicated on the assumption that transit workers will receive no general pay or benefit increases during fiscal years 1977 and 1978 and that savings of $89 million requested by the Emergency Financial Control Board will be implemented. Additional economies are necessary to close the remaining deficit. Potential economies of $112.5 million are listed in this report for consideration. Also, the State Comptroller has identified $32 million in productivity savings, some portion or all of which might be effected.

2. Employees of the New York City Transit Authority should be subject to a wage and benefit freeze for fiscal years 1977 and 1978. This recommendation is warranted because current operating costs of the New York City Transit Authority, $928 million excluding transit police costs and debt service, have become excessive through enormous increases in salaries and benefits, which comprise 83.4 percent of the costs. In the last decade New York City Transit Authority expenditures increased 180.6 percent, as compared to a 76.7 percent increase in the local Consumer Price Index. Transit labor costs increased 180.5 percent during this period, exceeding the increases realized by other employees in the public and private sectors. A wage and benefit freeze would also be equitable since it

corresponds with the wage and benefit freeze presently applied to City and State employees.

3. Fare increases should not be contemplated prior to fiscal year 1979 because of adverse effects on ridership and the City's economy.

4. No additional transit subsidy should be provided by the City of New York beyond its current subsidy of $424.1 million.

5. Federal and New York State transit operating subsidies are inadequate. The City's subsidy, $424.1 million, was $177.8 million greater than the combined Federal and State subsidies and loans of $246.3 million. Intergovernmental subsidies are also discriminatory owing to the current allocation formula. A more equitable allocation, based partly on transit ridership, would increase Federal operating subsidies by 64 percent, from $51.3 million, provided currently, to $84.3 million. An increase in total Federal disbursements for mass transit is also warranted.

The present State allocation discriminates against the City since it allocates only 61 percent of the State transit funds for the region to the New York City Transit Authority, even though the New York City Transit Authority carries 94 percent of the transit passengers in the region and 79 percent of the passenger-miles in the region. A formula has been prepared for State allocations that would increase the State subsidy and distribute the monies equitably. Through this formula the City would receive $193.5 million annually, as compared to the present $70 million. Because of the State's fiscal problems it is unrealistic to expect a significant subsidy increase in fiscal year 1977, but the importance of local mass transit to the State's economy is such that an increased level of subsidy is justified as soon as the State's fiscal problems permit it.

6. The imposition of additional State or local taxes or the diversion of existing taxes to overcome transit financing deficits is unnecessary in view of the measures suggested above and should not be undertaken in the next two years.

7. The independent management study of the transit system by the State Commissioner of Transportation should be completed, if possible, by July 1, 1976 because of its potentially important impact on efficiency of local mass transit operations. A definitive study of the feasibility of differential fare pricing based on time, distance, or both is necessary.

8. If operating economies and increased State and Federal subsidies are insufficient to avoid deficits after fiscal year 1978, all

or part of the monies that might be derived from other potential revenue sources could be allocated to the transit system in order to maintain or possibly to moderate the transit fare.

9. The City's planned capital construction for the New York City Transit Authority is incorporated in the cash-flow planning of the Emergency Financial Control Board. It is assumed, therefore, that adequate City funds will be available for capital projects approved by the Emergency Financial Control Board for fiscal years 1976-1978.

Members of the Transportation Subcommittee:

Lewis Rudin, Chairman
Bruce Llewellyn
Martha R. Wallace

Research Staff:

James R. Janz
Terry I. Mossholder

Consultants:

Dr. Ernest Kurnow
Dr. Richard Brief

REPORT: *The Effects of the New York City Estate Tax*, Fifth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: April 1976

SUMMARY:

One responsibility of the Temporary Commission on City Finances is to evaluate and make proposals concerning the City of New York's revenue structure. This report on the City estate tax is the fifth report issued by the Commission and the second to examine a specific local tax. In November 1975, the Commission issued a report, *The Effects of the Bond Transfer Tax*, that was highly critical of the City's bond transfer tax. The bond transfer tax was subsequently repealed.

The Temporary Commission on City Finances concludes that:

1. The City estate tax discriminates against New York City residents because no other municipality has imposed such a tax.

2. The City estate tax, while nominally a 50 percent surcharge on the State estate tax, actually increases the effective estate tax rate on City residents by as much as 210 percent. In its application the tax is unreasonable and excessive.

3. There is evidence that the enactment of the estate tax has caused individuals to contemplate changing and, in some instances, actually to change their residences in order to effect future substantial estate tax savings through avoidance of the tax.

4. The City will lose significant amounts of personal income, sales, and property tax revenues as a result of tax avoidance.

5. The State also will lose substantial tax revenues from individuals who leave the State in order to avoid the estate tax. Indeed, the negative impact of the City estate tax will be greater for the State than for the City.

6. The impact of the estate tax on corporate executives, in all likelihood, will contribute to the relocation of businesses outside New York City and the loss of jobs within the city.

7. The estate tax is likely to cause the departure of many residents who provide support for the city's cultural, charitable, and educational organizations.

8. The tax provides a substantial deterrent to investment in New York City real estate.

The conclusion is inescapable that repeal of the City estate tax will serve the interests of the State and the City. The tax is shortsighted and in the long-range would be counterproductive.

The Temporary Commission on City Finances recommends that the City estate tax be repealed immediately.

Members of the Revenue Subcommittee:

Robert V. Tishman, Chairman
George Champion
John A. Coleman
Charles A. Goldstein
Lewis Rudin
A. Robert Towbin

Research Staff:

H. Andrew Decker
Dennis C. During
Robert P. Shay, Jr.

REPORT: *The Fiscal Impact of Retirement Benefits: Some Proposals for Reform*, Sixth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: May 1976

SUMMARY:

Next to debt service, which is estimated to be $2.0 billion in fiscal year 1977, retirement benefits, projected at $1.7 billion in fiscal year 1977, represent the largest expenditure item of the City of New York that is not directly related to the performance of public services. Because of the City's financial problems and increases in retirement costs in the immediate future, there will be an increase in pressure for further reductions in City employment and City services.

This report examines the fiscal impact of employee retirement benefits and recommends certain limited changes that would gradually reduce the current level of expenditure by a minimum of $135 million annually. These reforms would not threaten the overall integrity of the retirement plans of City employees; in fact, the reforms would result in a reduction in retirement benefit costs of only 3.7 percent over the next three years. These reforms are directed to specific policies that no longer are defensible.

Specifically, the Temporary Commission on City Finances recommends that:

1. As recommended by the Mayor's Management Advisory Board, the Increased-Take-Home-Pay (ITHP) benefit, under which the City assumes for employees most of their originally required pension contributions, should not be extended by the New York State Legislature. The expiration of this benefit on July 1, 1976, would save the City $94 million annually, beginning in fiscal year 1979.

2. As previously recommended by the Mayor's Management Advisory Board, the "Heart Bill," under which any retirement due to heart disease from the Police and Fire Departments is presumed to be service-connected, and thus eligible for accidental disability benefits, should be eliminated. This reform would save the City an estimated $17 million annually beginning in fiscal year 1979.

The implementation of recommendations 1 and 2 would result in savings to the City that, when combined with the $93.5 million in savings which will result from the halving of the ITHP rate on January 1, 1976, would total $204 million per year beginning in

fiscal year 1979. This total savings matches almost precisely the $208 million increase in annual contributions by the City to the retirement systems that was recommended by the Mayor's Management Advisory Board in order to put the system on firm financial footing. Thus a sizable increase in City contributions can be avoided despite the deficiency discovered by the Mayor's Management Advisory Board.

3. As previously recommended by the Permanent Commission on Public Employee Pensions and Retirement Systems, union annuity funds, the third-tier retirement benefit (in addition to pension and Social Security) enjoyed by uniformed City employees and teachers should be terminated. Elimination of this benefit through collective bargaining would produce a minimum annual savings of $24 million and possibly as much as $35 million beginning in fiscal year 1977 depending on whether the benefit is found to be constitutionally protected as applied to pedagogical employees of the Board of Education.

4. In addition to recommendations 1 through 3, which would affect retirement benefits of City workers hired before as well as after July 1, 1973, the Commission endorses, for workers hired after July 1, 1973, the general recommendations in the report of the Mayor's Management Advisory Board, *Pensions*. The Commission recommends that the retirement plan for post-July 1973 employees (Article 11 of the State of New York Retirement and Social Security Law) be continued subject to the following amendments: (a) one-half of primary Social Security benefits should offset City retirement benefits; (b) overtime pay should be excluded for the purpose of computing final retirement benefits; and (c) automatic cost-of-living escalator provisions should be excluded from City employee retirement plans.

Since post-July 1973 employees will, with a few exceptions, not retire until well after 1990, it is impossible to predict the savings that will result from these recommendations. In addition, many of the post-July 1973 employees were separated from City service as a result of the fiscal crisis.

Members of the Expenditure Subcommittee:

George Champion, Chairman
Joseph W. Ford
Marife Hernandez
Harry Van Arsdale

Research Staff: Denis V. Curtin

REPORT: *The Fiscal Impact of Fringe Benefits and Leave Benefits: Some Proposals for Reform*, Seventh Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: June 1976

SUMMARY:

Since fiscal year 1975, the City of New York has been engaged in a substantial retrenchment effort: City employment has been cut; programs have been eliminated; and public services have been reduced. Further reductions in employment, programs, and services are indicated by the three-year Financial Plan of the City. In view of this, it is critically important for the City government to re-evaluate all of its expenditure commitments.

This report analyzes fringe and leave benefits of City employees. The existing City system of fringe and leave benefits is excessively generous and inconsistent with the general public need for the maintenance of City services at maximum possible levels and reasonable cost. As this report shows, fringe and leave benefits of City workers have increased to the point where, when combined with pension costs, the City spends approximately $2 on benefits for every $3 it spends on base pay. For some employees, the City spends more on benefits than base pay.

The recommendations of the Temporary Commission on City Finances would, if realized, reduce expenditures for fringe benefits by $97 million, or 31 percent of the current level of expenditure. The recommendations of the Commission concerning leave benefits would, if realized, be equivalent to adding approximately 9,000 additional City employees at no added expense to the City. Over the next decade the cumulative impact of these proposals would be enormous.

As demonstrated in this report, the City's fringe and leave benefits are greater than those provided to other public employees and to private workers and would continue to be above average even after implementation of these recommendations. Reductions in fringe and leave benefits would provide increased service to the general public at a more reasonable cost. These recommendations would assist the City of New York in its effort to avert financial disaster and regain a competitive position to attract and retain business.

Specifically, the Temporary Commission on City Finances concludes that:

1. Health insurance costs, presently $184 million annually, should be shared by the City and its employees at a 75-25 percent

ratio rather than being fully paid by the City. This reform would save the City $44 million annually at present health insurance rates.

2. Health insurance should be provided to service retired employees at age 62 rather than, as now, at time of retirement regardless of age. This reform would save the City $7.5 million annually at existing health insurance rates and retirement levels.

3. The City's basic health insurance plan should be integrated with the supplemental union welfare fund benefit, and the new plan should be administered by the City. This reform not only would maintain, if not improve, employee health benefits overall but also would save the City an estimated $30 million annually at present cost levels.

4. Supplemental union welfare fund benefits for retired employees should be discontinued at a savings of $7.5 million annually at existing health insurance rates and retirement levels.

5. After 5 years, protective service employees should receive one-half of the amount currently provided by the City for uniform allowance, and a similar reduction should be made for all other City employees after 3 years of service. This reform would save the City $8 million of current annual costs of $19 million.

6. The workweek of all full-time City employees who work less than 37½ hours should be increased to 37½ hours for the duration of the fiscal crisis. This reform, which would make the City's workweek consistent with that of the State, would be equivalent to adding almost 5,000 new City workers at no expense to the City.

7. Vacation leave benefits should be reduced in the following manner: from 20 to 15 days for employees with up to 6 years of service; from 25 to 20 days for employees with 6 up to 16 years of service; and from 27 to 25 days for employees with 16 or more years of service. This reform would be equivalent to adding more than 2,000 new City workers at no added expense to the City.

8. Sabbatical leaves should be discontinued for employees of the Board of Education and should be limited to 50 percent of pay for pedagogical employees of the Board of Higher Education. This reform would be equivalent to adding more than 1,500 employees in the Board of Education and more than 500 employees in the City University of New York.

Members of the Expenditure Subcommittee:

George Champion, Chairman	Marife Hernandez
Joseph W. Ford	Harry Van Arsdale

Research Staff: Mary McCormick

Research Assistants: Cristina Kazan, Barbara Lisenco

REPORT: *An Historical and Comparative Analysis of Expenditures in the City of New York*, Eighth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: October 1976

SUMMARY:

The Eighth Interim Report of the Temporary Commission on City Finances examines and compares the City of New York's expenditures with those of other large city governments in the United States. Each of the seven previous Commission reports contained public policy proposals. This report has the more general purpose of establishing a framework for a series of subsequent Commission reports that will address specific services of the City, the City's financial relationships with the State and Federal governments, and the City's tax structure.

The Temporary Commission on City Finances finds that:

1. The mix of services provided by the City has changed substantially since the early 1960s and particularly after 1966. The City's financial and manpower resources increasingly have been directed away from police, fire, sanitation, and education and toward welfare, higher education, and hospitals.

2. Between fiscal years 1961 and 1976, the share of total City expenditures allocated to police, fire, sanitation, and education declined from 46 percent to 30 percent, while the welfare, hospitals, and higher education share increased from 22 percent to 37 percent. During this fifteen-year period, total expenditures for police, fire, sanitation, and education increased from $1.1 billion to $4 billion, while expenditures for welfare, hospitals, and higher education rose from $.5 billion to $4.9 billion.

3. Despite a more than threefold total expenditure increase in the City between 1966 and 1976, combined police, fire, sanitation, and education employment currently is at 1966 levels. However, welfare, higher education, and hospital employment increased one-third between 1966 and 1976.

4. State and Federal aid contributed significantly to the growth and reorientation of City expenditures during the 1961-1976 fiscal period. State and Federal aid increased from $565.2 million, or 23 percent of the fiscal year 1961 budget, to $5.7 billion, or 47 percent of the fiscal year 1976 budget. Most of the increase in external aid was for welfare, hospitals, and higher education, but these three services also received a larger share of local tax-levy revenues. The

share of tax-levy revenues for police, fire, sanitation, and education declined from 45 percent in fiscal year 1961 to 34 percent in fiscal year 1976.

5. Welfare and hospital costs, which include medicaid, are nearly $4.3 billion and represent the major functional expenditure problems faced by the City. Although 75 percent of welfare and medicaid benefits are paid for by State and Federal aid, combined welfare and hospital expenditures exceed combined police, fire, sanitation, and education expenditures.

6. Debt service and public employee retirement benefits represent an even greater cost problem to the City than welfare and Medicaid because they are financed almost entirely from tax-levy monies. Debt service and public employee retirement costs, which aggregated $662 million in fiscal year 1961, rose to $3.8 billion in fiscal year 1976, and will approach $4.2 billion in fiscal year 1977, about 30 percent of total City expenditures.

7. Compared with other city governments, per capita expenditures in New York City are high for police, fire, sanitation, and education. And the City's per capita expenditures for welfare, hospitals, higher education, and housing are unusually high compared to other local governments that provide these services. In 1974, the City's per capita welfare expenditures were $338, five times higher than the average of $67 for all local governments in major metropolitan areas in the United States. And in that same year, the City's per capita health and hospital costs of $182 were almost four times higher than the national average of $49 for metropolitan areas.

8. The City's expenditures for higher education and housing, while lower than its expenditures for welfare and hospitals, are also major cost problems. In 1974, the City's per capita higher education costs of $64 were three times greater than the average of $21 for all local governments in major metropolitan areas. In the same year, the City's per capita housing costs of $81 were $12 per capita more than its expenditure for police.

Members of Expenditure Subcommittee:

George Champion, Chairman
Joseph W. Ford
Marife Hernandez
Harry Van Arsdale

Research Staff: James R. Janz

Research Assistants: Claire Olsen Kyle
Adrien P. Mally
Joyce L. Manson
Brian Miller
Yakov Zvi

REPORT: *The Effects of Taxation on Manufacturing in New York City*, Ninth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: December 1976

SUMMARY:

In two previous Interim Reports, the Temporary Commission on City Finances analyzed specific taxes and found them to be counterproductive. In *The Effects of the Bond Transfer Tax*, the Commission concluded that the tax threatened a segment of the local securities and banking industry by placing it at a competitive disadvantage with firms located outside New York City. The bond transfer tax was repealed in March 1976. In *The Effects of the New York City Estate Tax*, the Commission concluded that the estate tax also would be counterproductive. The estate tax was repealed shortly after release of the Commission's report.

The Ninth Interim Report of the Commission also contains proposals to reduce taxes in order to advance the long-term prospects of New York City's economy, but the proposals in this report go far beyond those made in the two previous Commission reports with respect both to the size of the tax reduction proposed and, more importantly, the benefits to be realized from reducing taxes. Elimination of the bond transfer and estate taxes, while helpful, does not provide nearly the stimulus to local economic activity that will be provided by the acceptance of the manufacturing tax reductions proposed in this report.

The Temporary Commission on City Finances finds that:

1. The economy of New York City is deteriorating rapidly. In the 1970-1975 period, 470,000 jobs were lost, 200,000 more jobs than were gained in the 1950-1970 period. Until the local private economy is stabilized, the local public economy will continue to be depressed.

2. The major weakness in the city's economy has been in manufacturing. Between 1950 and 1975, over 500,000, or one-half, of the city's manufacturing jobs were lost. So widespread is the manufacturing decline that employment in each of the 21 major industrial groups within the manufacturing sector declined by more than 20 percent during the 1970-1975 period.

3. While the Commission recognizes that the transformation from a manufacturing-oriented to a service-oriented economy is both

inevitable and desirable, it concludes that an attempt must be made to retain, and possibly even expand, the city's manufacturing base. This is necessary for a variety of reasons, including the need to halt job losses, reduce attendant budgetary pressures, and provide employment and mobility opportunities to members of the resident labor force who cannot find employment opportunities in other areas of the city's economy.

4. Unlike the city's nonmanufacturing sector, manufacturing activities are particularly sensitive to local tax rates. Various business tax increases since 1966 have had a particularly negative effect on manufacturing activity in New York City.

5. The reduction of manufacturing taxes proposed in this report would both halt the city's rapid decline in manufacturing employment and result in sharply increased tax revenues for the City of New York.

6. While the Commission's proposals may cost the City as much as $90 million within the first two years of implementation, by the end of the third year that entire amount will have been recovered. If the City does not act, it stands to lose as much revenue *annually* within three years as a result of the continued decline in manufacturing activity as it would cost to implement the proposals in the first place without gaining any of the benefits their implementation will bring about.

The Temporary Commission on City Finances therefore recommends that the following recommendations be enacted simultaneously:

1. The general corporation (business income) tax as it applies to manufacturers should be reduced from 10.05 percent to 5 percent.
2. The 4 percent sales tax on the purchase of machinery, equipment, fuel and utilities should be eliminated.
3. A 5 percent investment credit against the general corporation (business income) tax should be instituted for the purchase of new manufacturing machinery, equipment and structures.
4. The commercial rent occupancy tax should be reduced from its present effective rate of almost 7.5 percent to a flat 2.5 percent on all rentals in excess of $1,000 per annum.
5. The exemptions from the property tax for newly constructed manufacturing facilities provided under the recently enacted Padovan-Steingut legislation should be increased to 95 per-

cent of the assessed value added to the property, declining by 5 percent annually over 19 years from the present 50 percent exemption which declines by 5 percent annually over 10 years.

The Temporary Commission on City Finances also recommends that consideration be given to the elimination of the costs associated with the administration of the general occupancy tax by combining it with the commercial rent occupancy tax. The revenue level could be maintained by raising the rate of the commercial rent occupancy tax to the extent necessary above 2.5 percent to achieve this result.

Because these recommendations are designed to be interactive, their implementation on a partial or piecemeal basis will have little significant effect. Moreover, the confidence of those on whom the success or failure of these proposals ultimately depends, the manufacturers themselves, is unlikely to be inspired by anything less than a substantial effort to ease the tax disadvantages their New York City location imposes on them. Consequently, the Commission strongly urges that these recommendations be implemented together.

Members of the Revenue Subcommittee:

Robert V. Tishman, Chairman
George Champion
John A. Coleman
Charles A. Goldstein
Lewis Rudin
A. Robert Towbin

Research Staff:

Robert P. Shay, Jr.
H. Andrew Decker

Consultants:

Dr. Ronald E. Grieson
Dennis C. During

REPORT: *The City University of New York: Proposals for the Future*, Tenth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: January 1977

SUMMARY:

The basic mandate of the Temporary Commission on City Finances is to evaluate and make proposals concerning the long-range financial problems and prospects of the City of New York. The responsibility to evaluate the fiscal aspects of nonmayoral agencies is specifically included in this mandate. The Board of Higher Education, one of several important nonmayoral agencies, is the subject of this report. As a result of the City's fiscal problems, a series of exceedingly complex and highly interdependent issues involving the future of the Board of Higher Education and the City University of New York must be resolved. This report examines the recent history of the City University, particularly the crisis period of the last year, and offers recommendations for the future.

The City University has become a large, exceedingly complex educational system. The development of the University has occurred during the period of municipal sponsorship and has been shaped by its economic impact and social significance within the urban fabric of New York City. The University's interaction with the city has been evident in its responsiveness to various communities and in providing higher education for groups of students that traditionally have not easily gained access to higher education. The orientation of the University toward New York City is reflected in its mission, program, and structure.

The University's growth phase has been abruptly altered, however, by the fiscal problems of the City of New York. Within the past 16 months, the University has undergone programmatic and financial retrenchment, changed the nature of its open admissions program, ended the historic policy of free tuition, and begun a period of transition from City to State sponsorship. The financial circumstances of the City require that its commitment to higher education be limited to support for community colleges on a basis the same as other local governments in New York State.

These events necessitate new and major decisions about the future of the University and the configuration of higher education statewide. The Legislature has already committed the State government to accept responsibility for public baccalaureate and graduate education in New York City. The basis and the timetable on which the State assumes this responsibility, however, remain to be determined. This report addresses these issues and presents proposals on

the structure, governance, and financing of the University.

