7/26/78

DRAFT SCHEDULE

Implementation of the New York City Four Year Plan: Borrowings by the City and the Municipal Assistance Corporation

Week of July 24, 1978

July 27 (Thursday)

Agreement in principle on financing plan.

Designate MAC and its counsel as drafters of Financing Agreement.
Designate Treasury as drafters of Federal Guarantee Agreement.
Designate Corporation Counsel as drafters of City bond.

Senate passage of Federal Guarantee Act.

July 28 (Friday)

Continue discussion of terms and conditions of Financing Agreement.

Meeting of Police Pension Fund.

Distribution of draft Financing Agreement.

Week of July 31, 1978

President signs guarantee legislation.

Draft of Federal Guarantee Agreement distributed and discussed with representatives of City and State Pension Funds.

Draft of City bond distributed and discussed.

Continue discussions of Financing Agreement.

2d Draft of Financing Agreement distributed.

2d Draft of Federal Guarantee Agreement distributed.

Discussions with legislative staff re: amendments to State legislation.

Discussion with State Attorney General regarding opinion.

<u>Week of August 7</u>

Agreement on Financing Agreement, Guarantee Agreement and City bond.

August 8 (Tuesday)

State legislature back in session.

Agreement on and passage of amendments to State legislation.

Agreement on form of pension legislation and discussions with congressional staff.

Purchases of City bonds by the Pension Funds under the Amended and Restated Agreement.

MAC Board meeting authorizing execution of Financing Agreement, public and private sale of bonds, preparation and distribution of preliminary official statement by MAC.

<u>Week of August 14</u>

Passage of Federal pension legislation and signature of President.

Begin board meetings of Financial institutions to approve execution of Financing Agreement.

Begin meetings of Trustees of City and State Pension Funds to approve execution of Financing Agreement.

Designation of underwriters by MAC.

Draft of MAC official statement and series resolutions distributed.

Draft of City official statement distributed.

Preparation of documents for establishing and funding guarantee fund.

EFCB approval of issuance of City obligations and related City actions.

Brief rating agencies on Four Year Financial Plan.

Week of August 21

Congress recesses.

Written requests by Governor and Mayor for Federal Guarantee.

Continue preparation of City and MAC official statements.

Continue official approval by parties to Financing Agreement.

Week of August 28

Begin preparation and circulation of closing documents.

Completion of preparation of preliminary official statement of MAC and City.

Week of September 4
(Sept. 4 is Labor Day)

September 5 (Tuesday)

Distribution of preliminary official statements by MAC for public and private sale.

Secretary determines conditions for Federal Guarantees are met.

September 7 (Thursday)

MAC Board meeting to authorize final official statement and series resolution and to receive and consider underwriters' bid.

Execution of Financing Agreement.

Execution of Federal Guarantee Agreement.

Sale of MAC Bonds (subject to closings on remainder of package).

Week of September 11

Preclosing preparations.

Week of September 18

September 19 (Tuesday)

Closing

1. Public sale of MAC bonds.
2. First takedown on private sale of MAC bonds.
3. Delivery of Guaranteed City bonds.

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 17 July 1978

To : Working Group

From: Eugene J. Keilin

Re : Four-Year Financial Plan

Attached are three sets of schedules detailing the following:

1. Sources and schedule of investments during the four-year financial plan;

2. The City's most recent forecast of monthly cash flow for fiscal year 1979 combined with a proposed schedule of short and long-term investments;

3. A set of tables showing the proposed schedule of serial maturities or sinking fund payments for MAC bonds privately placed in each of the four years of the Financial Plan.

Each of the schedules showing private placement maturities reflects the total placement for that year. The actual placement will be made in two or more installments each year; the structure of maturities or sinking fund payments for each installment may not be the same as the overall structure for the year's placements. Further, we assume each group of participants will take some proportion of each sale, although the allocation of maturities and the timing of takedowns among individual participants within the group is not fixed.

Note that the final maturities of each year's issuances are 21 years from the July 1 of the fiscal year of issuance. The average life of each year's issuance is 15.65 years for bonds issued during fiscal year 1979; 14.66 for bonds issued in 1980; 13.01 in 1981; and 13.48 in 1982.