The Temporary Commission on City Finances specifically recommends that:

1. The assumption by the State government of the responsibility for baccalaureate and graduate education in New York City should involve maintenance of an independent City University system rather than an arrangement in which the senior colleges and the Graduate Center are absorbed into the State University. The City University should remain a comprehensive, articulated university system providing two-year, four-year, and graduate education that is oriented to the needs of New York City.

2. The governing body of the City University should be a board of trustees with a majority of the members appointed by the Governor and a majority of the total board required to be residents of New York City.

3. Budget allocations to the senior colleges of the State University and the City University should be made as part of the same funding process within State government and should be determined in such a way as to guarantee equitable treatment, an adequate level of support, and flexibility in budgeting and expenditures for both universities.

4. The City of New York should terminate financial support for public baccalaureate and graduate education effective the beginning of fiscal year 1978. The State should assume the full cost of the senior colleges of the City University.

5. The City University should continue to refine its scope and purpose as part of a university-wide process of strategic planning for the future. This review should be conducted within the context of policy leadership from the State government and should include strengthening of both academic quality and the capacity to serve the special educational needs of New York City.

6. The decisions on the future of the City University should include consideration of the resources available within the independent sector of higher education in New York City.

7. The Board of Higher Education should join with the trustees of independent institutions to form a council composed of representatives from all the college and university governing boards in the New York region. This group would become the major cooperative planning body for higher education in the New York area.

Members of the City University Subcommittee:
Edward J. Mortola, Chairman
Joseph W. Ford Emanuel Saxe
Research Staff: James M. Hartman Research Asst.: Walter M. Collins

REPORT: *The Effects of Personal Taxes in New York City: Some Proposals for a More Rational System*, Eleventh Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: February 1977

SUMMARY:

The basic mandate of the Temporary Commission on City Finances is to evaluate and make proposals concerning the long-range financial prospects of the City of New York. One of the Commission's major responsibilities is to analyze the City's revenue structure. This report, the fourth Interim Report of the Commission addressing revenue issues, examines some of the major personal taxes levied on New York City residents and commuters: the sales tax; the personal income tax on residents and commuters; the cigarette tax; and the auto use tax. The sales tax on manufacturing firms is discussed in the Ninth Interim report, *The Effects of Taxation on Manufacturing in New York City*.

It is essential for the long-term economic health and development of New York City that the tax system of the City of New York be rationalized so that its burdensome effects are minimized and it can become more competitive with other areas. In the three previous Commission reports that have dealt with the City's revenue structure, the Commission has recommended tax cuts as a means of strengthening the local economy. However, rationalization of the local tax structure does not mean that each local tax must be reduced. What is important for the long-term prospects of the City is that the aggregate tax burden on New York City residents and businesses be reduced. This report, like the previous Commission reports, emphasizes the need to selectively reduce the tax burden on New York City residents and businesses.

Specifically, the Temporary Commission on City Finances recommends that:

1. Neither the State of New York nor the City of New York should increase the sales tax rate so long as the sales tax rates of contiguous states and counties are lower or equal to the sales tax rates of the State and City. Although a rate increase would, in the short-run, yield increased revenues, the long-term economic costs would outweigh the short-term revenue benefits and retard the city's economic recovery.

2. The commuter tax rate should be doubled. A doubling of

commuter tax rates would help to ensure that commuters pay a fairer share for the City services they use and would yield the City an additional $45 million annually. The commuter tax rate on wages and salaries still would be under one percent if doubled.

3. The State and City personal income tax structure should be made to conform to the Federal personal income tax system, and certain special features should be eliminated that add compliance costs for New York City residents and contribute to making New York City's tax environment uncompetitive. Recommended changes include increasing the State and City capital gains deduction to 50 percent, providing for Subchapter S corporations in the State and local personal income tax structure, and eliminating the City minimum income tax on tax preference income.

4. The City cigarette tax should not be reduced or eliminated. The cigarette tax provides important revenue to the City, and analysis indicates that a reduction or elimination of the City tax, as recommended by the State Special Task Force on Cigarette Bootlegging and the Cigarette Tax, would not significantly affect the level of cigarette smuggling.

5. The City should replace its current auto use tax with a one percent *ad valorem* personal property tax on motor vehicles which would yield the City the same amount as it currently raises from the auto use tax, and would permit taxpayers who itemized to deduct the tax from their Federal income tax, a deduction not presently available under the use tax formula. The estimated savings to New York City residents would be $5.5 million.

Members of the Revenue Subcommittee:

Robert V. Tishman, Chairman
George Champion
John A. Coleman
Charles A. Goldstein
Lewis Rudin
A. Robert Towbin

Research Staff:

Mary McCormick

Research Assistants:

Arthur Bousel
H. Andrew Decker
Paul R. Lenz
Brian Miller

REPORT: *Public Assistance Programs in New York City: Some Proposals for Reform*, Twelfth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: February 1977

SUMMARY:

The Twelfth Interim Report of the Temporary Commission on City Finances addresses public assistance, one of the major expenditure problems facing New York City identified in the Commission's previous report *An Historical and Comparative Analysis of Expenditures in the City of New York* (October 1976). As this report shows, the cost of public assistance is exceedingly high in New York City.

In 1975, more than 1.25 million New York City residents, 16.7 percent of its population, received some form of public assistance, and payments for public assistance amounted to $1.9 billion, 11 percent of the City's budget. Although the State and Federal governments financed 74 percent of that amount, the City was compelled to pay the balance, almost $507 million, out of its own tax revenues.

At the heart of the public assistance problem in New York City is the large number of people reliant on the Aid to Families with Dependent Children (AFDC) program for subsistence. This program, which primarily serves families where no father is present and a mother with children is the head of the household, covers more than one-half of the city's welfare population. In 1975, 848,042 people, 11.2 percent of the city's population, received aid under the AFDC program. Some 600,000 of the AFDC recipients were children. The City's AFDC caseload has grown by 196,709 cases (more than 370 percent) since 1961 and by 82,319 cases (49 percent) since 1968. While the average annual growth rate of the City's AFDC caseload dropped from 17.9 percent between 1961 and 1968 to 5.9 percent between 1968 and 1975, expenditures for the AFDC program grew from $569.9 million in 1968 to $1.01 billion in 1975, an annual growth rate of 8.5 percent.

Despite the constant growth of AFDC expenditures, the basic monthly grant level exclusive of rent for a family of four in New York City actually has declined in constant dollars from $141 in 1961 to $136 in 1975. In current dollars, however, the basic grant for such a family, again exclusive of rent, in 1975 was $258.00,

one of the highest in the country. If rent is included, the average payment per AFDC family in August 1976 was $341.00.

In New York State the basic monthly AFDC need standard inclusive of rent in 1975 was $400.00 per family of four, the maximum payment per family was $400.00, and in November the average payment was $351.20. These payment levels contrast starkly with those of states like Georgia where, although the need standard in 1975 was set at $227.00, the maximum payment was $153.00, and the average monthly payment for a family of four was $98.85. AFDC payment levels in Alabama, Mississippi, and South Carolina were even lower than in Georgia.

The intractability of the problems facing AFDC recipients is demonstrated by the fact that in 1975 only 2.3 percent of AFDC cases were closed each month. Of even greater significance, only 15.3 percent of AFDC cases in 1975 were closed because of an improvement, such as employment, in the situation of the families involved. In view of the fact that only 12 percent of the mothers in the AFDC program are classified as employable, and unemployment levels remain unusually high in New York City, particularly among the poorly educated and unskilled, the negligible number of people leaving AFDC rolls is not surprising.

The likelihood of a significant number of people dependent on the City's other two major public assistance programs, Supplemental Security Income (SSI, relief for the aged, blind and disabled) and Home Relief (HR), leaving the welfare rolls as a result of improvements in their situations is scarcely greater than it is for those who are on AFDC. The SSI program, which is the City's second largest public assistance program, providing benefits for 21 percent of its welfare recipients, serves people who by definition are largely unable to work. While 41 percent of Home Relief recipients are available for employment, many of them are on Home Relief precisely because they are unable to find employment. Another 25 percent of Home Relief recipients are classified as unemployable, while many others are employed but do not earn enough income to bring them above the minimum subsistence levels established by the State and Federal governments. In all, the scope for alleviating the cost of public assistance in New York City by finding employment for those presently on welfare is not great.

These findings make it clear that those dependent on public assistance programs for their subsistence will continue to constitute a considerable proportion of the city's population in the foreseeable future. Consequently, unless changes are made in the way public

assistance is financed in New York City and creative programs are devised to deal with the ongoing realities of the problem, the amounts paid from local taxes for public assistance will not diminish and in all likelihood will continue to increase.

The $270 million paid by the City toward the cost of the AFDC program in 1975 greatly exceeded the amount of local revenues paid for AFDC by any other city in the country. Of the twelve urban areas in the U.S. with more than 10 percent of their populations supported by the AFDC program, ten contribute no local revenues whatsoever to AFDC costs. The City of New York, however, is required to pay 25 percent of the total AFDC cost, twice the share required by the only other locality, Newark, that makes a local contribution.

Although the City of New York is mandated by the State to pay 50 percent of the nonfederal cost of AFDC, it has virtually no control over either eligibility criteria or benefit levels. Those matters are decided by the State Legislature. The only discretion the City or the other localities in the State have over the amount they are required to pay for public assistance lies in the manner in which they administer the programs mandated by the State.

In addition to being disadvantaged by the State's unusual practice of requiring its localities to pay 50 percent of nonfederal AFDC costs, the Commission also finds that the City and State are discriminated against by Federal government reimbursement policies. New York is one of thirteen states that receives the minimum 50 percent reimbursement under the Federal program; Arkansas, by way of comparison, has 75 percent of its AFDC costs paid by the Federal government.

Although this report focuses primarily on the problem of the cost of public assistance in New York City, it cannot be emphasized too strongly that the underlying problem of poverty in the U.S. and the concentration of public assistance recipients that is eroding the financial base of urban and, increasingly, suburban governments is the product of structural changes in the nation's economy that cannot be dealt with effectively on a local or even regional basis.

In light of the findings of this report, the Temporary Commission on City Finances recommends that:

1. The Federal government should assume for all states complete financial responsibility for the federally established programs of Aid to Families with Dependent Children and Emergency Assistance to Families. Implementation of this recommendation would save governments in New York State $800 million annually (based

on 1975 expenditures). New York City tax-levy spending for public assistance expenditures would be reduced almost $300 million annually. Other counties in New York State would realize savings of over $100 million annually, and New York State expenditures would be reduced almost $400 million annually.

2. Until full federalization of welfare occurs, the State of New York should assume increasing shares of local public assistance costs with respect to both Federal and nonfederal public assistance programs. While the major finding of this report is that welfare is a national problem that should be federally financed, the report also demonstrates convincingly that New York City and other local governments have been forced by the State to bear an excessive share of welfare costs. It is the responsibility of the State to alleviate this local burden through increased State assumption of local public assistance costs.

3. New York State should assume the administration of all public assistance programs in the State. This recommendation would save New York City about $71 million annually and the other counties of the State approximately $18 million. In addition to reducing local government expenditures, statewide public assistance costs could be reduced by consolidating administrative responsibility and eliminating wasteful, duplicative procedures.

Members of the Intergovernmental Fiscal Relations Subcommittee:

Robert F. Wagner, Chairman
Alton G. Marshall
Donna E. Shalala

Research Staff:

Claire Olsen Kyle

Research Assistants:

Brian Miller
Linda Sayre

REPORT: *Economic and Demographic Trends in New York City: The Outlook for the Future*, Thirteenth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: May 1977

SUMMARY:

The Temporary Commission on City Finances is charged with the responsibility of analyzing and making recommendations concerning New York City's long-term financial problems and prospects. To date, most of the Interim Reports released by the Commission have been policy-oriented, but several studies including this one, were initiated for the purpose of developing a basic framework of analysis and information that can instruct long-term policymaking from several general but important perspectives.

The Commission's Eighth Interim Report, *An Historical and Comparative Analysis of Expenditures in the City of New York*, was the first of its reports of this kind. By carefully analyzing the City's expenditure and manpower patterns, the Commission showed how the purposes of City government changed substantially during the 1961-1976 fiscal period. The major changes identified in the Eighth Interim Report were extraordinarily rapid expenditure increases for public employee retirement benefits and debt service (to the point where, in fiscal year 1976, they accounted for 30 percent of total City expenditures); a substantial relative diminution of the resources allocated to police, fire, sanitation, and education; and a substantial relative increase in resources devoted to social services, hospitals, and higher education.

This report analyzes and projects future changes in the size and composition of New York City's economy and population. While projections of this kind cannot be made with certainty, particularly in large, complex, and open communities like New York City, the projections in this report define certain parameters within which planning for the future should be based.

The Commission's major conclusions regarding the economic and demographic prospects for New York City are as follows:

1. Although the city's economic future is not certain, the major conclusion of this report is that an entirely pessimistic view is unwarranted. While the Commission's employment forecasts indicate a continued falling off through the first half of the 1980s, the

rate of decline will be substantially lower than in the 1969-1976 period. And, despite continuing employment losses, personal income is expected to grow at a rate somewhat in excess of inflation.

2. Part of New York City's economic problems stem from the decline of the northeastern region of the U.S., a process that has been underway for over a decade and is likely to continue until at least the early 1980s. Because the local and regional shares of national economic activity and population will continue to decline, it would be imprudent to expect that the investment needs of New York City will be substantially helped by public monies from the City, State, and Federal governments. This overriding principle, plus the corollary that private investment will be the critical determinant of the city's future, is perhaps the central assumption on which the city's long-term planning and policy must be based.

Despite the generally negative economic prospects for the next few years, several largely overlooked but potentially positive market forces are beginning to appear. The cost of several critical factors of production in New York City no longer is increasing faster than in other urban areas in the United States. If local taxes, rent levels, and labor and energy costs in New York City decline relative to other areas in the United States (many of which currently are growth centers benefiting from New York City's and the region's losses) it is likely that investment opportunities in New York City will improve in the near future. These forces suggest that the city's economy eventually will stabilize, though at a level significantly below the employment peak reached in 1969.

4. With regard to the demography of New York City, the future also is uncertain but not unhopeful. Population will continue to decline throughout the 1970s, perhaps below seven million by 1980. Population declines will substantially outpace employment declines. This suggests the likelihood of reduced unemployment rates, real gains in per capita income, and declining demand for certain public services.

5. Changes in the composition of the city's population also have elements of both optimism and pessimism. Some trends are not encouraging, including the continuing outmigration of young household heads and low rates of labor force participation among the 20-35 year-old group. However, some demographic factors are noteworthy: birth rates are declining, continuing a trend that began in the 1960s; and the number and percentage of senior citizens in the city is likely to level off after continued growth during all preceding decades of the 20th century.

6. While New York almost certainly will continue to become a smaller city, there are reasons why at the same time it may become a healthier city, particularly if the public policies of the City of New York increasingly are directed toward the economic development needs of New York City and Federal policies recognize the problems of the northeastern region. If these changes occur, there is solid reason to be optimistic about the city's long-term future.

Members of the Demographic Subcommittee:

Lawrence Lachman, Chairman
Charles A. Goldstein
Richard R. Shinn
David Teitelbaum
Martha R. Wallace

Authors:

Dr. Charles Brecher
Dr. Emanuel Tobier

REPORT: *The Role of Intergovernmental Fiscal Relations in New York City*, Fourteenth Interim Report of the Temporary Commission on City Finances

DATE OF REPORT: May 1977

SUMMARY:

The Fourteenth Interim Report examines trends in State and Federal aid to New York City over the past decade and a half. It includes recommendations for a municipal strategy to optimize the potential for such aid in coming years.

The findings and recommendations of the Temporary Commission on City Finances in regard to the role of intergovernmental fiscal assistance to the City of New York are summarized as follows:

A. GENERAL FINDINGS

1. The present system of intergovernmental fiscal relationships is almost entirely a product of the last twenty-five years. In 1950,

New York City's budget contained $231.3 million of Federal and State aid, representing only 19 percent of the operating budget. By 1975, intergovernmental aid totaled $6.2 billion, or 51 percent of the budget. This represents a 26-fold increase.

2. This increase in intergovernmental aid has accompanied a vast expansion in the scope of City services. Services that are presently of major importance such as public assistance, health care, and special education programs were minor items in the municipal budget in 1950. The "common" municipal functions such as police protection, fire protection, and sanitation even now receive little or no direct intergovernmental aid.

3. Between fiscal years 1961-1976, three phases of growth in intergovernmental aid to the City are discernable. In the 1961-1965 period, the average annual growth was about 9 percent. From 1965 to 1969, intergovernmental aid grew at 36 percent annually. Since fiscal year 1969, the growth rate has slowed but there has been significant variation in the rate of growth from year to year.

4. The percentage of the operating budget comprised of Federal and State aid has remained fairly steady for the last eight years, ranging from 46 percent to 52 percent of the budget in the fiscal years since 1969. In fiscal year 1977, the percentage of budgeted Federal and State aid has fallen to 43 percent.

5. Over one-third of the total Federal and State funds in the budget are of the mandated categorical type: by State law, the City must contribute to the nonfederal share of operating these programs. Public assistance and medical care programs make up almost all of this amount, totaling nearly $2.4 billion.

6. Federal and State funds have also been an important component in the City's capital budget, totaling $5.2 billion, or 37 percent of all appropriated capital funds during the 1969-1970 to 1976-1977 fiscal period. Of the $14.1 billion total in capital funds budgeted during that period, Federal aid accounted for 26 percent and State aid for 11 percent. Intergovernmental aid in the capital budget was heavily concentrated in the water pollution control and mass transit categories.

B. FINDINGS WITH REGARD TO FEDERAL AID PROGRAMS

1. Federal aid to all state and local governments grew from $2.2 billion in 1950 to an estimated $59.8 billion in 1976. Federal aid has grown far more rapidly than state and local expenditures for the past three years.

2. Federal aid to New York City has grown from less than 5 percent of the operating budget in fiscal year 1961 to about 20 percent in the last several years. Most of the 23-fold increase is due to the vast expansion in public assistance and Medicaid programs.

3. Federal aid for social services, including public assistance, Medicaid and supportive services, has consistently accounted for over one-half of all Federal funds received by the City; in the past three years, Federal aid for social services has accounted for over two-thirds of total Federal aid.

4. Since 1972, there has been an increase in the amount of intergovernmental aid transferred to the city of New York in the form of block grant entitlements. Block grants represent a considerable improvement over categorical aid programs in the flexibility the City has in expending the funds. Of all Federal aid in the City's operating budget, more than 25 percent is block grant funds.

5. The City of New York has used Federal funds, most notably Federal revenue sharing, anti-recession aid, and Community Development Block Grant funds, for financing common functions. Revenue sharing and anti-recession aid funds are placed into the City's General Fund, and thus may be used for any purpose, and Community Development funds have very broad expenditure guidelines.

6. The new anti-recession, or counter-cyclical, revenue sharing formula, which allocates funds to states and localities on the basis of the degree to which the local unemployment rate is in excess of 4.5 percent, tends to spread funds evenly across the country instead of concentrating the funds in areas of high unemployment, such as New York City. Redefining "excess" unemployment to a higher rate would shift more anti-recession funds to central cities.

7. If aid received per person is taken as a measure, the major Federal block grant and revenue sharing programs are reasonably equitable in their treatment of New York City. Each of the programs awards the City a proportion of the national allocation that is greater than the proportion of the City's population to the total United States population.

8. New York City does comparatively well under the general revenue sharing program, receiving 6 percent of the national total and 55 percent of the total for localities in New York State.

9. Despite the fact that it receives over 14 percent of all Urban Mass Transit Act operating (Section 5) funds distributed nationwide, the City is inequitably treated in this program since the City accounts for over 26 percent of all public transit ridership in the nation.

10. The City receives only 3.7 percent of the nationwide total of Community Development funding, a percentage which is much lower than is the case for the other block grant programs. It could receive as much as $15 million more if consideration of regional differences in income levels were allowed by the Federal government. Almost 400,000 people in New York City would be considered below the poverty line if a cost-of-living adjustment were introduced into the Community Development formula.

11. There have been significant constraints on the ability of the City of New York to "win" at the game of grantsmanship. Because it is the largest and most consolidated of the cities in the nation, and therefore requires large grant amounts, there are very few categorical grants in which the City could receive more than its share of the total allocation for the program.

12. Due to cutbacks mandated by its Financial Plan, the City may lose up to $160 million in Federal and State aid in the current fiscal year, particularly for social services and health programs. The total tax levy in 1976-1977 for programs that receive intergovernmental funding is $323.6 million. Thus, the City could lose 49 cents of intergovernmental aid for each dollar cut from the City budget.

C. FINDINGS WITH REGARD TO STATE AID PROGRAMS

1. The State of New York is unique among the fifty states in the degree to which it imposes the burden of financing public assistance and medical care programs on local governments. The 57 upstate counties and the City of New York are required to contribute one-half of the nonfederal cost of such programs, or one-quarter of the total cost, far more than localities in any other state.

2. New York City residents, who comprised only 41.6 percent of all New York State residents in 1975, and whose combined incomes represented only 46 percent of total personal income in the State, are required to finance 75 percent of the local share of the costs of public assistance and Medicaid services in the entire State. The remainder of the State, with 58.4 percent of the population, financed only 25 percent of all local costs. This requirement that the City share the nonfederal cost of public assistance and Medicaid equally with the State imposes a heavy burden on the City's taxpayers which is not compensated by State aid.

3. The State provides more aid to its localities than any other state in terms of the percentage of local budgets that it finances, but it provides close to the national average with regard to the percentage of public school budgets that is state-funded.

4. The total annual amount of aid to the City of New York provided by the State has more than tripled over the past ten years, from $986 million in 1966-1967 to $2.1 billion in 1975-1976. State aid to the City has increased in every year since 1960-1961 except for 1969-1970, when the amount of aid was held constant.

5. New York City's share of the total amount of aid distributed by the State of New York has risen from 37.1 percent of the total in 1960-1961 to 46.4 percent in 1975-1976. The City's share has been in the 46-47 percent range since 1968-1969, except in 1970-1971 when the percentage dipped to 42 percent. Prior to 1968-1969, the City's share had been consistently in the 37-40 percent range. The major factor in the upward shift in the City's share of total State aid was the adoption of special revenue sharing aid to cities in 1968.

6. State aid has been concentrated in a few major categories: education aid, social services aid, and revenue sharing currently account for over three-quarters of the total amount of State aid to the City.

7. Aid to elementary and secondary education, although still one of the largest, has been among the slowest-growing categories of financial assistance from the State to the City. Only housing program assistance has grown more slowly over the past ten years.

8. The City consistently received 70-75 percent of total State social services funding, primarily public assistance and Medicaid, over the past five years. However, it has received only about 30 percent of total State aid to education and 26 percent of aid to local public schools, despite the fact that the City has 30 percent of the pupils enrolled in public schools and an even higher percentage of pupils from families receiving public assistance. This inequity seriously shortchanges the City's educational needs.

9. The State aid to education formula's use of real property per pupil as a measure of local revenue-raising capacity ignores the large differences in the cost of providing educational services between large cities and suburban and rural areas. The formula, which provides aid per pupil on the basis of average daily attendance rather than enrollment, ignores the costly problems encountered by urban centers where attendance is lower than in other parts of the state.

10. The State revenue sharing program, tied to State personal income tax receipts since 1970, has provided significant and growing benefits to the City. The largest single-year increase in City revenue sharing receipts was in 1968-1969 after passage of the special per capita aid to cities program. The City of New York receives about 85 percent of this special city aid.

11. Apart from social services aid, New York City received only 38.9 percent of all fiscal aid distributed by the State in 1975-1976, less than its 42 percent population share. Apart from social services and revenue sharing, the City received only 35.3 percent of all State aid distributions. The State revenue sharing program, of which the City received 58.7 percent in 1975-1976, is the major factor that keeps the New York State system of aid to local governments even moderately equitable to the City of New York.

D. SUMMARY OF RECOMMENDATIONS:

With regard to the above findings, the Temporary Commission on City Finances recommends the following intergovernmental fiscal strategy:

1. Expand Revenue Sharing

The City should continue to press for expansion of the level of financing of both Federal and State revenue sharing programs while guarding against actions to revise funding formulas that tend to lessen the degree of benefit to urban centers. The source of Federal revenue sharing funds, like the New York State program, should be a set percentage of Federal income tax receipts. Because this has not been the case, Federal revenue sharing has grown less rapidly than inflation, reducing the net benefit to local governments.

The City should also press for redefinition of local tax effort in the Federal revenue sharing formula; in particular, the Stock Transfer Tax should be considered as local tax effort. The definition of "excess" unemployment in the anti-recession aid formula should be increased to 6 percent or higher in order to concentrate the funds in areas of real need.

2. Monitor Block Grants

The City should exercise continuing scrutiny of efforts to create new block grant programs or to expand existing ones in order to redefine or eliminate disadvantageous formula factors such as the

"extent of poverty" factor which in its income measurement includes public assistance transfer payments and fails to adjust for regional cost-of-living differences. Formulas should include advantageous factors such as local tax effort. The City should also press to eliminate regulations that place a ceiling on the amount of funding that may be granted to any one locality or state. These regulations always work to the disadvantage of New York City.

3. Revise Functional Responsibilities

New York City is responsible for a broader range of functional responsibilities than virtually any other large city. The Temporary Commission has already recommended that financing of public assistance be shifted to the Federal level and that the State should finance the costs of higher education, courts, correction, and probation services. These revisions would go far to relieve the City of unreasonable and inappropriate fiscal burdens. The Commission makes this recommendation with full recognition of the State's limited ability to assume the fiscal burdens of its localities. Each functional shift must be assessed in terms of how the burden of public service costs can be allocated most equitably and effectively between the State and its localities.

4. Restructure Education and Mass Transit Finance

Two other major functions should also be considered as candidates for major changes in their mode of financing:

a. The State of New York should give serious consideration to developing a regional financing base for the metropolitan region's mass transportation system. Formation of the Metropolitan Transportation Authority (MTA) was a sound intitial move, but now further consideration should be given to an integrated and regionalized financing system for mass transportation.

b. The Commission believes that the New York State system of educational finance, which currently entails State supplementation of local funds, contains complex and inequitable elements. We recommend that the State consider assumption of the basic responsibility for educational finance so that a fully equitable system can be designed.

5. Regionalism

Appropriate activities such as water pollution control, air pollution control, economic development, and mass transportation

and post-1947 rental structures having less than six units, virtually all unsubsidized housing in New York City is regulated by rent control or rent stabilization.

Rent control and rent stabilization reflect a succession of trade-offs made among political, economic, and social variables, the inevitable consequences of which public officials fail to perceive. Calculation of the costs versus the benefits of these policies, with regard to the City's housing, finances, and economy, clearly demonstrates the net adverse effect of rent control and rent stabilization.

The effect, if not the purpose, of rent control and rent stabilization is the subsidization of renters by owners. Cumulatively, this subsidy has exceeded $20 billion. Wholly aside from the question of fairness involved in a governmentally-imposed requirement that one segment of the private sector subsidize another, there is no doubt that the imposition of controls on rent increases, without similar imposition of controls on the expenses incurred in the operation of apartment buildings, has caused and continues to contribute markedly to the deterioration of the city's housing stock. Rent control and rent stabilization have already facilitated the destruction, beyond repair, of a significant portion of the housing inventory in New York City, and until rents are permitted to reflect the true costs of operating urban housing, the premature decay of rental structures will persist.

Continuance of rent control and rent stabilization as permanent features of the New York City real estate market has also meant: a loss of investments for countless New Yorkers whose savings went into producing the city's housing stock; the destruction of the concept of owner-management; the withdrawal of mortgage finance institutions from most of the rental market; and the avoidance of new construction by responsible investors.

Moreover, rent control and rent stabilization programs have a severe, adverse impact on the City of New York's finances. By depressing property tax assessments and promoting real estate tax delinquency and the abandonment of rental properties, rent control and rent stabilization diminish receipts from the single most important source of City revenues, the real property tax. This report concludes that elimination of rent control and rent stabilization, as recommended, would increase real property tax receipts by $100 million or more annually. Maintaining, and perhaps even reducing, real property taxes in order to stimulate economic development is highly desirable. The prospect of this happening would be greatly

increased by eliminating rent control and rent stabilization and, thereby, expanding the real property tax base.

Precisely because the elimination of rent control and rent stabilization programs is so long overdue, the attendant political problem has been exacerbated and it is hardly likely that many New Yorkers will readily accept the conclusion that it is in their best interests to rescind laws that have artificially maintained the cost of rental housing at below market levels. Nonetheless, with due consideration to the human problems involved in the elimination of a major subsidy program that has been in effect for 33 years, the Temporary Commission on City Finances has concluded that it is in the best interests of the City, as a whole, that rent control and rent stabilization be phased out.

The Temporary Commission on City Finances therefore recommends the simultaneous implementation of the following:

1. The State legislature should repeal the recently enacted extension of the Emergency Tenant Protection Act.

2. The administration of rent control should be removed from the City of New York where it is inadequate and has become subject to local political influences.

3. A state rent stabilization board should be created to plan and administer the phasing out of rent control and rent stabilization.

4. All rent-controlled and rent-stabilized housing under the jurisdiction of the state rent stabilization board should be made subject to lease renewal increases based on cost data of the Bureau of Labor Statistics with an additional 1.5 percent increase to establish a fair return on equity over a reasonable period of time. Hardship increase rules under rent stabilization should be re-designed to permit a fair return under all circumstances.

5. Automatic de-control should be applied to all rent-controlled and rent-stabilized units voluntarily vacated or vacated through legal eviction proceedings.

6. Implementation of a needs criteria test should be applied to all rent-controlled units whose occupants have annual gross family income in excess of $20,000.

7. In order to facilitate apartment ownership the Goodman-Dearie Law, which requires 35 percent tenant approval for conversion of rental housing to cooperative or condominium status even if conversion will not be accompanied by the eviction of non-purchasers, should be allowed to expire on June 30, 1977. Non-

purchasers would, upon conversion, be then governed by State rent control and rent stabilization laws, and have 2 years to find alternative housing.

8. Government at every level should encourage the conversion of conventionally financed housing to forms of apartment ownership because apartment owners invest in capital improvements in their own apartments and cause the upgrading of building plant, service and management. Furthermore, the spread of apartment ownership reduces landlord-tenant strife and the spill-over effects into the political process and involves the assumption by apartment dwellers of responsibility for the preservation and improvement of their housing stock.

Members of the Revenue Subcommittee:

Robert V. Tishman, Chairman
George Champion
Charles A. Goldstein
Lewis Rudin
A. Robert Towbin

Consultant:

Frank S. Kristof, Urban Development Corporation

REPORT: *The Medicaid Program in New York City: Some Proposals for Reform*, Sixteenth Interim Report by the Temporary Commission on City Finances

DATE OF REPORT: June 1977

SUMMARY:

The Sixteenth Interim Report of the Temporary Commission on City Finances addresses Medicaid, one of the two major social service expenditure areas in the City's budget. The other area, public assistance, was analyzed in the Commission's Twelfth Interim Report, *Public Assistance Programs in New York City: Some Proposals for Reform*. As the earlier report found in the case of public assistance, this report finds that the cost to New York City of Medicaid is extremely high.

In 1976, 1.4 million people were eligible for Medicaid in New York City, and $1.9 billion was paid for their Medicaid benefits. Another $36 million was spent to administer the program. Together these expenditures consumed 16 percent of the fiscal year 1976 City expense budget. Although the Federal and State governments financed nearly 75 percent of those costs, the City was compelled to pay $541 million for Medicaid out of tax-levy funds. This constituted 7 percent of total tax-levy expenditures. When it is considered that welfare and Medicaid together consumed more than $1 billion of the $7 billion the City raised in tax revenues in 1976, it becomes apparent that the burden on the City's budget of assisting its poorer citizens is heavy indeed.

While the Medicaid program in New York City and New York State is fraught with difficulties, the single most pressing problem is that of cost. In 1973 (the last year for which such figures are available) the average cost per Medicaid recipient in the U.S. was $432, while in New York State that cost was $811, the highest in the nation. Not only is the cost of Medicaid high in New York City and State, it is increasing rapidly. Since 1968, the first full year the Medicaid program was in effect, the City's tax-levy spending on Medicaid has increased at an annual rate of more than 11 percent. Even when the figures are adjusted for inflation, the average annual rate of increase in Medicaid expenditures in New York City between 1968 and 1975 was 7.5 percent.

The primary reasons for the high and rapidly increasing Medicaid costs in New York City and State are the great number of people eligible for the program, the wide range of medical services covered by it, the high and rapidly increasing cost of the basic services provided by Medicaid, and the program's considerable administrative shortcomings.

While the large number of people eligible for Medicaid in New York City is a major reason for the program's high cost, it has not been a factor in the rapid increase in that cost. Because eligibility for Medicaid is linked primarily to eligibility for public assistance, the vast majority, 1.2 million, of the City's 1.4 million Medicaid enrollees are public assistance recipients. The others who are eligible meet the categorical requirements for public assistance, but have incomes slightly above the levels needed to qualify for it, or have had their life savings consumed by the cost of catastrophic illness. Of the 1.4 million people eligible for Medicaid in New York City 647,000 are children in welfare families.

Although people receiving public assistance through the Aid to

Families with Dependent Children (AFDC) and Home Relief (HR) Programs constitute the great majority of those eligible for Medicaid in New York City, the highest costs per enrollee are incurred by Supplemental Security Income (SSI, relief for the aged, blind and disabled) recipients and those who qualify for Medicaid without being on public assistance (referred to as Medicaid-only). The reason for this is that SSI recipients and Medicaid-only enrollees are older, often infirm, and require much more medical attention than those who receive public assistance through the AFDC and HR programs. For example, between July 1975 and June 1976 the average annual cost for all Medicaid enrollees in New York City was $1,375. The cost was $568 for AFDC and HR children, $991 for AFDC adults, and $1,333 for HR adults. For the average SSI recipient, Medicaid costs were close to $2,000 a year, and for Medicaid-only enrollees, the average annual cost was $3,875.

Because of the high cost of Medicaid-only enrollees, the State since 1969 has sought to limit the access of nonwelfare recipients to the Medicaid rolls. This accompanied the State's effort to tighten up its overall eligibility requirements for public assistance. In view of the success of these efforts, which has reduced the number of Medicaid enrollees by 25 percent since 1969, it cannot be argued that the growth in the cost of Medicaid is attributable to growth in the number of people eligible for the program.

Nevertheless, the high concentration of public assistance recipients in New York City ensures a high level of demand for Medicaid services, which in turn ensures that the amount that the City has to spend on benefits and administration under the State's Medicaid program is consistently large.

The range of services offered under the Medicaid program consist of seven basic services which, under the Federal legislation establishing the program, must be offered by all states involved in the program, and seventeen optional services, the provision of any of which is up to the discretion of the individual states. Of the 49 states that take part in the Medicaid program (Arizona does not), only Minnesota and New York provided all seventeen optional services. This year, however, New York has moved to eliminate the services of podiatrists and chiropractors from the list of services covered by its Medicaid program.

While it might appear that the wide range of services covered by New York State's Medicaid program is an important factor in its high cost, that is not the case: all of the optional services combined account for little more than 10 percent of total Medicaid expendi-

tures. Rather, the primary impetus for the high level and rapid growth of Medicaid costs in New York City and State has been the cost of inpatient hospital and nursing home care. Sixty-three percent of all Medicaid expenditures in 1975 were made on inpatient hospital care (38.8 percent) and nursing home care (23.9 percent). Not only do these two areas constitute more than 60 percent of total Medicaid expenditures in the state, but their costs have been rapidly increasing since the inception of the program. Since 1968 Medicaid payments for inpatient hospital care have grown at an average annual rate of 11.9 percent, while payments to nursing homes have increased 29.2 percent each year. The rapid growth of costs in these two areas has been in large part responsible for the size and growth of Medicaid expenditures in the City and State.

The Medicaid reimbursement rate and fee structure and its administration have contributed to the escalation of those costs. The rate and fee structure itself creates incentives for hospitals to treat patients who could be treated much less expensively by clinics or physicians, yet sets its reimbursement rates for doctors at a level lower than that necessary to attract them to Medicaid work. A hospital receives between $40 and $45 for each ambulatory visit paid by Medicaid, while a doctor receives at most $15 per visit by a Medicaid patient, a considerably lower amount than the average charge per visit made to private patients anywhere in the region.

More significant than the anomalies in the reimbursement rate and fee schedules is the lack of control that has been exercised by the State in establishing reimbursement rates for hospitals and nursing homes. Rate increases have been granted to institutions based on costs submitted by them without any serious effort to determine whether those costs are in line with those of other institutions of similar size in the state. As a consequence, hospitals have had no incentive to restrain their costs, and costs have escalated rapidly. This year, however, that problem is being addressed by both the State and Federal governments. The State has frozen hospital reimbursement rates and is establishing a set of norms for analyzing future requests for rate increases, while the Federal government is moving to limit the annual rate of increase of hospital costs on a nationwide basis.

To carry out this reform, the State will have to strengthen its administration of the Medicaid program. One of the main weaknesses in the Medicaid program from the outset has been its administrative shortcomings. Dispersed among several agencies on the State level, as well as between the State and its localities, respon-

sibility for administration of the program is extremely decentralized. In addition, the State has consistently underfunded the administrative costs of Medicaid. As a consequence, there has been little coordination or control over the vast sums that have been disbursed in Medicaid benefits; a system that could determine whether those sums have been properly accounted for has not been created due to lack of funds. The first prerequisite for controlling the costs of Medicaid is the establishment of a sound administrative structure to monitor them.

While the subject of this report is the cost of Medicaid in New York City, much of the discussion focuses on the problem on a statewide basis because New York City itself has very little effective control over Medicaid policy or costs as in the public assistance area. While the City is required to help administer and partly finance the Medicaid program, the rules and regulations establishing eligibility requirements, service coverage, and reimbursement fees and rates are all established by the Federal and State governments. Consequently, the City has no direct means of controlling its Medicaid expenses. Because the City is required to pay 50 percent of the nonfederal share of Medicaid costs, those expenses are very large.

New York State's requirement that its counties and New York City finance such a large portion of the cost of Medicaid is in itself unreasonable in light of practices elsewhere in the nation. While New York State requires its localities to pay roughly 25 percent of the total cost of Medicaid, no other state requires the payment of more than 16 percent of those costs. In fact, only seven other states require the payment of more than 1 percent of those costs, while only four require their localities to pay more than 10 percent of total Medicaid costs. As is the case with public assistance, New York State is unique in the high proportion of the nonfederal cost of Medicaid it compels its localities to bear. This financing provision and the high concentration of the poor in New York City places an especially heavy burden on the City's budget.

In light of these findings the Temporary Commission on City Finances recommends that:

1. The Federal government should move as rapidly as possible to institute a national health insurance system. Such a system would supersede the present Medicaid program, replacing the extraordinarily complex, expensive, and inefficient mixture of public and private health insurance that presently exists. The problem of the high cost of Medicaid in New York City and State is only part of the larger problem of health care in the U.S.

2. As a first step toward implementing a national health insurance system, the Commission recommends that the Federal government immediately assume full responsibility for all Medicaid costs incurred by beneficiaries of the Federal Supplemental Security Income program.

3. Until a national health insurance is instituted, New York State should assume increasing responsibility for the local cost of Medicaid. New York State presently requires New York City and other local governments to bear an excessive share of Medicaid costs. It is the responsibility of the State to alleviate this burden through increased State assumption of local Medicaid costs.

4. New York State should assume full responsibility for the administration of the Medicaid program, establishing and adequately funding a new state agency to centralize all administrative functions. This agency should be delegated all responsibilities pertaining to Medicaid not specifically mandated to other agencies by Federal law, and should be adequately funded to execute effectively those responsibilities.

The Commission further recommends that within two years of the establishment of a centralized Medicaid agency the State should take over the aspects of Medicaid administration presently performed by local governments. This would eliminate the expensive and inefficient duplication of effort inherent in the present two-tiered structure, and save New York City $36 million annually in tax-levy funds.

Members of the Intergovernmental Fiscal Relations Subcommittee:
Robert F. Wagner, Chairman
Alton G. Marshall
Donna E. Shalala

Research Staff:
Claire Olsen Kyle
Robert P. Shay, Jr., with the assistance of Janet Wood

Research Assistant:
Yakov Zvi

Appendix III

Methodology for Compilation of Historical Financial Data

The compilation of municipal financial data on an historical basis presents numerous and often complicated research problems. The attempt to identify trends in expenditure and revenue over time can often be obstructed for reasons that involve the accessibility, reliability, and consistency of municipal financial data. The most frequent problem is the change in the definition of the categories for which spending and revenue are reported, making it difficult to show trend patterns for comparable items and activities over time. These changes in definition may reflect adjustment in budgeting or accounting practices, reorganization of municipal agencies and programs, reforms in tax structure, or changes in intergovernmental aid programs.

This appendix outlines the methodology that has been utilized to compile the numbers shown in this report for the following areas: the aggregate total in operating expenditure; categories for expenditure by function; categories for expenditure by object; method for determining adjusted dollars; and the composition of the revenue structure. Also included is the complete data base from which the tables in the body of the report were drawn.

The purpose of this appendix is to provide the interested reader a more detailed understanding of the items and the activities for which municipal financial data are reported. The explanation of the adjustments made by the Commission staff in the publicly reported

figures should also allow other researchers to duplicate or expand the data in this report.

There should be some mention of the source problem. There is no single document that can be described as the New York City budget. The *Expense Budget*, prepared at the outset of a fiscal year, specifies the expenditures authorized for each department in the coming 12-month period. This proposed budget is modified throughout the year, as revisions become necessary in the original estimates of departmental operating expenses. *The Report of the Comptroller*, which appears after the close of the fiscal year, reports the amounts authorized for expenditure under the modified budget as it developed during the course of the year. Both of these principal budget documents are necessary for a thorough examination of the trends and composition of City expenditures and revenues.

The data compiled for this report rely most heavily upon *The Report of the Comptroller*. Other than the advantage of budget-as-adjusted figures, this document reports final expenditure authorizations from the standpoint of both function, the programmatic purpose for which monies are spent, and object, the various goods and services purchased by the City to fulfill its service delivery responsibilities. The Comptroller's Report classifies City spending for both function and object and reports the related expenditure amounts within the same modified budget total. The *Expense Budget*, on the other hand, offers the advantage of identifying revenue sources for the City departments and programs. This source, therefore, has been used for the tax levy by function data used in this report. The data for compositional change in the City's revenue structure and intergovernmental assistance are taken from *The Report of the Comptroller*.

A. THE AGGREGATE TOTAL IN OPERATING EXPENDITURES

The adjustments in the total for operating expenditures as reported in *The Report of the Comptroller* (Part 2-A, Statement 5) have been made to indicate a more accurate figure for the actual amount spent annually. The need for the adjustment is a result of accounting practices through which the Comptroller double counts expenditures related to tax anticipation and budget notes. Expenditures financed by these short-term debt instruments are included in the spending totals for the year in which these funds are borrowed. However, the redemption of principal on these notes is also shown for the period

of repayment in subsequent years. This latter amount is reported in the Debt Service Account called "Redemption of Tax Anticipation and Budget Notes" (Part 2-A, Statement 5).

In order to eliminate this double counting of monies already expended, the amounts shown in the Debt Service Accounts for redemption of budget and tax anticipation notes have been subtracted from the Comptroller's reported expenditure total. This calculation is shown in Table 1. The same amounts have also been subtracted from the debt service category, as will be discussed in the explanation of expenditure by object methodology.

B. CATEGORIES FOR EXPENDITURE BY FUNCTION

The composition of City expenditure is analyzed in this report from the standpoint of both purpose and object. The purposes for which City monies have been spent is indicated through a system for classification of expenditure by function. For the most part, the organizational structure of City departments and agencies will reflect the broad functional goals of municipal programs. Organization and function, however, are not always in perfect conformity and agency structure does not entirely indicate the policy objectives of municipal expenditure. Consequently, the Comptroller's Report includes a format (Part 2-A, Statement 5) which reports City expenditures within categories that represent functional areas broader than the separate departmental budget accounts.