Revised
7/18/78

SCHEDULE I

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,800	Financial Institutions & City Pension Funds	MAC
1,000	Public Offerings	MAC
950	Public Offerings	City Bonds*
4,500		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	500	250	-0-	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds / Commercial Banks / Other Financial Institutions	507	431	431	431	1,800
Public Sale:					
MAC Bonds	375	425	200		1,000
City Bonds	-0-	100	325*	525*	950*
	1,382	1,206	956	956	4,500

NOTE:

* Back-up: Public sales of MAC Bonds and private placement of $950 million of Guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sale of City Bonds.

Revised Draft
07/17/78

SCHEDULE II

MUNICIPAL ASSISTANCE CORPORATION

Fiscal Year 1979
Proposed Financings
(In $ Millions)

	Cumulative Monthly Balance before Financing 1/	Federally Guaranteed City	MAC Public	MAC Private	City Notes Public	City Notes Private	State Advance	Cumulative Financing 4/	Monthly Closing Balance
									294
July	294	125	125 2/	250				400 4/	394
August	(6)					225		625	189
September	(436)					225		850	559
October	(291)				100	225		1,175	303
November	(872)	125	125 3/	257	100			1,732 4/	383
December	(1,349)				100			1,832	721
January	(1,111)							1,832	271
February	(1,561)	150	125					2,107	235
March	(1,872)				(100)		100	2,107	497
April	(1,610)							2,107	258
May	(1,849)	100	—	—	(200)	(675)	—	1,332	254
June	(1,078)				Peak				
		500	375	507	300	675	100		
					975				

NOTES:

1/ $997 million opening balance with $330 million of prepaid real estate taxes with provision for the Debt Service Fund and the purchase of City bonds by the remaining pension funds.
2/ $100 million retained by MAC for funding of reserve funds.
3/ $50 million retained by MAC for funding of reserve funds.
4/ Net of moneys retained by MAC.

Revised Draft
07/17/78

SCHEDULE III-A

FISCAL YEAR 1979 ISSUANCES

*********************MUNICIPAL ASSISTANCE CORPORATION*********************
*********************   PAYMENT SCHEDULE   *********************

MERGED SERIES;+791+792

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REMAINING PRINCIPAL
6/30/78	0	0	0	507,000
6/30/79	0	13,245,623	13,245,623	507,000
6/30/80	0	39,871,650	39,871,650	507,000
6/30/81	0	39,871,650	39,871,650	507,000
6/30/82	0	39,871,650	39,871,650	507,000
6/30/83	0	39,871,650	39,871,650	507,000
6/30/84	11,625,000	39,493,837	51,118,837	507,000
6/30/85	12,425,000	38,696,681	51,121,681	495,375
6/30/86	13,305,000	37,811,662	51,116,662	482,950
6/30/87	14,290,000	36,827,975	51,117,975	469,645
6/30/88	15,385,000	35,733,025	51,118,025	455,355
6/30/89	16,605,000	34,512,644	51,117,644	439,970
6/30/90	17,965,000	33,150,600	51,115,600	423,365
6/30/91	19,465,000	31,653,400	51,118,400	405,400
6/30/92	21,090,000	30,031,200	51,121,200	385,935
6/30/93	22,845,000	28,273,800	51,118,800	364,845
6/30/94	37,940,000	25,842,400	63,782,400	342,000
6/30/95	41,100,000	22,680,800	63,780,800	304,060
6/30/96	44,530,000	19,255,600	63,785,600	262,960
6/30/97	48,235,000	15,545,000	63,780,000	218,430
6/30/98	52,255,000	11,525,400	63,780,400	170,195
6/30/99	56,610,000	7,170,800	63,780,800	117,940
6/30/00	61,330,000	2,453,200	63,783,200	61,330
TOTAL	507,000,000	623,390,248	1,130,390,248	