The Comptroller's functional format is the basis for the classification of expenditures presented in Table 2. This table shows the dollar amount and the percentage share of total City expenditure by functional area for each year within fiscal period 1961-1975. Certain adjustments have been made in the Comptroller's format, however, in order to assign debt service costs to functional categories and to allow for consistent grouping of activities over time. The categories included in Table 2 are defined as follows:

Social Services—The Department of Social Services for Fiscal Years 1968-1975; the Department of Welfare for Fiscal Years 1961-1967.

Charitable Institutions—Payments to charitable institutions as administered by the Office of the Comptroller, consisting of payments to institutions providing foster care services and payments to private hospitals (since 1966) for Medicaid payments.

Human Resources Program—Departments and programs organized within the Human Resources Administration, excluding the Department of Social Services.

Youth Services—The Youth Services Agency for Fiscal Years 1966-1975; the New York City Youth Board for 1961-1965.

Hospitals—The Health and Hospitals Corporation for Fiscal Years 1971-1975; the Department of Hospitals for 1961-1970.

Health Services—Departments and programs organized within the Health Services Administration (excluding the Health and Hospitals Corporation) for Fiscal Years 1969-1975; the Department of Health, Chief Medical Examiner, and New York City Community Health Board for 1961-1966.

Addiction Services—The Addiction Services Agency since its inception in Fiscal Year 1968.

Environmental Protection—The departments and programs within the Environmental Protection Administration for Fiscal Years 1969-1975; the Department of Sanitation and the Department of Air Pollution Control for 1961-1968.

Board of Education—The administration and programs of the public elementary and secondary school system.

Libraries—The New York Public Library and its Research Library, the Brooklyn Public Library, and the Queens Public Library.

Cultural Institutions—Payments to the following: Metropolitan Museum of Art, New York Botantical Garden, American Museum of National History, New York Zoological Society, Brooklyn Museum, Brooklyn Children's Museum, Brooklyn Botantical Garden, Brooklyn Academy of Music, Queens Botantical Garden, Staten Island Institute of Arts and Sciences, Staten Island Zoo, Museum of the City of New York, and Perkins Garden.

Municipal Parks—The Department of Parks, Recreation, and Cultural Affairs.

Police—The Police Department.

Fire—The Fire Department.

Transit—Subsidies provided for transit operations and listed under the following headings: Maintenance of Long Island Railroad Stations, Payments to the New York City Transit Authority to Provide Transit Police for Transit System, to Provide for Reduced Fares for the Elderly-Private Bus Companies, Payments to New York City Transit (Laws of 1972), Rental of Staten Island Rapid Transit System, Payments to the Metropolitan Transit Authority and Repayment of Loan from the State of New York for Transit Purposes pursuant to Chapter 3 of The Laws of 1974.

Housing—Programs and administration of the Housing and Development Administration for Fiscal Years 1969-1975; the Hous-

ing and Redevelopment Board, Department of Buildings, and City Rent and Rehabilitation Agency for 1961-1968; also the annual subsidy to the New York City Housing Authority and payments to the Authority to provide for Housing Police.

Judicial—The City court system (Criminal Court, Family Court, Civil Court, and Department of Probation) and the County court system (Supreme Court and Surrogate's Court).

Corrections—The Department of Corrections for Fiscal Years 1969-1975; the Parole Commission for 1961-1968.

Water Supply—The Board of Water Supply.

General Government, Legislature and Other—All City agencies and programs not specifically listed in a category above, primarily overhead departments with budgets less than one percent of total City expenditure.

Unallocated Pensions—Pension costs that are not assigned to the functional categories above. The categories which *do not include* pension costs in the Comptroller's functional format are Social Services, Human Resources Program, Addiction Services, Youth Services, Water Supply, Corrections, Parks, Cultural, Transit, and Housing.

Unallocated Debt Service—Those Debt Service costs not included in the functional categories above. The assignment of Debt Service costs was done by the Commission staff (Using Part 6-A - Statement 12), and does not represent a complete functional distribution of these costs. Most functions—with the exception of Human Resources, Addiction Services, Youth Services, and Judicial—were allocated some Debt Service cost, however.

The tax-levy funds expended on the City's seven major functions are shown in Table 3 for Fiscal Years 1961-1975. Tax levy funds, used as an indication of the City's own resources independent of intergovernmental assistance, include revenue from the Real Estate and General Fund tax monies. (Capital funds used for operating purposes, which could also be considered a commitment of City resources, are not included in this table.) The definitions of the seven major service areas are identical with those used to show functional expenditure from all sources in Table 2. The one exception is the welfare category which combines the tax-levy expenditure for the Department of Social Services and the Payments to Charitable Institutions. And as mentioned previously, the source for the tax-levy expenditure by function is the *Expense Budget* rather than the Comptroller's Report.

C. CATEGORIES FOR EXPENDITURE BY OBJECT

The other major classification of historical spending patterns, expenditure by object, can also be derived from the Comptroller's Report. This classification is based upon the practice of "line-item" departmental authorizations in which expenditures are identified as being for personal service items or other than personal service items. The aggregate City totals for these categories for Fiscal Years 1961-1975 are shown in Table 4, along with the percentage shares the dollar amounts represent of overall City expenditure. This table is basically constructed from the Comptroller's summary of expenses by object (Part 2-A, Statement 6) with some adjustments made to the Comptroller's format in order to construct a labor cost category and to provide for consistent treatment over time.

The definition of the objects that appear in Table 4 are as follows:

Labor—This category combines personal service and pension costs as shown by the Comptroller, and items appearing in the fixed and miscellaneous category that can be considered as fringe benefits for municipal employees. The individual amounts for these three items are shown in Table 5.

Social Welfare Contributions—Most expenditures in this category are for income maintenance (commonly referred to as welfare) programs and Medicaid. The major income maintenance programs include: Aid to Families with Dependent Children (AFDC); Home Relief (HR); and Supplemental Security Income (SSI). Expenditures for day care, foster care, and some other relatively small social service programs also are reflected in this category.

Debt Service—Debt service represents the cost to the City of retiring maturing debt, paying interest on outstanding debt, and meeting annual sinking fund requirements. In addition to servicing short-term borrowings for operating purposes, this category reflects expenditures for servicing long-term debt used to finance capital budget expenditures.

Contract Services—This category includes purchases from private producers of a wide range of goods and services, including telephone, postage, and light and power, plus certain social services not included under the social welfare contributions category. The primary social service expenditures under the contract services category are for drug, public health, and mental health clinics. Payments to private antipoverty organizations also are included in this category.

Fixed and Miscellaneous—Included here are appropriations to the General Stabilization ("rainy day") fund as well as payments for Housing Authority and Transit Authority police, a number of rent subsidy programs, insurance, and certain ongoing legal obligations.

Supplies and Materials—Included in this category are basic staples such as paper, pencils and cleaning materials.

Equipment—The equipment category includes expenditures for such items as machinery, furniture, and office equipment but excludes other expenditures, such as playground swings, that are included in the City's *Capital Budget.*

Hospitals—This category represents City support for the municipal hospital system, while technically not an object of expenditure, is included as a category because of accounting practices utilized by the Comptroller.

Unallocated—This category includes expenditures which for one reason or another historically have not been included in one of the foregoing major categories. The negative numbers shown for most years during the 1960s indicate expenditures that would require approval subsequent to the close of the fiscal year.

The data presented in Table 4 according to this classification system required three basic adjustments in the Comptroller's categories. First, items that are considered as fringe benefits were transferred from the fixed and miscellaneous category to the labor cost group. These items and the years for which they appear in the Comptroller's Report are listed in Table 5. Secondly, the practice starting in 1971 of showing expenditures for municipal hospitals as a lump sum payment required changes to provide consistent treatment for the entire 1961-1975 fiscal period. The hospitals category previous to 1971 represents the departmental expenditure, with the line-item objects for hospitals then subtracted from those for total City categories. Thirdly, the amounts for redemption of tax anticipation and budget notes that were subtracted from the total operating expenditure have also been subtracted from the Comptroller's reported debt service amounts.

D. METHOD FOR DETERMINING ADJUSTED DOLLARS

The adjusted dollar measure used in Section IV is based upon a *fiscal year* Consumer Price Index that is constructed from the U.S. Bureau of Labor Statistics *calendar year* Consumer Price Index. The index, indicated below for each fiscal year, is the annual

monthly average of the C.P.I. index from July through June for the New York, N.Y.—Northeastern N.J. Metropolitan Area. The 1967 calendar year C.P.I. equals 100.

Fiscal Year	Index
1961	87.75
1962	89.48
1963	90.23
1964	92.23
1965	93.41
1966	95.73
1967	98.98
1968	101.45
1969	107.45
1970	114.80
1971	122.58
1972	128.70
1973	134.68
1974	146.75
1975	161.25
1976	171.87

Source: Yakov Zvi, *Projections of Budgetary Expenditures for the Protective Services of New York City in Fiscal Year 1981* (New York: New York University, 1977 unpublished Ph.D. Dissertation), Appendix 1, p. 305.

E. COMPOSITION OF REVENUE STRUCTURE

The composition of the City's revenue structure, as shown in Table 6, is taken without adjustment from the summary statements (Part 2-Summary 1) in the Comptroller's Report for fiscal years 1961 through 1975. The individual taxes included in the table's larger categories for Other Business Taxes and Special City Taxes are taken from the General Fund Revenue summary of the Comptroller's Report (Part 2E, Statement 4).

State and Federal assistance as indicated in Table 6 are also categorized by program type in the summary statements of the Comptroller's Report. Table 7 indicates the categories of Federal assistance and Table 8 indicates the categories of State assistance.

TABLE 1

Adjustments in Totals for Annual Operating Expenditures: Fiscal Period 1961-1975

(in millions)

Fiscal Year	Expenditure Total as Reported by the Comptroller		Redemption Amount for Budget and Tax Anticipation Notes		Adjusted Total for Operating Expenditures
1961	$ 2,381,766,638	(minus)	$ 16,561,811	(equals)	$ 2,365,204,807
1962	2,569,591,861	(minus)	11,200,207	(equals)	2,558,391,654
1963	2,818,572,874	(minus)	3,000,000	(equals)	2,815,572,874
1964	3,130,609,875	(minus)	21,400,000	(equals)	3,109,209,875
1965	3,385,854,895	(minus)	17,100,000	(equals)	3,368,754,895
1966	3,778,875,045	(minus)	56,316,000	(equals)	3,722,559,045
1967	4,496,758,121	(minus)	25,995,295	(equals)	4,470,762,826
1968	5,295,992,164	(minus)	15,000,000	(equals)	5,280,992,164
1969	6,066,380,329	(minus)	9,000,000	(equals)	6,057,380,329
1970	6,704,996,513	(minus)	8,200,000	(equals)	6,696,796,513
1971	7,827,524,161	(minus)	18,600,000	(equals)	7,808,924,161
1972	8,508,082,217	(minus)	25,000,000	(equals)	8,483,082,217
1973	9,325,318,476	(minus)	52,500,000	(equals)	9,272,818,476
1974	10,247,642,736	(minus)	–	(equals)	10,247,642,736
1975	12,017,684,521	(minus)	363,300,000	(equals)	11,654,384,521

Source: The City of New York, *Annual Report of the Comptroller of the City of New York*, fiscal years 1961-1975, Part 2-A, Statement 5, and Part 2-A, Statement 7.

TABLE 2

City Expenditure by Function, Amount and Percentage of Total: Fiscal Years 1961-1975

($ in millions)

	FY 1961		FY 1962		FY 1963		FY 1964		FY 1965		FY 1966	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Social Welfare	*$ 350.5*	*14.8%*	*$ 390.4*	*15.2%*	*$ 415.8*	*14.8%*	*$ 492.5*	*15.8%*	*$ 570.3*	*16.9%*	*$ 718.4*	*20.0%*
Social Services	267.2	11.3	291.5	11.4	303.6	10.8	362.7	11.6	436.7	13.0	520.7	14.5
Charitable Institutions	78.6	3.3	93.0	3.6	105.7	3.8	123.0	4.0	126.6	3.4	145.9	4.0
Human Resources Programs	–	–	–	–	–	–	–	–	–	–	45.0	1.3
Youth Services	4.7	.2	5.9	.2	6.5	.2	6.8	.2	7.0	.2	6.8	.2
Health and Sanitation	*361.4*	*15.3*	*411.9*	*16.2*	*437.5*	*15.4*	*481.6*	*15.5*	*513.0*	*15.2*	*559.6*	*15.6*
Hospitals	179.5	7.6	211.8	8.3	223.8	8.0	249.7	8.0	266.1	7.9	283.7	7.9
Health Services	50.4	2.1	53.0	2.1	62.5	2.0	66.8	2.2	74.4	2.2	89.2	2.5
Addiction Services												
Environmental Protection	131.5	5.6	147.1	5.8	151.2	.5.4	165.1	5.3	172.5	5.1	186.8	5.2
Education	*661.3*	*28.1*	*725.0*	*28.4*	*842.4*	*29.9*	*904.1*	*29.1*	*987.7*	*29.3*	*1016.2*	*28.2*
Board of Education	587.5	24.9	644.2	25.2	749.8	26.6	802.2	25.8	877.2	26.0	893.2	24.8
Board of Higher Education	53.2	2.3	58.1	2.3	67.8	2.4	75.5	2.4	82.5	2.5	92.8	2.6
Libraries	20.6	.9	22.7	.9	24.8	.9	26.4	.9	28.0	.8	30.2	.8
Culture and Recreation	*52.3*	*2.2*	*57.8*	*2.3*	*58.8*	*2.1*	*63.1*	*2.1*	*65.4*	*2.0*	*78.0*	*2.2*
Cultural Institutions	7.3	.3	7.9	.3	8.1	.3	8.7	.3	9.4	.3	10.4	.3
Municipal Parks	45.0	1.9	49.9	2.0	50.7	1.8	54.4	1.8	56.0	1.7	67.6	1.9
Public Safety	*358.1*	*15.2*	*392.9*	*15.4*	*433.6*	*15.4*	*468.9*	*15.1*	*509.0*	*15.0*	*469.6*	*13.1*
Police	236.1	10.0	257.1	10.1	282.4	10.0	307.5	9.9	336.9	9.9	308.9	8.6
Fire	122.0	5.2	135.8	5.3	151.2	5.4	161.4	5.2	172.1	5.1	160.7	4.5
Transit	108.1	4.6	113.3	4.4	117.4	4.2	120.3	3.9	129.0	3.8	146.7	4.1
Housing	14.7	.6	20.5	.8	31.3	1.1	31.7	1.0	33.4	1.0	38.8	1.1
Judicial	43.5	1.8	45.8	1.8	51.5	1.8	54.1	1.7	56.9	1.7	56.5	1.6
Corrections	19.6	.8	23.3	.9	26.5	.9	30.2	1.0	31.3	.9	35.2	1.0
Water Supply	45.4	1.9	44.0	1.7	43.9	1.6	44.9	1.4	45.4	1.3	43.9	1.2
General Government, Legislative, and Other	208.2	8.7	191.2	7.3	179.8	6.5	266.8	8.5	266.9	8.1	311.7	8.5
Unallocated Pensions	66.9	2.8	73.2	2.9	60.0	2.1	74.0	2.4	69.7	2.1	16.5	.5
Unallocated Debt	75.2	3.2	69.1	2.7	117.1	4.2	77.4	2.5	91.0	2.7	104.6	2.9
Total City Budget Expenditure	$2365.2	100.0%	$2558.4	100.0%	$2815.6	100.0%	$3109.2	100.0%	$3368.7	100.0%	$3595.7	100.0%

TABLE 2 (Continued)

	FY 1967		FY 1968		FY 1969		FY 1970		FY 1971		FY 1972	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Social Welfare	*$941.5*	*21.1%*	*$1404.1*	*26.6%*	*$1846.3*	*30.5%*	*$1873.1*	*28.0%*	*$2309.9*	*29.5%*	*$2559.3*	*30.1%*
Social Services	677.0	15.1	1076.4	20.4	1532.6	25.3	1527.0	22.8	1881.8	24.1	2032.6	24.0
Charitable Institutions	164.4	3.7	193.5	3.7	206.5	3.4	239.6	3.6	306.2	3.9	396.1	4.6
Human Resources Programs	92.1	2.1	126.8	2.4	94.5	1.6	82.4	1.2	79.7	1.0	85.7	1.0
Youth Services	8.0	.2	7.4	.1	12.7	.2	24.1	.4	42.2	.5	45.0	.5
Health and Sanitation	*608.4*	*13.6*	*702.9*	*13.4*	*846.8*	*14.0*	*963.9*	*14.0*	*1036.2*	*13.3*	*1202.1*	*14.1*
Hospitals	311.6	7.0	367.5	7.0	397.3	6.6	459.4	6.9	456.9	5.8	585.3	6.9
Health Services	99.7	2.2	124.1	2.3	169.0	2.8	178.8	2.6	222.6	2.9	207.0	2.4
Addiction Services			1.6	.1	7.9	.1	12.1	.2	35.9	.5	69.6	.8
Environmental Protection	197.2	4.4	209.7	4.0	272.6	4.5	286.6	4.3	321.7	4.1	340.2	4.0
Education	*1300.5*	*29.1*	*1438.0*	*27.2*	*1665.7*	*27.5*	*1885.8*	*28.1*	*2213.1*	*28.4*	*2346.4*	*27.6*
Board of Education	1142.7	25.5	1251.0	23.7	1428.3	23.6	1587.1	23.7	1839.0	23.6	1916.3	22.6
Board of Higher Education	123.4	2.8	153.7	2.9	201.1	3.3	261.2	3.9	332.7	4.3	384.3	4.5
Libraries	34.4	.8	33.3	.6	36.3	.6	37.5	.5	41.4	.5	45.8	.5
Culture and Recreation	*83.1*	*1.9*	*87.7*	*1.7*	*93.3*	*1.5*	*93.7*	*1.4*	*103.1*	*1.3*	*113.7*	*1.4*
Cultural Institutions	11.2	.3	11.1	.2	12.1	.2	12.7	.2	14.8	.2	16.1	.2
Municipal Parks	71.9	1.6	76.6	1.5	81.2	1.3	81.0	1.2	88.3	1.1	97.6	1.2
Public Safety	*609.3*	*13.6*	*651.7*	*12.3*	*737.8*	*12.2*	*853.2*	*12.8*	*869.1*	*11.1*	*897.5*	*10.6*
Police	411.3	9.2	443.1	8.4	490.0	8.1	594.0	8.9	602.1	7.7	621.8	7.3
Fire	198.0	4.4	208.6	3.9	247.8	4.1	259.2	3.9	267.0	3.4	275.7	3.3
Transit	186.0	4.2	171.6	3.3	184.7	3.1	208.9	3.1	222.6	2.9	244.3	2.9
Housing	40.7	.9	46.5	.9	53.9	.9	64.3	1.0	84.3	1.1	106.0	1.3
Judicial	60.8	1.3	71.3	1.4	76.9	1.3	83.7	1.3	100.7	1.3	104.3	1.2
Corrections	34.9	.8	37.0	.7	40.6	.7	52.9	.8	61.7	.8	78.0	.9
Water Supply	45.6	1.0	45.9	.9	48.5	.8	47.5	.7	48.4	.6	49.2	.6
General Government, Legislative, and Other	350.4	7.7	388.8	7.2	162.3	2.5	273.3	4.0	408.4	5.2	366.6	4.4
Unallocated Pensions	94.3	2.2	111.4	2.1	113.9	1.9	168.1	2.5	168.7	2.2	201.0	2.4
Unallocated Debt	115.3	2.6	124.1	2.8	186.6	3.1	155.4	2.3	182.7	2.3	214.6	2.5
Total City Budget Expenditure	$4470.8	100.0%	$5281.0	100.0%	$6057.3	100.0%	$6696.8	100.0%	$7808.9	100.0%	$8483.0	100.0%

TABLE 2 (Continued)

	FY 1973		FY 1974		FY 1975		Fiscal Periods: Aggregate Percentage Increases				Average Annual Percentage Increase
	Amount	% of Total	Amount	% of Total	Amount	% of Total	1961-75	1961-66	1966-71	1971-75	1961-75
Social Welfare	*$2685.5*	*29.0%*	*$ 2925.7*	*28.6%*	*$ 3302.8*	*28.3%*	*842.2%*	*104.9%*	*221.5%*	*42.9%*	*17.1%*
Social Services	2139.0	23.1	2317.5	22.6	2597.9	22.3	872.2	94.8	261.3	38.0	17.3
Charitable Institutions	428.7	4.6	499.5	4.9	517.3	4.4	558.3	85.6	109.8	68.9	14.3
Human Resources Programs	85.3	.9	81.0	.8	144.5	1.2	221.4[1]		77.1	81.4	13.5[1]
Youth Services	32.5	.4	27.7	.3	43.1	.4	811.6	44.3	517.2	2.2	16.8
Health and Sanitation	*1299.1*	*13.9*	*1382.4*	*13.5*	*1523.3*	*13.0*	*321.4*	*54.9*	*85.1*	*46.9*	*10.9*
Hospitals	645.4	6.9	651.7	6.4	726.1	6.2	304.4	58.0	60.7	59.2	10.6
Health Services	194.7	2.1	240.8	2.3	277.4	2.4	450.6	77.0	149.5	24.6	13.0
Addiction Services	68.6	.7	89.2	.9	83.9	.7	966.2[2]		356.4[3]	133.6	40.6[2]
Environmental Protection	390.4	4.2	400.7	3.9	435.9	3.7	231.4	42.0	72.2	35.4	9.1
Education	*2562.1*	*27.6*	*2887.8*	*28.2*	*3168.8*	*27.2*	*379.1*	*53.6*	*117.7*	*43.1*	*11.9*
Board of Education	2078.0	22.4	2337.5	22.8	2572.1	22.1	337.7	52.0	105.8	39.8	11.2
Board of Higher Education	434.9	4.7	497.0	4.9	537.3	4.6	909.6	74.0	258.6	61.5	17.6
Libraries	49.1	.5	53.3	.5	59.4	.5	188.9	46.8	37.0	43.6	8.0
Culture and Recreation	*121.5*	*1.3*	*126.0*	*1.2*	*144.5*	*1.3*	*176.5*	*49.2*	*32.1*	*40.2*	*7.7*
Cultural Institutions	17.6	.2	18.4	.2	19.8	.2	171.2	42.1	42.3	33.5	7.5
Municipal Parks	103.9	1.1	107.6	1.0	124.7	1.1	177.1	50.4	30.5	41.3	7.8
Public Safety	*1020.0*	*11.0*	*1176.4*	*11.5*	*1318.1*	*11.3*	*268.0*	*31.1*	*85.0*	*51.6*	*9.9*
Police	698.2	7.5	816.7	8.0	928.8	8.0	293.5	30.8	94.9	54.2	10.4
Fire	321.8	3.5	359.7	3.5	389.3	3.3	219.1	36.6	66.1	45.7	8.8
Transit	278.2	3.0	273.6	2.7	345.0	3.0	219.1	35.7	51.7	56.0	8.8
Housing	134.5	1.5	164.0	1.6	178.3	1.5	1112.9	164.8	117.1	111.4	19.0
Judicial	108.5	1.2	121.9	1.2	135.2	1.2	210.6	29.7	78.4	34.2	8.6
Corrections	85.0	.9	108.6	1.1	109.6	.9	459.2	79.4	75.1	77.5	13.1
Water Supply	51.0	.6	54.3	.5	59.4	.5	30.8	−3.5	10.3	22.7	2.0
General Government, Legislative, and Other	431.3	4.7	443.8	4.3	516.3	4.5	148.0	49.7	31.0	26.4	6.9
Unallocated Pensions	149.3	1.6	200.9	1.9	327.5	2.8	389.5	−75.2	919.7	94.1	12.1
Unallocated Debt	346.8	3.7	382.2	3.7	525.6	4.5	598.8	39.1	74.6	187.6	14.8
Total City Budget Expenditure	$9272.8	100.0%	$10247.6	100.0%	$11654.4	100.0%	392.7%	52.0%	117.1%	49.2%	12.1%

[1] FY 1966 through FY 1975.

[2] FY 1966 through FY 1975.

[3] FY 1968 through FY 1971.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2-A, Statement 5.

TABLE 3

Tax-Levy Expenditure by Function, Amount and Percentage of Total: Fiscal Years 1961-1975

(in millions)

Function	FY 61	FY 62	FY 63	FY 64	FY 65	FY 66	FY 67	FY 68	FY 69	FY 70	FY 71	FY 72	FY 73	FY 74	FY 75
Police	$ 218.0	$ 234.1	$ 260.5	$ 289.5	$ 313.5	$ 359.0	$ 380.8	$ 398.9	$ 463.5	$ 565.4	$ 585.9	$ 644.8	$ 650.5	$ 754.4	$ 855.2
(% of Total)	(12.0)	(12.0)	(12.5)	(12.4)	(12.3)	(12.7)	(12.3)	(11.9)	(12.7)	(14.1)	(12.7)	(12.8)	(11.8)	(12.3)	(12.2)
Fire	107.4	120.5	131.4	144.8	153.5	171.2	174.7	175.6	215.0	243.9	261.4	287.0	313.2	319.2	374.7
(% of Total)	(5.9)	(6.2)	(6.3)	(6.2)	(6.0)	(6.0)	(5.6)	(5.3)	(5.9)	(6.1)	(5.7)	(5.7)	(5.7)	(5.2)	(5.3)
Environmental Protection	92.8	97.9	104.9	113.3	113.6	122.7	128.7	124.2	186.5	207.4	234.0	251.3	269.2	253.3	321.9
(% of Total)	(5.1)	(5.0)	(5.0)	(4.8)	(4.4)	(4.3)	(4.1)	(3.7)	(5.1)	(5.1)	(5.1)	(5.0)	(4.9)	(4.1)	(4.6)
Education	381.9	412.5	460.3	527.7	601.8	635.3	666.6	699.0	714.4	812.5	1007.7	1033.6	1182.3	1359.5	1366.9
(% of Total)	(20.9)	(21.2)	(22.0)	(22.5)	(23.7)	(22.4)	(21.5)	(20.9)	(19.7)	(20.2)	(22.0)	(20.5)	(21.5)	(22.2)	(19.5)
Welfare	133.7	148.6	157.8	182.3	214.0	239.8	271.0	340.8	469.4	529.7	576.6	682.8	616.8	789.3	764.8
(% of Total)	(7.3)	(7.6)	(7.6)	(7.8)	(8.4)	(8.5)	(8.7)	(10.2)	(12.9)	(13.1)	(12.5)	(13.5)	(11.2)	(12.9)	(10.9)
Higher Education	21.7	23.6	25.1	30.7	40.8	34.2	58.1	75.5	91.7	101.0	136.7	163.1	186.9	199.2	192.2
(% of Total)	(1.2)	(1.2)	(1.2)	(1.3)	(1.6)	(1.2)	(1.9)	(2.3)	(2.5)	(2.5)	(3.0)	(3.2)	(3.4)	(3.2)	(2.7)
Hospitals	127.7	129.2	147.9	168.2	176.1	194.7	172.8	182.6	214.9	210.3	287.5	320.1	356.0	350.7	394.0
(% of Total)	(7.0)	(6.6)	(7.1)	(7.2)	(6.9)	(6.9)	(5.6)	(5.5)	(5.9)	(5.2)	(6.3)	(6.4)	(6.5)	(5.7)	(5.6)
Total Tax Levy Expenditure	$1823.2	$1947.5	$2087.6	$2343.2	$2543.9	$2836.2	$3097.7	$3340.6	$3625.2	$4016.2	$4580.6	$5022.9	$5494.3	$6120.5	$6995.9

Function	Fiscal Period 1961-1975 Ave. Annual % Increase	Fiscal Period 1961-1975 Aggregate % Increase	Fiscal Period 1961-1966 Aggregate % Increase	Fiscal Period 1966-1971 Aggregate % Increase	Fiscal Period 1971-1975 Aggregate % Increase
Police	10.4%	292.2%	64.6%	63.2%	45.9%
Fire	9.5	248.8	59.4	52.6	43.3
Environmental Protection	9.5	246.8	32.2	90.7	37.5
Education	9.7	257.8	66.3	58.6	35.6
Welfare	13.3	472.0	79.3	140.4	32.6
Higher Education	16.6	785.7	57.6	299.7	40.5
Hospitals	8.6	208.5	52.4	47.6	37.0
Total Tax Levy Expenditure	10.8	283.7	55.5	61.5	52.7

Source: The City of New York, *Expense Budget*, fiscal years 1962-1976 (as modified).

TABLE 4

Total City Expenditure by Object, Amount and Percentage Shares: Fiscal Years 1961-1975

($ in millions)

	FY 61	FY 62	FY 63	FY 64	FY 65	FY 66	FY 67	FY 68	FY 69	FY 70	FY 71
Labor	$1,339.4	$1,449.1	$1,639.4	$1,802.7	$1,941.9	$1,946.6	$2,421.9	$2,686.8	$2,876.9	$3,450.8	$3,893.9
(% of total)	(56.6)	(56.6)	(58.2)	(58.0)	(57.6)	(54.2)	(54.2)	(50.9)	(47.5)	(51.5)	(49.8)
Social Welfare Contribution	303.9	326.4	339.8	411.9	475.7	560.9	718.9	1,039.8	1,446.5	1,498.1	1,923.4
(% of total)	(12.8)	(12.8)	(12.0)	(13.2)	(14.1)	(15.6)	(16.0)	(19.7)	(23.9)	(22.4)	(24.6)
Debt Service	386.7	391.9	401.5	424.4	455.4	496.2	612.0	640.0	663.3	697.8	763.2
(% of total)	(16.3)	(15.3)	(14.3)	(13.6)	(13.5)	(13.8)	(13.7)	(12.1)	(10.9)	(10.4)	(9.8)
Hospitals	159.4	191.6	203.6	229.1	245.2	262.4	289.2	344.8	374.3	433.9	405.9
(% of total)	(6.7)	(7.5)	(7.2)	(7.4)	(7.3)	(7.3)	(6.5)	(6.5)	(6.2)	(6.5)	(5.2)
Contract Services	66.2	64.9	71.2	76.2	100.1	140.2	211.9	301.5	318.0	351.6	450.2
(% of total)	(2.8)	(2.5)	(2.5)	(2.4)	(3.0)	(3.9)	(6.5)	(5.7)	(5.2)	(5.2)	(5.8)
Fixed & Miscellaneous	47.5	60.9	66.2	71.2	83.8	136.6	154.3	179.0	160.5	182.1	265.5
(% of total)	(2.0)	(2.4)	(2.3)	(2.3)	(2.5)	(3.8)	(3.4)	(3.4)	(2.6)	(2.7)	(3.4)
Supplies & Materials	37.6	50.6	45.6	51.3	66.4	79.1	92.5	101.4	107.2	94.4	84.9
(% of total)	(1.6)	(2.0)	(1.6)	(1.6)	(2.0)	(2.2)	(2.0)	(1.9)	(1.7)	(1.4)	(1.2)
Equipment	9.9	9.2	9.3	11.5	13.8	17.9	21.4	23.8	29.1	16.1	11.4
(% of total)	(.4)	(.4)	(.3)	(.4)	(.4)	(.5)	(.4)	(.4)	(.4)	(.2)	(.2)
Unallocated	−7.6	−5.6	10.1	−4.9	−13.1	−50.4	−51.4	−36.4	86.6	−28.1	−3.4
(% of total)	(−.3)	(−.2)	(.4)	(−.2)	(−.3)	(−1.4)	(−1.1)	(−.7)	(1.4)	(−.4)	(−.02)
Other	21.9	19.2	29.0	36.7	–	–	–	–	–	–	–
(% of total)	(.9)	(.7)	(1.0)	(1.2)							
Total City Budget Expenditure	$2,365.2	$2,558.4	$2,815.6	$3,109.2	$3,368.7	$3,595.8	$4,470.8	$5,280.9	$6,057.4	$6,696.7	$7,808.9

TABLE 4 (Continued)

	FY 72	FY 73	FY 74	FY 75	Fiscal Period 1961-75 Average Annual Percentage Increase	Fiscal Period 1961-75 Aggregate Percentage Increase	Fiscal Period 1961-66 Aggregate Percentage Increase	Fiscal Period 1966-71 Aggregate Percentage Increase	Fiscal Period 1971-75 Aggregate Percentage Increase
Labor (% of total)	$4,028.8 (47.5)	$4,447.6 (48.0)	$4,952.5 (48.4)	$5,541.9 (47.5)	10.8%	313.7%	45.3%	100.1%	42.3%
Social Welfare Contribution (% of total)	2,149.4 (25.3)	2,220.9 (24.0)	2,423.9 (23.6)	2,745.3 (23.5)	16.8	803.3	84.5	242.9	42.7
Debt Service (% of total)	822.4 (10.0)	1,042.0 (11.2)	1,141.3 (11.1)	1,383.5 (11.8)	9.7	257.7	61.7	53.8	81.2
Hospitals (% of total)	530.7 (6.2)	581.8 (7.0)	588.8 (6.0)	631.5 (5.4)	10.5	296.1	64.6	54.6	55.5
Contract Services (% of total)	449.1 (5.3)	433.7 (4.7)	513.8 (5.0)	625.0 (5.4)	17.1	844.1	111.7	221.1	38.8
Fixed & Miscellaneous (% of total)	274.9 (3.3)	348.4 (3.8)	391.7 (3.8)	431.9 (3.7)	16.8	808.2	187.5	94.3	62.6
Supplies & Materials (% of total)	112.3 (1.3)	113.5 (1.2)	141.6 (1.4)	187.1 (1.6)	12.2	397.6	110.3	7.3	120.3
Equipment (% of total)	13.6 (.2)	18.1 (.2)	20.9 (.2)	24.6 (.2)	6.9	148.4	80.8	−36.4	115.7
Unallocated (% of total)	101.8 (1.2)	66.7 (.7)	73.2 (.7)	83.5 (.7)	19.6	1198.6	−563.1	1582.4	2555.8
Other (% of total)	– –	– –	– –	– –	17.5[1]	67.5[1]	–	–	–
Total City Budget Expenditure	$8,483.0	$9,272.8	$10,247.7	$11,654.3	12.1%	392.7%	52.0%	117.1%	49.2%

[1]FY 1961 through FY 1964.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2-A, Statement 6.

TABLE 5

Fixed and Miscellaneous Items Treated as Fringe Benefits: Fiscal Years 1961-1975

Comptroller's Report Expense Number	Fringe Benefit Items	Years in Effect
706	Workmen's Compensation	1961-75
707	Health Insurance	1961-75
708	Loss of Employees' Personal Property and Employees' Hospital and Medical Expenses	1967-70
713	Labor Law Claims for Salaries and Wages	1966
716	Judgments and Claims not covered by Workmen's Compensation Laws	1965-72
732	Awards for City Employees	1961-75
735	Uniform Allowance	1961-75
740	Social Security Taxes	1961-75
741	Unemployment Insurance	1961-75
742	Disability Insurance	1961-75
743	Welfare and Pension Benefits for the Board of Education	1962-75
744	Supplemental Welfare Benefits	1963-75
790	Training Programs for City Employees	1969-75

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2-A, Statement 7.

TABLE 6

City Revenue Structure: Fiscal Period 1961-1975

($ in millions)

	Fiscal Year 1961			Fiscal Year 1962			Fiscal Year 1963		
	Amount	% of Total	% Increase	Amount	% of Total	% Increase	Amount	% of Total	% Increase
Real Estate Tax Levy	$1,028.3	41.9%	–	$1,070.9	41.5%	4.1%	$1,134.5	40.9%	5.9%
Sales Tax	303.0	12.3	–	318.0	12.3	4.9	326.3	11.8	2.6
Personal Income Tax	–	–	–	–	–	–	–	–	–
General Corporation Tax	178.9	7.3	–	191.1	7.4	6.8	234.6	8.5	22.7
Other Business Taxes	*26.3*	*1.1*	–	*26.7*	*1.0*	*1.5*	*27.3*	*1.0*	*2.2*
Commercial Rent-Occupancy Tax	–	–	–	–	–	–	–	–	–
Utility Tax	26.3	1.1	–	26.7	1.0	1.5	27.3	1.0	2.2
Financial Corporation Tax	–	–	–	–	–	–	–	–	–
Unincorporated Business Tax	–	–	–	–	–	–	–	–	–
Insurance Corporation Tax	–	–	–	–	–	–	–	–	–
Special City Taxes	*57.0*	*2.3*	–	*54.8*	*2.1*	*–3.9*	*55.5*	*2.0*	*1.2*
Cigarette Tax	22.0	0.9	–	24.4	0.9	10.9	23.2	0.8	–5.0
Tar and Nicotine Tax	–	–	–	–	–	–	–	–	–
Conveyance of Real Property	3.6	0.1	–	4.6	0.2	27.7	4.5	0.2	–2.2
Off-Track Betting	–	–	–	–	–	–	–	–	–
Tax on Leaded Gasoline	–	–	–	–	–	–	–	–	–
Others	31.4	1.3	–	25.8	1.0	–17.9	27.8	1.0	7.7
Water Charges	50.6	2.1	–	51.4	2.0	1.5	52.1	1.9	1.3
Licenses, Fines, Fees, Franchises, Permits and Privileges	65.2	2.7	–	76.5	3.0	17.3	69.9	2.5	–8.7
Fares, Tolls, Rents, Interest and Services	82.5	3.4	–	88.4	3.4	7.1	95.5	3.4	8.0
Other Revenues	96.0	3.9	–	73.1	2.9	–23.9	44.0	1.6	–39.9
Federal Assistance	110.3	4.5	–	144.3	5.6	30.8	165.9	6.0	14.9
State Assistance	454.9	18.5	–	483.7	18.8	6.3	564.0	20.4	16.6
Total	$2,453.0	100.0%	–	$2,578.9	100.0%	5.1%	$2,769.6	100.0%	7.3%

TABLE 6 (Continued)

	Fiscal Year 1964			Fiscal Year 1965			Fiscal Year 1966		
	Amount	% of Total	% Insurance	Amount	% of Total	% Increase	Amount	% of Total	% Increase
Real Estate Tax Levy	$1,220.2	39.2%	7.5%	$1,313.9	39.5%	7.6%	$1,409.4	38.1%	7.2%
Sales Tax	417.4	13.4	27.9	441.8	13.3	5.8	382.1	10.3	−13.6
Personal Income Tax	–	–	–	–	–	–	–	–	–
General Corporation Tax	194.9	6.3	−17.0	247.5	7.4	26.9	213.5	5.8	−13.8
Other Business Taxes	*95.2*	*3.0*	*248.7*	*101.0*	*3.0*	*6.0*	*102.5*	*2.8*	*1.4*
Commercial Rent-Occupancy Tax	65.9	2.1	–	70.0	2.1	6.2	71.8	2.0	2.5
Utility Tax	29.3	0.9	7.3	31.0	0.9	5.8	30.7	0.8	−1.0
Financial Corporation Tax	–	–	–	–	–	–	–	–	–
Unincorporated Business Tax	–	–	–	–	–	–	–	–	–
Insurance Corporation Tax	–	–	–	–	–	–	–	–	–
Special City Taxes	*73.1*	*2.3*	*31.7*	*79.1*	*2.4*	*8.2*	*53.1*	*1.4*	*−32.9*
Cigarette Tax	39.0	1.2	68.1	40.9	1.2	4.8	32.5	0.9	−20.6
Tar and Nicotine Tax	–	–	–	–	–	–	–	–	–
Conveyance of Real Property	4.5	0.1	0	5.3	0.2	17.7	4.9	0.1	−7.6
Off-Track Betting	–	–	–	–	–	–	–	–	–
Tax on Leaded Gasoline	–	–	–	–	–	–	–	–	–
Others	30.6	1.0	10.0	32.9	1.0	7.5	15.7	0.4	−52.3
Water Charges	53.6	1.7	2.8	53.4	1.6	−0.4	49.4	1.3	−7.5
Licenses, Fines, Fees, Franchises, Permits and Privileges	80.8	2.6	15.5	78.6	2.4	−2.8	76.3	2.1	−3.0
Fares, Tolls, Rents, Interest and Services	102.0	3.3	6.8	101.8	3.0	−0.2	86.6	2.4	−15.0
Other Revenues	95.4	3.1	116.8	36.7	1.1	−61.6	8.8	0.2	−76.1
Federal Assistance	182.6	5.9	10.0	218.3	6.6	19.5	307.9	8.3	41.0
State Assistance	599.1	19.2	6.2	655.6	19.7	9.4	1010.1	27.3	54.0
Total	$3,114.3	100.0%	12.4%	$3,327.7	100.0%	6.8%	$3,699.7	100.0%	11.1%

TABLE 6 (Continued)

	Fiscal Year 1967			Fiscal Year 1968			Fiscal Year 1969		
	Amount	% of Total	% Increase	Amount	% of Total	% Increase	Amount	% of Total	% Increase
Real Estate Tax Levy	$1,573.3	34.5%	11.6%	$1,648.1	31.2%	4.7%	$1,737.9	28.3%	5.4%
Sales Tax	379.6	8.3	−0.7	409.8	7.8	7.9	444.2	7.2	8.3
Personal Income Tax	130.4	2.9	0	170.2	3.2	30.5	201.4	3.3	18.3
General Corporation Tax	182.0	4.0	−14.8	203.6	3.9	11.8	215.8	3.5	5.9
Other Business Taxes	*141.8*	*3.1*	*38.3*	*188.2*	*3.6*	*32.7*	*212.7*	*3.5*	*13.0*
Commercial Rent-Occupancy Tax	72.5	1.6	0.9	78.6	1.5	8.4	81.1	1.3	3.1
Utility Tax	40.8	0.9	32.8	41.3	0.8	1.2	41.8	0.7	1.2
Financial Corporation Tax	0	0	0	26.4	0.5	0	40.3	0.7	35.2
Unincorporated Business Tax	16.8	0.3	0	29.8	0.6	77.3	38.0	0.6	27.5
Insurance Corporation Tax	11.7	0.3	0	12.1	0.2	3.4	11.5	0.2	−5.0
Special City Taxes	*51.8*	*1.1*	*−2.5*	*53.9*	*1.0*	*4.0*	*49.6*	*0.8*	*−8.0*
Cigarette Tax	34.9	0.8	7.3	34.7	0.7	−0.6	33.0	0.5	−4.9
Tar and Nicotine Tax	–	–	–	–	–	–	–	–	–
Conveyance of Real Property	4.7	0.1	−4.1	5.7	0.1	21.2	7.6	0.1	33.3
Off-Track Betting	–	–	–	–	–	–	–	–	–
Tax on Leaded Gasoline	–	–	–	–	–	–	–	–	–
Others	12.2	0.2	−22.3	13.5	0.2	10.6	9.0	0.2	33.4
Water Charges	91.2	2.0	84.6	82.9	1.6	−9.2	91.2	1.5	10.0
Licenses, Fines, Fees, Franchises, Permits and Privileges	81.7	1.8	7.0	77.0	1.5	−5.8	80.1	1.3	4.0
Fares, Tolls, Rents, Interest and Services	102.2	2.2	18.0	106.6	2.0	4.3	120.5	2.0	13.0
Other Revenues	89.2	2.0	913.6	120.3	2.3	34.8	95.8	1.6	−20.4
Federal Assistance	576.8	12.6	87.3	746.0	14.1	29.3	899.9	14.6	20.6
State Assistance	1161.4	25.4	14.9	1467.2	27.8	26.3	1991.3	32.4	35.7
Total	$4,561.4	100.0%	23.2%	$5,273.8	100.0%	15.6%	$6,140.4	100.0%	16.4%

TABLE 6 (Continued)