AVERAGE LIFE IS 15.65 YEARS FROM JULY 1 1978

1978/07/18 12:54:47 (REMAINING PRINCIPAL IN $ THOUSANDS)

Second Revision
7/18/78

SCHEDULE III-B

FISCAL YEAR 1980 ISSUANCES

*********************MUNICIPAL ASSISTANCE CORPORATION********************

*********************   PAYMENT SCHEDULE   ********************

MERGED SERIES;+801+802

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REMAINING PRINCIPAL
6/30/79	0	0	0	431,000
6/30/80	0	8,454,447	8,454,447	431,000
6/30/81	0	33,817,787	33,817,787	431,000
6/30/82	5,280,000	33,646,187	38,926,187	431,000
6/30/83	5,420,000	33,291,662	38,711,662	425,720
6/30/84	5,560,000	32,914,137	38,474,137	420,300
6/30/85	11,995,000	32,308,325	44,303,325	414,740
6/30/86	12,565,000	31,451,162	44,016,162	402,745
6/30/87	13,175,000	30,521,700	43,696,700	390,180
6/30/88	13,855,000	29,513,012	43,368,012	377,005
6/30/89	14,590,000	28,425,075	43,015,075	363,150
6/30/90	15,390,000	27,257,956	42,647,956	348,560
6/30/91	16,265,000	26,003,000	42,268,000	333,170
6/30/92	17,210,000	24,664,000	41,874,000	316,905
6/30/93	18,230,000	23,246,400	41,476,400	299,695
6/30/94	27,570,000	21,414,400	48,984,400	281,465
6/30/95	29,425,000	19,134,600	48,559,600	253,895
6/30/96	31,425,000	16,700,600	48,125,600	224,470
6/30/97	33,580,000	14,100,400	47,680,400	193,045
6/30/98	35,910,000	11,320,800	47,230,800	159,465
6/30/99	38,415,000	8,347,800	46,762,800	123,555
6/30/00	41,115,000	5,166,600	46,281,600	85,140
6/30/01	44,025,000	1,761,000	45,786,000	44,025
TOTAL	431,000,000	493,461,053	924,461,053	

AVERAGE LIFE IS 14.66 YEARS FROM JULY 1 1979

1978/07/18   12:56:46   (REMAINING PRINCIPAL IN $ THOUSANDS)

Second Revision
7/18/78

SCHEDULE III-C

FISCAL YEAR 1981 ISSUANCES

**********************MUNICIPAL ASSISTANCE CORPORATION*********************

**********************   PAYMENT SCHEDULE   *********************

MERGED SERIES;+811+812

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REMAINING PRINCIPAL
6/30/80	0	0	0	431,000
6/30/81	0	8,418,762	8,418,762	431,000
6/30/82	0	33,675,050	33,675,050	431,000
6/30/83	14,480,000	33,204,450	47,684,450	431,000
6/30/84	14,865,000	32,232,156	47,097,156	416,520
6/30/85	15,245,000	31,196,887	46,441,887	401,655
6/30/86	15,810,000	30,090,912	45,900,912	386,410
6/30/87	16,210,000	28,911,406	45,121,406	370,600
6/30/88	16,610,000	27,661,487	44,271,487	354,390
6/30/89	17,000,000	26,339,556	43,339,556	337,780
6/30/90	17,400,000	24,965,075	42,365,075	320,780
6/30/91	17,800,000	23,558,056	41,358,056	303,380
6/30/92	18,210,000	22,118,000	40,328,000	285,580
6/30/93	18,615,000	20,645,000	39,260,000	267,370
6/30/94	23,960,000	18,942,000	42,902,000	248,755
6/30/95	24,780,000	16,992,400	41,772,400	224,795
6/30/96	25,645,000	14,975,400	40,620,400	200,015
6/30/97	26,540,000	12,888,000	39,428,000	174,370
6/30/98	27,490,000	10,726,800	38,216,800	147,830
6/30/99	28,470,000	8,488,400	36,958,400	120,340
6/30/00	29,510,000	6,169,200	35,679,200	91,870
6/30/01	30,610,000	3,764,400	34,374,400	62,360
6/30/02	31,750,000	1,270,000	33,020,000	31,750
TOTAL	431,000,000	437,233,400	868,233,400	