	Fiscal Year 1970			Fiscal Year 1971			Fiscal Year 1972		
	Amount	% of Total	% Increase	Amount	% of Total	% Increase	Amount	% of Total	% Increase
Real Estate Tax Levy	$1,892.7	28.8%	8.9%	$2,080.4	28.0%	9.9%	$2,188.9	25.7	5.2
Sales Tax	466.9	7.1	5.1	493.6	6.6	5.7	519.7	6.1	5.2
Personal Income Tax	205.4	3.1	2.0	199.4	2.7	−3.0	443.1	5.2	122.2
General Corporation Tax	205.1	3.1	−5.0	183.3	2.5	−10.0	239.9	2.8	30.8
Other Business Taxes	207.8	3.2	*−2.4*	*256.7*	*3.5*	*23.5*	*341.8*	*4.0*	*33.1*
Commercial Rent-Occupancy Tax	93.5	1.4	15.3	139.5	1.9	49.1	153.3	1.8	9.8
Utility Tax	44.0	0.7	5.2	49.6	0.7	12.7	54.0	0.6	8.8
Financial Corporation Tax	42.9	0.6	6.4	38.3	0.5	−10.8	69.1	0.8	80.4
Unincorporated Business Tax	15.8	0.2	−58.5	17.3	0.2	9.4	52.4	0.6	202.8
Insurance Corporation Tax	11.6	0.2	0.9	12.0	0.2	3.4	13.0	0.2	8.3
Special City Taxes	*49.5*	*0.8*	*−0.3*	*49.1*	*0.7*	*−0.9*	*95.6*	*1.1*	*94.7*
Cigarette Tax	32.6	0.5	−1.3	33.5	0.4	2.7	30.9	0.4	−7.8
Tar and Nicotine Tax	–	–	–	–	–	–	21.0	0.2	–
Conveyance of Real Property	7.6	0.1	0	6.4	0.1	−15.8	13.3	0.1	107.8
Off-Track Betting	–	–	–	–	–	–	2.4	0.1	–
Tax on Leaded Gasoline	–	–	–	–	–	–	8.0	0.1	–
Others	9.3	0.2	3.3	19.2	0.2	106.4	20.0	0.2	4.1
Water Charges	103.9	1.6	13.9	157.9	2.1	51.9	180.2	2.1	14.1
Licenses, Fines, Fees, Franchises, Permits and Privileges	96.4	1.5	20.3	98.4	1.3	−2.1	152.5	1.8	54.9
Fares, Tolls, Rents, Interest and Services	103.3	1.6	−14.3	85.2	1.1	17.6	119.8	1.4	40.6
Other Revenues	185.3	2.8	93.4	185.8	2.5	0.2	206.2	2.4	10.9
Federal Assistance	1059.8	16.1	17.7	1286.6	17.3	21.4	1524.4	17.9	18.4
State Assistance	1992.7	30.3	0.1	2360.6	31.7	18.4	2516.8	29.5	6.6
Total	$6,568.8	100.0%	6.9%	$7,437.0	100.0%	13.2%	$8,528.9	100.0%	14.6%

TABLE 6 (Continued)

	Fiscal Year 1973			Fiscal Year 1974			Fiscal Year 1975		
	Amount	% of Total	% Increase	Amount	% of Total	% Increase	Amount	% of Total	% Increase
Real Estate Tax Levy	$2,468.1	26.1%	12.7%	$2,655.5	26.7%	7.5%	$2,896.1	24.1%	9.0%
Sales Tax	551.3	5.8	6.0	575.3	5.8	4.3	791.1	6.6	37.5
Personal Income Tax	439.5	4.6	−0.9	454.8	4.6	3.4	465.8	3.9	2.4
General Corporation Tax	247.2	2.6	3.0	254.6	2.6	2.9	268.1	2.2	5.3
Other Business Taxes	*348.4*	*3.7*	*1.9*	*355.4*	*3.6*	*2.0*	*455.2*	*3.8*	*28.0*
Commercial Rent-Occupancy Tax	166.1	1.7	8.3	177.1	1.8	6.6	190.5	1.6	7.5
Utility Tax	62.5	0.7	15.7	70.1	0.7	12.1	90.1	0.7	28.5
Financial Corporation Tax	61.8	0.7	−10.6	58.9	0.6	−4.7	114.2	0.9	93.8
Unincorporated Business Tax	45.0	0.5	−14.2	36.1	0.4	19.8	42.3	0.4	17.1
Insurance Corporation Tax	13.0	0.1	0	13.2	0.1	1.5	18.1	0.2	37.1
Special City Taxes	*138.1*	*1.5*	*44.4*	*147.8*	*1.4*	*7.0*	*156.8*	*1.3*	*6.0*
Cigarette Tax	29.7	0.4	−3.9	29.9	0.3	0.6	29.8	0.2	−0.4
Tar and Nicotine Tax	22.5	0.2	7.1	21.0	0.2	−6.7	14.9	0.1	−29.1
Conveyance of Real Property	19.5	0.2	46.6	18.4	0.2	−5.7	14.2	0.1	−22.9
Off-Track Betting	34.2	0.4	1325.0	44.5	0.4	30.1	67.1	0.6	50.7
Tax on Leaded Gasoline	11.1	0.1	38.7	11.6	0.1	4.5	9.6	0.1	−17.3
Others	21.1	0.2	5.5	22.4	0.2	4.6	21.2	0.2	−5.9
Water Charges	176.9	1.9	−1.9	124.7	1.3	−29.6	190.5	1.6	52.7
Licenses, Fines, Fees, Franchises, Permits and Privileges	139.5	1.5	−8.6	153.8	1.4	10.2	155.3	1.3	0.9
Fares, Tolls, Rents, Interest and Services	102.1	1.1	−14.8	116.8	1.2	14.3	118.4	1.0	1.3
Other Revenues	258.7	2.7	25.4	319.5	3.2	23.5	303.6	2.5	5.0
Federal Assistance	2,048.9	21.6	34.4	2,049.6	20.6	0.1	2,473.7	20.6	20.6
State Assistance	2,547.4	26.9	1.2	2,749.0	27.6	7.9	3,726.4	31.1	35.5
Total	$9,466.1	100.0%	10.9%	$9,956.8	100.0%	5.1%	$12,001.0	100.0%	20.5%

TABLE 6 (Continued)

	Aggregate % Change 1961-75	Aggregate % Change 1961-66	Aggregate % Change 1966-71	Aggregate % Change 1971-75	Average Annual % Change 1961-75
Real Estate Tax Levy	181.6%	37.0%	47.6%	39.2%	7.9%
Sales Tax	161.0	26.1	29.2	60.3	7.3
Personal Income Tax	257.2[a]	–	52.9[b]	133.6	16.5[a]
General Corporation Tax	160.4	19.3	−14.2	46.3	3.1
Other Business Taxes	*1630.8*[c]	*289.7*	*150.4*	*77.3*	*21.8*
Commercial Rent-Occupancy Tax	189.1[d]	9.0[e]	94.3	36.6	10,2[d]
Utility Tax	242.6	16.8	61.6	81.7	9.4
Financial Corporation Tax	332.6[f]	–	45.1[l]	198.2	21.6[f]
Unincorporated Business Tax	151.8[g]	–	2.9[m]	144.5	12.0[g]
Insurance Corporation Tax	54.7[g]	–	2.6[m]	50.8	5.7[g]
Special City Taxes	*175.1*[h]	*−6.9*	*−7.6*	*219.3*	*7.7*[h]
Cigarette Tax	35.4	47.7	3.1	−11.1	2.3
Tar and Nicotine Tax	−29.1[i]	–	–	−29.1[i]	−11.6[i]
Conveyance of Real Property	294.4	36.1	30.6	121.9	10.5
Off-Track Betting	96.1[j]	–	–	96.1[j]	34.0[j]
Tax on Leaded Gasoline	20.0[i]	–	–	20.0[i]	6.2[i]
Others[k]	−32.5[k]	−50.0[k]	22.2[k]	10.4[k]	−3.0[k]
Water Charges	276.5	−2.4	219.6	20.6	10.1
Licenses, Fines, Fees, Franchises, Permits and Privileges	138.2	17.0	28.0	57.8	6.6
Fares, Tolls, Rents, Interest and Services	43.5	5.0	−1.7	39.0	2.8
Other Revenues	216.2	−90.8	2011.4	63.4	8.8
Federal Assistance	2142.7	179.1	317.9	92.3	23.7
State Assistance	719.2	122.0	133.7	57.9	16.1
Total	389.2%	50.8%	101.0%	61.4%	12.1%

Footnotes

[a] FY 67 through FY 75.
[b] FY 67 through FY 71.
[c] The number of taxes in this group grew from 1 to 5 during this period.
[d] FY 64 through FY 75.
[e] FY 64 through FY 66.
[f] FY 68 through FY 75.
[g] FY 67 through FY 75.
[h] The number of taxes included in this category varied for the period.
[i] FY 72 through FY 75.
[j] FY 73 through FY 75.
[k] Includes 13 different taxes at different periods of time. See Addenda A.
[l] FY 68 through FY 71.
[m] FY 67 through FY 71.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2, Summary 1 and Part 2E, Statement 4.

TABLE 7

Federal Funds Distributed to the City of New York by Category of Assistance/Operating Revenue: Fiscal Years 1961-1975

($ in millions)

Fiscal Year	Education		Health		Social Services[1]		Human Resources[2]		Other Categorical		General Revenue Sharing[3]		Total Federal Assistance	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1961													$ 110.3	100.0%
1962													144.3	100.0
1963					(Detail not available)								165.9	100.0
1964													182.6	100.0
1965													218.3	100.0
1966	$ 35.6	11.6%	$ 23.9	7.8%	$ 210.3	68.3%	$ 32.0	10.4%	$ 6.0	2.0%	–		307.9	100.0
1967	93.7	16.2	72.2	12.5	346.3	60.0	46.2	8.0	18.4	3.2	–		576.8	100.0
1968	94.9	12.7	95.8	12.8	470.1	63.0	77.8	10.4	7.4	.9	–		746.0	100.0
1969	74.3	8.2	113.0	12.6	633.2	70.4	55.0	6.1	24.1	2.7	–		899.7	100.0
1970	135.8	12.8	151.2	14.3	671.0	63.3	62.3	5.9	39.4	3.7	–		1059.8	100.0
1971	176.1	13.7	134.2	10.4	860.3	66.9	88.5	6.9	27.4	2.1	–		1286.6	100.0
1972	208.1	13.7	167.1	11.0	1016.8	66.7	91.3	6.0	41.1	2.7	–		1524.4	100.0

Source: *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2- Summary 1.

TABLE 7 (Continued)

Fiscal Year	Education Amount	Education % of Total	Health Amount	Health % of Total	Social Services Amount	Social Services % of Total	Human Resources Amount	Human Resources % of Total	Other Categorical Amount	Other Categorical % of Total	General Revenue Sharing Amount	General Revenue Sharing % of Total	Total Federal Assistance Amount	Total Federal Assistance % of Total
1973	$ 239.6	11.7%	$ 165.2	8.0%	$1258.8	61.4%	$ 93.4	4.5%	$ 33.2	1.6%	$ 258.6	12.6%	$2048.8	100.0%
1974	278.0	13.6	178.4	8.7	1184.1	57.8	85.2	4.2	57.1	2.8	266.9	13.0	2049.6	100.0
1975	331.0	13.4	207.0	8.4	1400.6	56.6	168.3	6.8	109.5	4.4	256.8	10.4	2473.3	100.0
Aggregate Percentage Increase														
1966-75	829.8%		766.1%		566.0%		425.9%		242.2%		–		703.3%	
1961-66	N.A.		N.A.		N.A.		N.A.		N.A.		N.A.		179.1%	
1966-71	349.7%		461.5%		309.1%		176.6%		356.7%		–		317.9%	
1971-75	88.0%		54.2%		62.8%		90.2%		299.6%		0.7%		92.2%	
Average Annual Percentage Increase														
1966-75	25.9%		25.1%		22.0%		19.3%		33.7%		0.4%		24.2%	

[1] In fiscal years 1966-68 Social Services was identified as Social Welfare.
[2] In fiscal years 1966-68 Human Resources was identified as Anti-Poverty.
[3] General Revenue Sharing was first reported in 1973. Aggregate percentage change and average annual percentage increase calculations are for the 1973-75 period.

TABLE 8

State Funds Distributed to the City of New York by Category of Assistance/Operating Revenue: Fiscal Years 1961-1975

($ in millions)

Fiscal Year	Education and Libraries		Health and Hospitals		Social Services		Other[1] Programmatic Assistance		Revenue-Sharing		Shared Tax[2] Receipts		Total State Assistance	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1961	$ 226.5	49.8%	$ 42.1	9.3%	$ 102.1	22.4%	$ 10.1	2.2%	$ 53.2	11.7%	$ 20.9	4.5%	$ 454.9	100.0%
1962	231.5	47.9	51.7	10.7	111.4	23.0	10.6	2.5	53.2	11.0	23.4	4.8	483.7	100.0
1963	302.0	53.5	56.1	9.9	110.7	19.6	12.9	2.3	53.0	9.4	29.3	5.0	564.0	100.0
1964	299.7	50.0	55.3	9.2	142.2	23.7	18.0	3.0	52.4	8.7	28.4	4.6	599.1	100.0
1965	301.9	46.1	66.4	10.1	165.0	25.2	23.2	3.5	63.7	9.7	35.0	5.3	655.5	100.0
1966	371.5	36.8	96.2	9.5	209.4	20.7	80.6	8.0	99.3	9.8	153.0	15.1	1010.1	100.0
1967	414.1	35.7	105.4	9.1	282.4	24.3	34.9	3.0	99.3	8.6	225.4	19.5	1161.4	100.0
1968	437.8	29.8	141.8	9.6	426.6	29.0	51.0	3.4	99.3	6.8	312.7	22.2	1467.2	100.0
1969	696.0	34.9	157.8	7.9	521.6	26.2	67.6	3.4	193.8	9.7	354.3	17.8	1991.3	100.0
1970	735.7	36.9	162.9	8.2	526.7	26.4	38.7	1.9	205.4	10.3	311.2	15.6	1992.7	100.0
1971	775.4	32.8	197.9	8.4	658.2	27.9	78.0	3.3	324.4	13.7	326.5	13.8	2360.6	100.0

[1] Programmatic assistance for youth programs, criminal justice, and other specialized services.
[2] Gasoline tax, mortgage tax, stock transfer tax, commuter tax supplement, and auto use tax.
[3] Includes the special $629.6 million advance in State aid payments.

Source: The City of New York, *Annual Report of the Comptroller*, fiscal years 1961-1975, Part 2-Summary 1.

TABLE 8 (Continued)

Fiscal Year	Education and Libraries		Health and Hospitals		Social Services		Other Programmatic Assistance		Revenue-Sharing		Shared Tax Receipts		Total State Assistance	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1972	$ 805.9	32.0%	$ 251.0	10.0%	$ 744.6	29.6%	$ 77.7	2.6%	$ 272.2	10.8%	$ 270.4	14.8%	$2516.8	100.0%
1973	838.5	32.8	270.7	10.6	701.2	27.5	78.8	3.1	331.8	13.0	283.1	12.8	2547.4	100.0
1974	928.1	33.2	291.5	10.4	852.4	30.6	88.7	3.2	360.9	12.9	348.4	9.7	2794.0	100.0
1975	1051.7	28.2	308.2	8.3	951.1	25.5	97.4	2.6	1034.7[3]	27.8	283.1	7.6	3726.4	100.0
Aggregate Percentage Increase														
1961-66	64.0%		128.5%		105.1%		698.0%		86.7%		632.1%		122.0%	
1966-71	108.7%		105.7%		214.3%		−3.2%		226.7%		113.4%		113.7%	
1971-75	35.6%		55.7%		44.5%		24.9%		219.0%		−9.0%		57.9%	
1961-75	364.3%		632.1%		831.5%		864.4%		1844.9%		1254.5%		719.2%	
Average Annual Percentage Increase														
1961-75	11.7%		15.2%		17.0%		17.3%		22.7%		19.9%		16.1%	

City Revenue Structure – Addenda A
Fiscal Period 1961-75
Other Taxes and Years in Effect

	FY 61	FY 62	FY 63	FY 64	FY 65	FY 66	FY 67	FY 68	FY 69	FY 70	FY 71	FY 72	FY 73	FY 74	FY 75
Compensating Use Tax	X	X	X	X	X	X	X	X	X	X					
Amusement Tax	X	X	X	X	X	X	X	X							
Conduit Tax	X	X	X	X	X	X									
Tax on Occupancy of Hotel Rooms	X	X	X	X	X	X	X	X			X	X	X	X	X
Tax on Commercial Motor Vehicles	X	X	X	X	X	X	X	X	X	X	X		X	X	X
Horse Race Admissions Tax	X	X	X	X	X	X	X	X	X	X			X	X	X
Tax on Retail Liquor Licenses	X	X	X	X											
Tax on Taxicab Rides	X	X													
Tax on Coin-Operated Amusement Devices	X	X	X	X	X	X	X	X	X	X					
Occupancy Tax (Transferred from special fund)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Annual Vault Charge			X	X	X	X	X	X	X	X		X	X	X	X
Transportation Corporation Tax							X	X	X	X	X	X	X	X	X
Special Taxes – General											X	X	X	X	X

Appendix IV

New York City in Comparative Perspective

By Terry Clark and Esther Fuchs
University of Chicago

The emergence of New York City's fiscal problems can be seen, from an historical perspective, to be a consequence of socioeconomic and political changes. Understanding what is unique about the New York City situation and what is simply a reflection of conditions in large, can be helpful in identifying for other cities both the causes of the problems and the approaches that can be formulated for the future.

Of course, a fiscal crisis of the nature and dimension that has occurred in New York is unparalled among American cities. Other large city governments, while certainly experiencing serious fiscal strain, have not faced the immediate prospect of default or the threat of imminent bankruptcy that has confronted New York City officials. Whether the slide from fiscal strain into fiscal crisis will spread to other cities, or be confined uniquely to New York, in part is indicated from comparison of the socioeconomic trends and political-financial forces at work.

Compared to other older U.S. cities, the socioeconomic transformation of New York has not been markedly different, and, in some respects, it has been less severe. Many of the other large, old cities have been gradually losing jobs and population for many years. In the last five years New York City joined this trend, witnessing both serious erosion of its job base and the onset of a decline in its total population. Despite losses in population and jobs,

however, New York remains a comparatively wealthy city as evidenced in higher property values and a steady rate of growth in family income. And the city's population, while changing in composition, does not contain the same percentage of poor, nonwhite residents that is concentrated in many other cities.

On the other hand, a comparison of variables that indicate political processes and financial policies reveals that New York City is distinct among American urban municipal jurisdictions. New York City not only pays more for the municipal functions common to most cities, but it also supports a series of functions that elsewhere are provided by other taxing jurisdictions such as independent school districts and county or state governments. The level and range of functions performed by the City of New York, in part mandated by intergovernmental arrangements and in part a result of the City's own political tradition, give a unique character to the cost and financing of the City's services. Compared to other city governments, New York has relatively high labor costs, and stands alone in its level of taxation and debt.

The situation of New York City with respect to its socioeconomic condition and political-financial policies is compared in this section to other cities for the 1965-1975 period. The data presented for fifteen selected variables, while certainly not exhaustive, provide a solid basis for comparative analysis. The decline in New York's population is shown in contrast to the population changes in the 50 largest U.S. cities and the erosion of the job base is compared to that of the 50 largest U.S. metropolitan labor markets. Data for the other variables are shown for a smaller sample of ten cities.

A. SOCIOECONOMIC TRENDS

Several fundamental indicators of economic activity (property tax base, per capita retail sales, and change in job base) and indicators of social characteristics (population change, median family income, and the percentage of nonwhite residents and welfare recipients) show that New York City is not unlike other American cities. At least the comparative socioeconomic conditions indicated by these variables are not sufficient to explain the occurrence of a fiscal crisis in New York City that is unparalleled elsewhere in the U.S.

1. Change in Total Resident Population for the 50 Largest U.S. Cities

The resident population of New York City, for the first time in its history, declined 5.2 percent in 1970-1975. This decrease marked a significant turning point for the city's future growth in population. The city's decrease nevertheless was a smaller decline than that experienced by other Northern cities such as Chicago, Philadelphia, Detroit, and Baltimore. In fact, Table 1 indicates that most American central cities, with the exception of those in the Sunbelt, lost population more rapidly than New York City.

2. Change in Employment for the 50 Largest U.S. Metropolitan Labor Markets

The contraction of the New York City labor market, which began in the recession of 1969-1970, continued in the 1970-1975 period at a rate far greater than other metropolitan areas undergoing loss of jobs. While metropolitan areas such as Philadelphia, Boston, St. Louis, and Cleveland also experienced a decline in employment levels, the 11 percent drop in New York City was unmatched elsewhere in the nation (See Table 2). This rapid comparative shrinkage in the New York job base is evidence of the basic structural weaknesses that were developing in the city economy during the growth period of the 1960s.

3. Per Capita Equalized Assessed Value of Property Subject to Local Taxation

The assessed value of real estate is crucial to most city governments as the mainstay of municipal tax bases. As Table 3 shows, New York City ranked second only to San Francisco in the per capita equalized assessed value of property subject to local taxation in 1971. Also, its growth rate over the decade has been the greatest among the ten cities.

4. Per Capita Retail Sales

Comparison of per capita retail sales, another important component of many municipal tax bases, shows New York City to rank ninth among the ten cities in 1975 (See Table 4). This level of relatively low performance in retail sales, however, also existed in 1965. Perhaps more significantly, the growth rate for New York

City over the period was comparable to the increase in retail sales for the other cities.

5. Median Family Income

In the 1970 census, the median family income in New York City, $9,673, fell in the middle of a $2,000 range shown for all the cities except Newark. The increase in median family income since 1960 was also the same in New York City as in the other cities (See Table 5).

6. Number of Welfare Recipients as a Percentage of Population

In 1975, 13 percent of the New York City population received welfare, a greater percentage of recipients than in all other county jurisdictions except Newark. However, it is important to note that these data are not for central cities, and New York and San Francisco are the only cities with coterminous county boundaries. Most significantly for New York City, the increase in the percentage of the welfare-receiving population between 1970 and 1975 was the lowest of ten cities (see Table 6).

7. Nonwhite Population as a Percentage of Total City Population

The minority share of the New York City population in 1970, 23 percent, was in the middle range of the ten cities. Chicago, Atlanta, Houston, Newark, and San Francisco all had larger nonwhite populations. All ten cities experienced a relative increase in the number of minority residents in the 1960-1970 period. New York City's increase from 15 percent to 23 percent constituted an increase comparable to the other cities (see Table 7).

B. POLITICAL-FINANCIAL TRENDS

While the socioeconomic trends in New York City may resemble those occurring in other cities, the key indicators of political-financial forces show that the city's municipal government is markedly different from the local jurisdictions in other central cities. As mentioned previously, the range of functions, the cost of providing services, and the methods of generating operating revenue clearly distinguish the City of New York from other municipal governments. These differences, particularly in the scope of services and

in the levels of debt and taxation, are, from a comparative perspective, the unique aspects of New York City's crisis situation.

1. Per Capita Expenditures on Common Functions

Common functions, or basic municipal services performed by most city governments, are defined as police, fire, and sanitation services, highways, sewers, public buildings, financial administration, general control, and parks and recreation. In 1975, the City of New York spent $214 per capita on these functions, ranking third behind Newark and San Francisco and well ahead of most of the other cities. Interestingly, however, the difference between New York and the other cities has narrowed since 1965, as evidenced by New York's ninth-place rate of expenditure growth for the common functions in the 1965-1975 period (see Table 8).

2. Per Capita Expenditures on Non-Common Functions

Functions uncommon to municipal jurisdictions, those usually performed by independent special districts or county and state governments, are defined as education, public welfare, hospitals, health, housing and urban renewal, libraries, interest on general debt, and other special services. The per capita expenditures by the City of New York on these functions, a reflection of intergovernmental arrangements and local political tradition, have absolutely no parallel among the other cities. In 1975, the City of New York's per capita expenditure was $1,252, more than double the amount spent by Newark and San Francisco, and six times greater than that spent by the other cities. The ten-year per capita expenditure increase of 303 percent on non-common functions in New York City also well exceeded most cities (see Table 9).

3. Per Capita Expenditures for Personal Services

Expenditures for personal services, which represent the cost of employee wages, resemble the comparative pattern of functional spending. In 1975, the City of New York spent $764 per capita, nearly twice that of Newark and San Francisco. New York City's higher per capita expenditure results in part from its broader functional responsibility and the inclusion of public employees that in other cities would not appear on the municipal payroll. The rate of growth of personal service costs, perhaps a more accurate comparative indicator, shows New York City to rank third in the 1965-1975 period (see Table 10).

4. Average Contribution per City Employee to Municipal Retirement Funds

The per employee contribution to retirement funds, another significant measure of comparative labor costs, is shown in Table 11. The City of New York contributed an average of $2,417 per employee in 1975, exceeded only by Los Angeles and San Francisco, even though the ten-year growth rates show Atlanta, Houston, and Pittsburgh to have increased their retirement fund contributions more quickly.

5. Per Capita Intergovernmental Revenue

The City of New York performs many functions that elsewhere are the responsibility of state governments, and instead receives operating assistance for these functions and for a wide array of Federal categorical programs. The consequence of these particular intergovernmental arrangements is that nearly one-half of the City budget is financed from State and Federal sources. As seen in Table 12, the intergovernmental revenue received by the City of New York on a per capita basis well exceeds the flow of such aid to other cities. New York received $884 per capita in 1975 from the State and Federal governments, compared to $567 for Newark, $326 for San Francisco, and less than $200 for the other cities. The growth of intergovernmental revenue in New York since 1965 also exceeded the other cities, except for Newark with its special concentration of new state and Federal assistance.

6. Per Capita Municipal Tax Burden

The scope and level of public services in New York City also requires a comparatively high burden of municipal taxation. The taxes paid by New Yorkers on a per capita basis for municipal purposes was well in excess of the amount paid in other cities during the entire 1965-1975 period (see Table 13). The per capita New York tax burden in 1975 was $634, followed by Chicago, Newark, and San Francisco in the $300 range, and an amount below $200 for the other cities. The growth rate of municipal taxation in New York City, however, fell below that of Atlanta, Chicago, and San Francisco.

7. Per Capita Short-Term Debt

The increasing reliance upon short-term debt contributed significantly to New York City's fiscal crisis. The per capita compari-

sons in Table 14 indicate the phenomenal growth in the City's short-term indebtedness, particularly in the 1970-1975 period, in relation to the other cities which show slower rates of increase or actual reductions in short-term borrowing. In 1975, the City of New York held a short-term per capita debt of $638, 454 percent since 1965, a clear reflection of the City's relatively unique reliance upon certain borrowing instruments to finance its budgetary imbalance. The only other city to exceed a per capita short-term debt of $200 was Albany.

8. Per Capita Long-Term Debt

The incurrence of long-term debt obligations, a more orthodox form of municipal borrowing, is shown in Table 15. From a comparative perspective, the City of New York is still the highest, but not with the marked contrast that characterizes short-term debt. The per capita long-term debt in 1975 was $1,295 in New York, $1,237 in Atlanta, and in the $200-$800 range for most of the other cities. New York remained at the highest level throughout the 1965-1975 period, even though its rate of increase in long-term debt was seventh among the ten cities.

TABLE 1

Population Change of 50 Largest U.S. Cities: 1970-1975

1975 Rank	City	1970[1] Population	1975[2] Population	Percentage Increase (Decrease)
1	New York, N.Y.	7,895,563	7,481,613	(5.2%)
2	Chicago, Il.	3,369,357	3,099,391	(8.0%)
3	Los Angeles, Ca.	2,811,801	2,727,399	(3.0%)
4	Philadelphia, Pa.	1,949,996	1,815,808	(6.8%)
5	Detroit, Mi.	1,514,063	1,335,085	(11.8%)
6	Houston, Tx.	1,253,479	1,326,809	5.8%
7	Baltimore, Md.	905,787	851,698	(5.9%)
8	Dallas, Tx.	844,303	812,797	(3.7%)
9	San Diego, Ca.	697,027	773,996	11.0%
10	San Antonio, Tx.	708,582	773,248	9.1%
11	Indianapolis, In.	729,768	714,878	(2.0%)
12	Washington, D.C.	756,668	711,518	(5.9%)
13	Honolulu, Hi.	630,528	705,381	11.8%
14	Milwaukee, Wi.	717,372	665,796	(7.1%)
15	Phoenix, Az.	589,016	664,721	12.8%
16	San Francisco, Ca.	715,674	664,520	(7.1%)
17	Memphis, Tn.	657,007	661,319	0.6%
18	Cleveland, Oh.	750,879	638,793	(14.9%)
19	Boston, Ma.	641,071	636,725	(0.6%)
20	New Orleans, La.	593,471	559,770	(5.6%)
21	San Jose, Ca.	461,212	555,707	20.4%
22	Columbus, Oh.	540,025	535,610	(0.8%)
23	Jacksonville, Fl.	504,265	535,030	6.1%
24	St. Louis, Mo.	622,236	524,964	(15.6%)
25	Seattle, Wa.	530,831	487,091	(8.2%)
26	Denver, Co.	514,678	484,531	(5.8%)
27	Kansas City, Mo.	507,330	472,529	(6.8%)
28	Pittsburgh, Pa.	520,089	458,651	(11.8%)
29	Atlanta, Ga.	495,039	436,057	(11.9%)
30	Nashville-Davidson, Tn.	426,029	423,426	(0.6%)
31	Cincinnati, Oh.	453,514	412,564	(9.0%)
32	Buffalo, N.Y.	462,768	407,160	(12.0%)
33	El Paso, Tx.	322,261	385,691	19.6%
34	Minneapolis, Mn.	434,400	378,112	(12.9%)
35	Omaha, Ne.	358,452	371,455	3.6%
36	Toledo, Oh.	383,062	367,650	(4.0%)
37	Oklahoma City, Ok.	368,164	365,916	(0.6%)
38	Miami, Fl.	334,164	365,082	9.0%
39	Fort Worth, Tx.	393,455	358,364	(8.9%)
40	Portland, Or.	382,352	356,732	(6.7%)
41	Newark, N.J.	381,930	339,568	(11.0%)
42	Louisville, Ky.	361,706	335,954	(7.1%)
43	Long Beach, Ca.	361,427	335,602	(7.1%)
44	Tulsa, Ok.	330,350	331,726	0.4%
45	Oakland, Ca.	361,561	330,651	(8.5%)
46	Austin, Tx.	255,869	301,147	17.7%
47	Tucson, Az.	267,418	296,457	10.8%
48	Baton Rouge, La.	271,922	294,394	8.2%
49	Norfolk, Va.	307,951	286,694	(6.9%)
50	Charlotte, N.C.	274,640	281,417	2.4%

[1] 1970 census figure (April 1, 1970).
[2] Estimated population in mid-1975 (July 1, 1975).

Source: U.S., Department of Commerce, Bureau of the Census, *Current Population Reports/Series P-25* (June, 1977).

TABLE 2

Nonagricultural Employment Change in 50 Largest U.S. Metropolitan Labor Markets: 1970-1975

(in thousands)

1975 Rank	Standard Metropolitan Statistical Area	1970 Employment	1975 Employment	Percentage Increase (Decrease)
1	New York, N.Y.	4,119.9	3,665.7	(11.1%)
2	Los Angeles-Long Beach, Ca.	2,863.9	3,046.9	6.4%
3	Chicago, Il.	2,971.7	2,985.7	0.5%
4	Philadelphia, Pa.	1,794.9	1,777.8	(1.0%)
5	Detroit, Mi.	1,551.0	1,566.9	1.0%
6	Washington, D.C.	1,182.6	1,329.8	12.4%
7	San Francisco-Oakland, Ca.	1,254.7	1,322.8	5.4%
8	Boston, Ma.	1,294.7	1,262.0	(2.6%)
9	Dallas-Fort Worth, Tx.	935.3	1,077.4	15.2%
10	Houston, Tx.	769.1	996.6	29.6%
11	Minneapolis-St. Paul, Mn.	785.8	895.3	13.9%
12	St. Louis, Mo.	906.0	894.2	(1.3%)
13	Pittsburgh, Pa.	873.0	880.2	0.8%
14	Cleveland, Oh.	855.1	849.4	(0.7%)
15	Newark, N.J.	855.1	845.3	(1.1%)
16	Baltimore, Md.	806.0	843.9	4.7%
17	Atlanta, Ga.	651.9	733.7	12.5%
18	Denver-Boulder, Co.	483.0	603.9	25.0%
19	Milwaukee, Wi.	586.6	594.5	4.6%
20	Miami, Fl.	503.2	578.4	14.9%
21	Anaheim-Santa Ana-Garden Grove, Ca.	418.9	571.1	36.5%
22	Seattle-Everett, Wa.	516.2	568.5	10.1%
23	Kansas City, Mo.	512.2	540.0	5.4%
24	Cincinnati, Oh.	507.6	532.1	4.8%
25	Buffalo, N.Y.	497.5	481.2	(3.3%)
26	San Diego, Ca.	387.1	481.2	21.3%
27	San Jose, Ca.	377.8	469.1	24.2%
28	Indianapolis, In.	419.1	448.3	7.0%
29	Columbus, Oh.	403.0	446.2	10.7%
30	Portland, Or.	380.6	437.3	14.9%
31	Phoenix, Az.	327.2	429.4	31.2%
32	New Orleans, La.	373.8	419.3	12.2%
33	Tampa-St. Petersburg, Fl.	318.1	412.8	29.8%
34	Rochester, N.Y.	366.9	383.5	4.5%
35	Providence-Warwick-Pawtucket, R.I.	350.4	354.5	0.1%
36	Louisville, Ky.	335.1	348.7	4.1%
37	Hackensack, N.J.	324.0	340.1	5.0%
38	Hartford, Ct.	322.4	336.8	4.5%
39	Riverside-San Bernardino-Ontario, Ca.	293.7	334.3	13.9%
40	Greensboro-Winston-Salem-High Point, N.C.	302.1	327.7	8.5%
41	Salt Lake City-Ogden, Ut.	190.8	319.3	67.3%
42	Dayton, Oh.	331.2	318.9	(3.7%)
43	Memphis, Tn.	278.6	317.8	14.1%

TABLE 2 (continued)

1975 Rank	Standard Metropolitan Statistical Area	1970 Employment	1975 Employment	Percentage Increase (Decrease)
44	Sacramento, Ca.	263.4	313.0	18.8%
45	San Antonio, Tx.	269.9	310.8	15.2%
46	Oklahoma City, Ok.	269.1	310.6	15.4%
47	Birmingham, Al.	263.4	307.6	16.8%
48	Albany-Schenectady-Troy, N.Y.	297.9	305.3	2.5%
49	Nashville-Davidson, Tn.	255.1	291.6	14.3%
50	Honolulu, Hi.	250.0	286.4	14.6%

Source: U.S., Department of Labor, Bureau of Labor Statistics, *Employment and Earnings, States and Areas 1939-75*, Bulletin 1370-12, 1977.

TABLE 3

Per Capita Equalized Assessed Value of Property Subject to Local Taxation[1]: 1962, 1967, 1971

City	1962	1967	1971	Nine-Year Percentage Increase (Decrease)
New York	$ 7,468	$ 7,810	$14,100	88%
Los Angeles	9,146	10,769	13,189	45%
Chicago	8,232	7,857	12,564	54%
Atlanta	N.A.	N.A.	N.A.	N.A.
Houston	N.A.	N.A.	N.A.	N.A.
Newark	4,193	4,907	5,222	24%
Albany	N.A.	4,752	13,086	N.A.
Schenectady	N.A.	N.A.	10,522	N.A.
Pittsburgh	5,539	5,418	7,408	35%
San Francisco	16,323	19,948	15,917	(2%)

[1] After exemptions.

Sources: U.S., Department of Commerce, Bureau of the Census, *Census of Governments*, Taxable Property Values, Volume 2, Part 1, 1967 and 1972, "Assessed Sales Price Ratio and Tax Rates," Table 20, Column 7 and Table 11, Column 19; *Census of Governments*, Volume 2, 1962, "Taxable Property Values," Table 21, Column 8, "Assessed Sales Price Ratio," Table 22, Column 20.

TABLE 4

Per Capita Retail Sales: 1963, 1967, 1972

City	1963	1967	1972	Ten-Year Percentage Increase (Decrease)
New York	$1,348.40	$1,578.90	$1,963.50	42%
Los Angeles	1,800.70	1,879.19	2,509.04	39%
Chicago	1,586.0	1,907.90	2,362.03	49%
Atlanta	2,083.78	2,707.49	4,017.13	93%
Houston	1,722.45	1,826.71	2,847.37	65%
Newark	1,641.71	1,682.97	1,724.37	5%
Albany	1,939.52	2,252.63	2,695.92	39%
Schenectady	1,801.71	2,367.38	2,535.80	41%
Pittsburgh	1,620.96	2,283.04	2,368.33	46%
San Francisco	1,990.05	2,324.85	2,901.60	46%

Sources: U.S., Department of Commerce, Bureau of the Census, *Census of Business*, Volume II, Part 1, 1963, Table 15, 1967, Table 14 and *Census of Retail Trade*, Final Area Reports, 1972, Tables 4 and 5.

TABLE 5

Median Family Income: 1960, 1970

City	1960	1970	Ten-Year Percentage Increase, (Decrease)
New York	$6,091	$ 9,673	59%
Los Angeles	6,896	10,530	53%
Chicago	6,738	10,239	52%
Atlanta	5,029	8,398	67%
Houston	5,902	9,874	67%
Newark	5,454	7,734	42%
Albany	5,778	9,930	72%
Schenectady	5,925	9,318	57%
Pittsburgh	5,605	8,787	57%
San Francisco	6,717	10,495	56%

Source: U.S., Department of Commerce, Bureau of the Census, *County City Data Book*, 1967, Table 4, and 1972, Table 6.

TABLE 6

Number of Welfare Recipients as a Percentage of Population: 1970, 1975

City[1]	1970	1975	Five-Year Percentage Increase (Decrease) In Absolute Numbers
New York (N.Y.C.)[2]	12%	13%	8%
Los Angeles (L.A.)	7%	8%	14%
Chicago (Cook)	6%	11%	83%
Atlanta (Fulton)	6%	12%	100%
Houston (Harris)	2%	3%	50%
Newark (Essex)	N.A.	15%	N.A.
Albany (Albany)	3%	4%	33%
Schenectady (Schenectady)	3%	3%	–
Pittsburgh (Allegheny)	5%	7%	40%
San Francisco (S.F.)[2]	8%	9%	13%

[1] Data are for county jurisdictions as indicated in brackets.

[2] City and County coterminous.

Sources: 1970 from U.S., Department of Health, Education and Welfare, *Recipients of Public Assistance, Money Payments and Amounts of Such Payments by Program, State & County.* Report for month of February 1970, Number of Welfare Recipients = Recipients (General Assistance) + Recipients (Families with dependent children); County Population: *Census of Governments*, Volume 4, Number 3, Table 12. 1975 from U.S., Department of Health, Education and Welfare, *Recipients of Public Assistance, Money Payments and Amounts of Such Payments by Program, State and County.* Report for month of February 1975; County Population: U.S., Department of Commerce, Bureau of the Census, *County Government Finances*, Table 4.

TABLE 7

Nonwhite Population as a Percentage of Total City Population: 1960, 1970

City	1960	1970	Ten-Year Percentage Increase (Decrease) in Non-white Population Share
New York	15%	23%	57%
Los Angeles	17%	23%	34%
Chicago	24%	34%	44%
Atlanta	38%	51%	34%
Houston	23%	26%	12%
Newark	34%	56%	63%
Albany	9%	13%	47%
Schenectady	3%	5%	67%
Pittsburgh	17%	21%	23%
San Francisco	18%	28%	54%

Source: U.S., Department of Commerce, Bureau of the Census, *County City Data Book* 1967, Table 4 and 1972, Table 6.

TABLE 8

Per Capita Expenditures on Common Functions: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$103.98	$162.00	$214.81	107%
Los Angeles	76.31	106.00	182.62	139%
Chicago	62.52	102.00	162.97	161%
Atlanta	75.92	98.82	202.97	167%
Houston	43.96	54.85	113.07	157%
Newark	97.70	147.65	244.39	150%
Albany	50.54	101.29	194.65	285%
Schenectady	68.37	100.36	136.45	100%
Pittsburgh	64.84	123.03	140.14	127%
San Francisco	111.32	155.67	243.74	119%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-70, 1974-1975, Table 5.

TABLE 9

Per Capita Expenditures on Non-Common Functions: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$310.88	$660.84	$1,252.15	303%
Los Angeles	30.26	42.62	94.83	213%
Chicago	32.46	104.98	123.08	279%
Atlanta	46.13	119.58	171.10	271%
Houston	31.75	38.81	75.34	137%
Newark	171.42	301.06	608.59	255%
Albany	131.11	195.26	114.64	(13%)
Schenectady	40.72	44.10	110.29	171%
Pittsburgh	51.17	57.49	94.90	85%
San Francisco	148.30	436.88	586.26	295%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-70, 1974-1975, Table 5.

TABLE 10

Per Capita Expenditures for Personal Services: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$271.00	$460.47	$767.74	183%
Los Angeles	116.55	156.80	262.28	125%
Chicago	74.64	132.21	213.65	186%
Atlanta	51.67	90.75	209.81	306%
Houston	49.29	55.61	101.71	106%
Newark	189.50	279.91	457.37	141%
Albany	88.50	146.35	131.58	49%
Schenectady	64.80	90.15	120.96	87%
Pittsburgh	64.66	111.81	131.24	103%
San Francisco	169.35	328.96	412.98	144%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-1970, 1974-1975, Table 5.

TABLE 11

Average Contribution per City Employee to Municipal Retirement Funds: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$ 964.96	$1,229.99	$2,417.21	151%
Los Angeles	1,247.23	1,964.44	3,241.57	160%
Chicago	702.21	701.96	1,182.18	68%
Atlanta	250.50	816.35	1,140.74	355%
Houston	282.61	466.04	959.92	240%
Newark	49.13	81.69	127.37	159%
Albany	112.68	138.33	247.02	119%
Schenectady	329.03	286.48	299.44	(8%)
Pittsburgh	421.68	537.49	1,465.68	248%
San Francisco	870.19	1,006.90	2,818.02	224%

Sources: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-1970, 1974-1975, Table 5 and *Government Employment #2*, Tables 3 and 4.

TABLE 12

Per Capita Intergovernmental Revenue: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$120.12	$384.43	$884.51	636%
Los Angeles	19.13	32.40	84.38	341%
Chicago	15.06	44.28	106.80	609%
Atlanta	21.16	29.98	138.02	552%
Houston	5.61	4.17	38.32	583%
Newark	28.25	117.96	567.07	1907%
Albany	46.84	106.81	120.84	158%
Schenectady	14.48	34.39	98.98	584%
Pittsburgh	25.67	34.06	94.53	268%
San Francisco	93.99	245.80	326.40	247%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-1970, 1974-1975, Table 5.

TABLE 13

Per Capita Municipal Tax Burden: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$285.93	$382.90	$634.60	122%
Los Angeles	82.72	109.71	174.71	111%
Chicago	83.99	112.76	340.63	305%
Atlanta	54.53	92.20	162.24	198%
Houston	64.95	82.41	136.96	111%
Newark	233.37	280.53	313.76	41%
Albany	106.99	164.64	166.28	55%
Schenectady	98.74	87.96	100.37	2%
Pittsburgh	81.97	118.83	131.95	61%
San Francisco	176.78	300.18	388.37	120%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-1970, 1970-1975, Tables 4, 5 and 6.

TABLE 14

Per Capita Short-Term Debt: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$115.14	$182.90	$638.70	454%
Los Angeles	16.14	30.07	26.46	64%
Chicago	44.54	78.05	76.54	72%
Atlanta	–	–	–	–
Houston	–	66.91	–	–
Newark	40.00	55.23	–	(14%)
Albany	118.36	337.52	291.28	146%
Schenectady	66.07	51.62	67.82	3%
Pittsburgh	94.43	112.72	55.04	(42%)
San Francisco	31.78	142.44	150.42	373%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances, 1964-1965, 1969-1970, 1974-1975.*

TABLE 15

Per Capita Long-Term Debt: Fiscal Years 1965, 1970, 1975

City	1965	1970	1975	Ten-Year Percentage Increase (Decrease)
New York	$843.38	$917.84	$1,295.94	54%
Los Angeles	336.76	452.45	810.84	141%
Chicago	227.12	247.88	334.58	47%
Atlanta	312.22	538.16	1,237.28	296%
Houston	307.70	365.11	494.80	61%
Newark	140.45	261.67	387.55	176%
Albany	277.60	114.58	412.72	49%
Schenectady	116.19	58.99	75.35	(35%)
Pittsburgh	134.16	165.46	232.30	73%
San Francisco	287.94	432.44	581.77	102%

Source: U.S., Department of Commerce, Bureau of the Census, *City Government Finances*, 1964-1965, 1969-1970, 1974-1975.

Appendix V

Local Law 45 of 1975, Council Int. 842

Introduced by Mr. Troy (by request of the Mayor)—and Ms. Pinkett
(passed under a Message of Necessity)

A LOCAL LAW to amend the administrative code of the city of New York, in relation to the creation of a temporary commission on city finances and repealing a section which created a prior commission.

Be it enacted by the Council as follows:

Section 1. Section C51-9.0 of title C of chapter fifty-one of the administrative code of the city of New York, as added by local law number sixty for the year nineteen hundred sixty-three and last amended by local law number one hundred eighty-one for the year nineteen hundred sixty-four, is hereby REPEALED and such title of such chapter of such code is hereby amended by adding thereto a new section, to be section C51-12.0, to read as follows:

§ C51-12.0. Temporary commission on city finances—a. Legislative declaration. The council hereby finds and declares that:

(1) Questions involving the revenue, budgetary, tax and other financial policies and programs of the city government are matters of the most fundamental public concern, underlying all other policies and programs:

(2) It is clear that the fiscal condition of the city calls for the establishment of a commission to examine budgetary and financial policies and programs;

(3) In view of these fiscal problems of the city, the public interest would be served by the creation of a representative temporary commission, to be appointed by the mayor, to study, evaluate and make recommendations with respect to the city's revenue, budgetary and tax policies and programs.

(4) It should be the mayor's final responsibility to select a representative commission balanced in economic and fiscal competence and experience, with the objective of establishing a commission of experienced, representative and independent-minded citizens concerned solely with finding the answers to basic questions and problems, without regard to any special interest whatever;

(5) The basic and primary purpose of the studies, deliberations and reports of the commission so constituted should be to assist the consideration by the council, the mayor, the comptroller and the board of estimate of the fiscal problems hereinabove mentioned and to make recommendations of legislative and executive measures, actions and policies providing or contributing toward solutions for such problems.

b. (1) There is hereby created a temporary commission on city finances which shall consist of not more than twenty-three members who shall be appointed by the mayor.

(2) The members of the commission shall serve for a term of office expiring on June thirtieth, nineteen hundred seventy-seven or until such date subsequent to the expiration of such period as may be fixed by resolution of the council.

(3) A vacancy in the office of a member of the commission shall be filled by the mayor in accordance with the provisions of this subdivision governing the original appointment of such member.

(4) The mayor shall designate one of the members to be chairman of the commission. The members of the commission may, in their discretion, elect a vice-chairman. A vacancy in the office of chairman or vice-chairman shall be filled in the manner prescribed in this paragraph for the original designation or election to such offices.

(5) Except as otherwise provided, the members of the commission shall receive no compensation for services, but shall be allowed actual and necessary expenses incurred in the performance of their duties pursuant to this section.

(6) The members of the commission shall select a staff director and a research director who shall devote full time to their duties,

which they shall perform under the sole direction of the commission. Within the appropriation therefor, the staff director and research director shall receive salaries which shall be fixed by the mayor.

c. The commission shall make studies, investigations and analyses to develop proposals and recommendations with respect to fiscal problems, policies and procedures including, but not limited to, such matters as the following:

(1) Operating expenditures throughout city government and how best to facilitate economies in all areas;

(2) The revenue structure of the city;

(3) Intergovernmental fiscal relations;

(4) City financing, debt structure and capital development;

(5) The financing of transportation systems;

(6) Municipal personnel costs and how economies may best be achieved;

(7) The fiscal aspects of non-mayoral agencies.

d. The commission may hold public or private hearings with respect to any matter as to which it is authorized to make studies, investigations or recommendations. The commission may divide its members into subcommittees and make rules for its proceedings.

e. The commission may employ such assistants as may be necessary and fix their compensation within the appropriation provided therefor.

f. On or before January first, nineteen hundred seventy-six, the commission shall submit a preliminary report to the council, the board of estimate and the mayor. Thereafter, the commission may, at any time, submit to such bodies and the mayor such interim reports on its findings and recommendations as it may deem appropriate. The commission shall, on the request of the council, the finance committee thereof, the board of estimate or the mayor, submit interim reports on the matters designated in such request.

g. Not less than fifteen days before the expiration of its term, the commission shall submit to the council, the board of estimate and the mayor, a comprehensive final report of its findings and recommendations.

h. The commission shall, on request, consult with and advise the finance committee of the city council, the board of estimate or the mayor on matters as to which it is authorized to make studies, investigations, analyses or recommendations.

§ 2. This local law shall take effect immediately.

THE CITY OF NEW YORK, OFFICE OF THE CITY CLERK, S. S.:

I hereby certify that the foregoing is a true copy of a local law of The City of New York, passed by the Council on August 28, 1975, and approved by the Mayor on September 5, 1975.

THOMAS A. LENANE, First Deputy City Clerk.

CERTIFICATION PURSUANT TO MUNICIPAL HOME RULE LAW SECTION 27

Pursuant to the provisions of Municipal Home Rule Law Section 27, I hereby certify that the enclosed local law (Local Law 45 of 1975, Council Int. 842) contains the correct text and: received the following vote at the meeting of the New York City Council on August 28, 1975: 31 for, 7 against.

Was approved by the Mayor on September 5, 1975.

Was returned to the City Clerk on September 5, 1975.

W. BERNARD RICHLAND, Corporation Counsel.

August 28, 1975

MESSAGES AND PAPERS FROM THE MAYOR

M-313

Communication from the Mayor—Requesting the Enactment of a Resolution Transferring $400,000 to Establish an Initial Budget Appropriation for the Temporary Commission on City Finances.

August 26, 1975

To the Board of Estimate and the City Council:

Gentlemen—Recently I appointed a 21-member panel of prominent New Yorkers to serve as members of a Temporary Commission on City Finances. The Commission, headed by the former Presiding Justice of the Appellate Division, Owen McGivern, will study the City's operating expenditures, revenue structure, intergovernmental fiscal relations, economy, debt and capital developments, transportation finances, personnel costs, and the fiscal aspects of non-mayoral agencies, such as the Board of Education and the Health and Hospitals Corporation.

The Commission will identify the problem areas and will develop proposals to improve the City's ability to meet its fiscal needs. The Commission will also prepare interim reports on legislative proposals to shift financing of welfare, courts and prisons from the City, and will make recommendations on regionalizing funding of public transportation.

A bill to establish the Commission by local law has been introduced in the City Council. An initial appropriation of $400,000 is requested in order to start up the Commission.

Adoption of the attached resolution will authorize the Commission to be programmed within the Mayoralty, and will approve the funding of its budget from the Accrual Account 98-009.

Approval is recommended.

Very truly yours, ABRAHAM D. BEAME, Mayor.

Resolved, That pursuant to the provisions of Section 124-C of the New York City Charter, approval is hereby granted to transfer funds from Code 098-0000-009-01-76 (Accrual Account) to Code 002-2901-001-01-76 in the Mayoralty to establish a budget appropriation for the Temporary Commission on City Finances in the amount of four hundred thousand dollars ($400,000).

Resolution, For adoption, recommended by the Mayor, providing for the transfer of $400,000 from Code 098-009 to Code 002-29 to establish an initial budget appropriation in the Mayoralty for the Temporary Commission on City Finances.

Report of the Mayor dated August 26, 1975, stating that the Commission will be composed of a panel of 21 prominent citizens who will study the City's operating expenditures, revenue structure, intergovernmental fiscal relations, economy, debt and capital developments and related matters. The Commission will also prepare interim reports on legislative proposals on such items as shifting the financing of welfare, courts and correction from the City. A bill to establish the Commission has been introduced in the City Council.

Referred to the Committee on Finance.

September 18, 1975

REPORTS OF STANDING COMMITTEES

Report of the Committee on Finance

M-313 & Res. 585

Report of the Committee on Finance in Favor of Approving a Communication from the Mayor—Requesting the Enactment of a Resolution Transferring $400,000 to Establish an Initial Budget Appropriation for the Temporary Commission on City Finances.

The Committee on Finance, to which was referred on August 28, 1975 (Minutes, page 148), the annexed communication, respectfully

REPORTS:

In accordance with Section 124c of the New York City Charter, the Mayor, by letter dated August 26, 1975, requested approval by the Council of a modification of the 1975-1976 Expense Budget to transfer $400,000 from Code 098-009 Fund for Salary and Wage Accruals, to the Mayoralty, to provide a budget appropriation for the Temporary Commission on City Finances.

On June 8, 1975, the Mayor announced the appointment of a Chairman and a 21 member panel to serve as members of a Temporary Commission on City Finances.

Local Law No. 45 of 1975 passed by the Council on August 28 and approved by the Mayor September 5, 1975, empowered the Mayor to establish said Commission.

According to the law, the Commission is to study, investigate, analyze and develop proposals and recommend legislative and executive measures concerning fiscal problems and procedures including, but not limited to the following:

1. Operating expenditures throughout City Government and how best to facilitate economies in all areas.
2. The revenue structure of the City.
3. Intergovernmental fiscal relations.
4. City financing, debt structure and capital development.
5. The financing of transportation systems.
6. Municipal personnel costs and how economies may be achieved.
7. The fiscal aspects of non-mayoral agencies.

The Commission would continue until June 30, 1977 unless the Council by resolution fixed a subsequent date.

The Commission is required by the local law to submit a preliminary report to the Council, the Board of Estimate and the Mayor on or before January 1, 1976. The Council, the Finance Committee of the Council, the Board of Estimate or the Mayor may require the Commission to submit interim reports on matters of interest to them.

The Commission on its own initiative may, at any time, submit to the Council, the Board of Estimate and the Mayor interim reports on its findings and recommendations. Not less than fifteen days before the termination of the Commission it shall submit to the Council, the Board of Estimate and the Mayor a comprehensive final report of its findings and recommendations.

The members of the Commission would serve without compensation, but would be reimbursed for actual and necessary expenses in connection with their work.

The Commission has appointed Leo A. Larkin as the unsalaried Executive Director, Dr. Raymond D. Horton as Staff Director, and Denis V. Curtin as Research Director.

August 26, 1975.

To the Board of Estimate and the City Council:

Gentlemen—Recently I appointed a 21-member panel of prominent New Yorkers to serve as members of a Temporary Commission on City Finances. The Commission, headed by the former Presiding Justice of the Appellate Division, Owen McGivern, will study the City's operating expenditures, revenue structure, intergovernmental fiscal relations, economy, debt and capital developments, transportation finances, personnel costs, and the fiscal aspects of non-mayoral agencies, such as the Board of Education and the Health and Hospitals Corporation.

The Commission will identify the problem areas and will develop proposals to improve the City's ability to meet its fiscal needs. The Commission will also prepare interim reports on legislative proposals to shift financing of welfare, courts and prisons from the City, and will make recommendations on regionalizing funding of public transportation.

A bill to establish the Commission by local law has been introduced in the City Council. An initial appropriation of $400,000 is requested in order to start up the Commission.

Adoption of the attached resolution will authorize the Commission to be programmed within the Mayoralty, and will approve the funding of its budget from the Accrual Account 98-009.

Approval is recommended.

Very truly yours, ABRAHAM D. BEAME, Mayor.

In connection herewith, Mr. Troy offered the following resolution:

Res. No. 585

Resolution Approving the Transfer of Funds to the Mayoralty.

By Mr. Troy—

Resolved, That the Council, pursuant to the provisions of Section 124c of the New York City Charter, authorizes the transfer of $400,000 from Code 098-009, Fund for Salary and Wage Accruals, to Code 002-2901, in the Mayoralty, to establish a budget appropriation for the Temporary Commission on City Finances.

MATTHEW J. TROY, Chairman; EDWARD L. SADOWSKY, AILEEN B. RYAN, WALTER WARD, CARTER BURDEN, MICHAEL DEMARCO, HOWARD GOLDEN, SAMUEL D. WRIGHT, PASQUALE E. MELE, Committee on Finance, September 18, 1975.

On motion of the Vice-Chairman (Mr. Cuite), and adopted, the foregoing matters were made a General Order for the day. (See ROLL CALL ON GENERAL ORDERS FOR THE DAY.)

The following vote was recorded on M-313 and Res. No. 585:

Affirmative–Berman, Burden, Gerges, Gigante, Golden, Greitzer, Horwitz, Katz, Kaufman, Manton, Mastropieri, Mele, Mercorella, Olmedo, Pinkett, Ryan, Sadowsky, Salman, Samuel, Silverman, Simon, Spigner, Steingut, Troy, Vallone, Ward, Weiss, Wright and the Vice-Chairman (Mr. Cuite)—29.

Negative—Biondolillo, DeMarco, Gangemi, Katzman, Muratori, Stern and Wagner—7.

Appendix VI

Members of the Temporary Commission on City Finances

George Champion, Chairman, Economic Development Council, Vice Chairman, New York Chamber of Commerce and Industry, and retired Chairman, Chase Manhattan Bank.

John A. Coleman, Senior Partner, Adler, Coleman & Company and Trustee, East River Savings Bank.

Thomas Coleman, Senior Partner, Adler, Coleman & Company, Member, Board of Directors, New York Stock Exchange, Member, Municipal Assistance Corporation, and Trustee, St. Patrick's Cathedral.

Joseph W. Ford, Professor and Chairman, Department of Economics, St. Francis College and author.

Charles A. Goldstein, Partner, Baer & McGoldrick.

Marife Hernandez, Chief of Protocol of the United States for New York, Member, Board of Trustees, The New York Bank for Savings, and former producer-moderator for WPIX-TV.

Lawrence Lachman, Chairman of the Board, Bloomingdale's, Trustee, Dry Dock Savings Bank, and Director, Citizens Budget Commission, American Can Company and Federated Department Stores, Inc.

Leo A. Larkin, former Corporation Counsel of the City of New York, Vice President, Secretary and General Counsel, W. R. Grace and Company, and Trustee, St. Vincent's Hospital.

Bruce Llewellyn, President, Fedco Foods Stores, former Deputy Commissioner, City Housing and Development Administration, and Chairman of the Board, Freedom National Bank.

Alton G. Marshall, President, Rockefeller Center Inc., Trustee, Lincoln Savings Bank, and Member, Board of Directors, New York State Electric and Gas Corporation and New York Convention and Visitors Bureau.

John F. McGillicuddy, President, Manufacturers Hanover Trust Company and Manufacturers Hanover Corporation and Director, AMF Incorporated, Cities Service Company, Continental Corporation, Kraft, Inc., Sperry and Hutchinson Company, and Westinghouse Electric Corporation.

Owen McGivern, former Presiding Justice, Appellate Division of the New York State Supreme Court, and Counsel, Donovan Leisure Newton & Irvine.

Edward J. Mortola, President, Pace University and Member, Board of Directors, New York Telephone Company, County Trust, Bank of New York, and Franklin Society Federal Savings and Loan Association.

Lewis Rudin, Executive Vice President, Rudin Management Company, Chairman, Association for a Better New York, and Trustee, New York University, Lenox Hill Hospital, and Carnegie Hall.

Emanuel Saxe, Certified Public Accountant, Dean Emeritus, Bernard M. Baruch School of Business and Public Administration, CUNY, and author.

Donna E. Shalala, Associate Professor, Columbia University, Assistant Secretary for Policy Development and Research, Department of Housing and Urban Development, and former Treasurer, Municipal Assistance Corporation.

Richard R. Shinn, President and Chief Executive Officer, Metropolitan Life Insurance Company.

John F. Sipp, Chairman, Board of Trustees and Chief Executive Officer, Staten Island Savings Bank.

David Teitelbaum, Senior Partner, Donovan Leisure Newton & Irvine.

Robert V. Tishman, President, Tishman Realty & Construction Company, Inc., and Chairman, Real Estate Board of New York, Inc.

A. Robert Towbin, General Partner, L. F. Rothschild, Unterberg, Towbin, and Director, AVX Corporation and Community Foods, Inc.

Harry Van Arsdale, President, New York City Central Labor Council and Financial Secretary, Local 3, International Brotherhood of Electrical Workers.

Robert F. Wagner, former Mayor, City of New York, and Partner, Finley, Kumble, Wagner, Heine and Underberg.

Martha R. Wallace, Executive Director, Henry Luce Foundation, Inc., and Member, Board of Directors, New York Telephone Company and Bristol-Myers Company.

Administrative costs, 190
Aid to Families with Dependent Children program, 44-45, 196, 198, 199
Annuity funds, 182
Attrition, 130, 167, 169

Bankruptcy, 10, 19, 127
Block grants, 16, 118, 202
Bond Anticipation Notes, 157
Bond transfer tax, 148
Budget deficit, 20
Business taxes, 150

Capital budget, 5, 12, 13, 160-163
Capitalization of expense items, 69, 70, 155, 156, 162
Captive-of-events theory, 6, 10, 90, 129
Categorical aid, 48
Central Business District, 104
CETA, 118, 134, 203
City University, 15, 54, 55, 76, 168, 201
COLA, 174
Collective bargaining, 77, 78
Commercial rent occupancy tax, 65, 142, 151
Community Development program, 118, 119, 203, 208, 209
Commuter tax, 67
Convention Center, 164, 166
Corporate sector, 31, 34, 36, 39, 40, 104, 150
Corporate tax, 11, 67, 149, 150, 158
Countercyclical aid, 117, 132
Court system, 15, 201

Debt.
  constitutional limit, 161
  costs of, 12, 72-74
  effect on infrastructure, 72
  growth of, 69, 72, 156
  long-term, 5, 20, 26, 70, 155, 156, 159
  reduction of, 12, 160, 161, 165
  short-term, 5, 20, 26, 70, 71, 130, 155, 156, 159, 161, 162
Decrementalism, 1, 10, 129
Default, 20
Developmentalism, 10, 11, 136, 195
Economy.
  local, 2, 8, 22, 29, 38, 95-97, 100, 106-108, 125, 136
  national, 31, 36, 38, 96, 97
Educationally Deprived Children program, 204
Emergency Assistance to Families program, 198, 199
Emergency Financial Control Board, 20, 127, 165
Employment.
  by industry, 23
  municipal, 23, 130-132, 167-168
  private, 22-23, 35-37, 125, 132
  projections, 8, 97, 99, 100, 125
  trends, 30, 35, 96, 112, 116
Essential services, 27, 44, 46, 55, 58, 130, 167, 186
Estate tax, 148
Expenditures.
  by function, 54-57, 133, 185
  by object, 72-75
  comparisons of, 57, 63
  growth of, 54-56, 61-62
  projections, 134, 135
  reduction of, 14, 130, 169, 189, 191, 192
Expense budget, 4, 43, 50, 114
Export base, 3, 29-32, 101, 103, 105, 106

Federal seasonal loan, 13, 21, 148, 158, 165
Federal Bankruptcy Laws, 127
Federal assumption of public assistance, 15, 114, 121, 126, 196, 200
Fortune 500 companies, 104

Gasoline tax, 54
Great Society, 4, 24, 37, 47

Health and Hospitals Corporation, 74, 76, 171
Health insurance, 183, 184
Heart Bill, 14, 83, 176, 182
Home Relief program, 44, 45, 197, 199
Home rule tradition, 4, 44-46
Housing Authority, 77, 189

Income tax, 11, 64, 67, 142, 143, 152
Increased Take Home Pay, 14, 83, 180, 181, 182
International business, 106

Johnson Administration, 47

Kennedy Administration, 47

Labor costs, 5, 6, 83, 169, 180
  comparisons, 81-82
  trends, 74, 79, 80, 84, 85
Layoffs, 130, 167, 168
Leave benefits, 175
Load shedding, 185, 196, 202
Local Public Works program, 119, 208

Manufacturing sector, 20, 22, 31-34, 36, 38
Manufacturing taxes, 11
Metropolitan Transportation Authority, 76, 186, 187
Model Cities program, 208
Moratorium legislation, 21
Mortgage tax, 54
Municipal Assistance Corporation, 12, 20, 158, 163
Municipal hospitals, 14, 188

National urban policy, 210
New Deal legislation, 44
New York City Transit Authority, 186, 187
New York State Constitution, 83, 161, 181
New York State Local Finance Law, 162

Nixon Administration, 38, 48

Office of Labor Relations, 78, 79, 171

Pensions, 6, 26, 72, 73, 81, 83, 181
Population.
  projections, 8, 101-102
  trends, 3, 21, 22, 97-100, 101, 107, 114-116
Port Authority, 210
Productivity, 174, 175
Public housing, 189

Real estate assessment, 144, 146
Real estate tax, 5, 11, 49, 64, 68, 144, 146, 149, 151, 159
Rent control, 146
Retrenchment, 134, 169
Revenue, 64-67, 134, 135, 188
Revenue Anticipation Notes, 157
Revenue sharing, 46, 54, 117-120

Sales tax, 5, 20, 64, 67, 142, 150
Shared-tax system, 45-46
Social Security, 84, 181
Stock transfer tax, 20, 117, 149
Supplemental Security Income program, 45, 197, 199
Supplemental welfare benefits, 83

Tax Anticipation Notes, 157
Tax-levy funds, 43, 58, 126, 169
Taxation, 68, 142, 144, 145, 148
Three-Year Financial Plan, 20, 21, 130, 131, 158, 185
Transit, 186, 205

Uniform allowances, 83, 184
Union welfare fund, 183
United States Supreme Court, 210
Urban Development Bank, 211
Urban Mass Transit Act, 118, 119, 205, 210

Westway, 119, 134

RECEIVED
MUNICIPAL ASSISTANCE CORPORATION

FEB 15 '78

DBA
HAD
LSD
MFT
PGG
LAH
EJK
WJL
FGR
LWS
KCS
SJW

A.M.
P.M.
MAIL
HAND