AVERAGE LIFE IS 13.01 YEARS FROM JULY 1 1980

1978/07/18   12:58:40   (REMAINING PRINCIPAL IN $ THOUSANDS)

Second Revision
7/18/78

SCHEDULE III-D

FISCAL YEAR 1982 ISSUANCES

**********************MUNICIPAL ASSISTANCE CORPORATION*********************

*********************** PAYMENT SCHEDULE *********************

MERGED SERIES;+821+822

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REMAINING PRINCIPAL
6/30/81	0	0	0	431,000
6/30/82	0	4,357,228	4,357,228	431,000
6/30/83	0	33,629,387	33,629,387	431,000
6/30/84	8,960,000	33,338,187	42,298,187	431,000
6/30/85	9,200,000	32,736,487	41,936,487	422,040
6/30/86	9,435,000	32,095,762	41,530,762	412,840
6/30/87	15,615,000	31,221,806	46,836,806	403,405
6/30/88	16,345,000	30,089,306	46,434,306	387,790
6/30/89	17,120,000	28,863,312	45,983,312	371,445
6/30/90	17,940,000	27,536,856	45,476,856	354,325
6/30/91	18,810,000	26,115,712	44,925,712	336,385
6/30/92	19,725,000	24,605,900	44,330,900	317,575
6/30/93	20,700,000	23,000,000	43,700,000	297,850
6/30/94	21,740,000	21,302,400	43,042,400	277,150
6/30/95	22,840,000	19,519,200	42,359,200	255,410
6/30/96	24,020,000	17,644,800	41,664,800	232,570
6/30/97	25,280,000	15,672,800	40,952,800	208,550
6/30/98	26,610,000	13,597,200	40,207,200	183,270
6/30/99	28,045,000	11,411,000	39,456,000	156,660
6/30/00	29,575,000	9,106,200	38,681,200	128,615
6/30/01	31,215,000	6,674,600	37,889,600	99,040
6/30/02	32,975,000	4,107,000	37,082,000	67,825
6/30/03	34,850,000	1,394,000	36,244,000	34,850
TOTAL	431,000,000	448,019,147	879,019,147	

AVERAGE LIFE IS 13.48 YEARS FROM JULY 1 1981

1978/07/18 13:01:29 (REMAINING PRINCIPAL IN $ THOUSANDS)

Second Revision
7/18/78

SCHEDULE III-E

SUMMARY OF PRIVATE PLACEMENT DURING FOUR-YEAR PLAN

**********************MUNICIPAL ASSISTANCE CORPORATION**********************

********************** PAYMENT SCHEDULE **********************

MERGED SERIES;+791+792+801+802+811+812+821+822

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REMAINING PRINCIPAL
6/30/78	0	0	0	1,800,000
6/30/79	0	13,245,623	13,245,623	1,800,000
6/30/80	0	48,326,097	48,326,097	1,800,000
6/30/81	0	82,108,200	82,108,200	1,800,000
6/30/82	5,280,000	111,550,116	116,830,116	1,800,000
6/30/83	19,900,000	139,997,150	159,897,150	1,794,720
6/30/84	41,010,000	137,978,319	178,988,319	1,774,820
6/30/85	48,865,000	134,938,381	183,803,381	1,733,810
6/30/86	51,115,000	131,449,500	182,564,500	1,684,945
6/30/87	59,290,000	127,482,887	186,772,887	1,633,830
6/30/88	62,195,000	122,996,831	185,191,831	1,574,540
6/30/89	65,315,000	118,140,587	183,455,587	1,512,345
6/30/90	68,695,000	112,910,487	181,605,487	1,447,030
6/30/91	72,340,000	107,330,169	179,670,169	1,378,335
6/30/92	76,235,000	101,419,100	177,654,100	1,305,995
6/30/93	80,390,000	95,165,200	175,555,200	1,229,760
6/30/94	111,210,000	87,501,200	198,711,200	1,149,370
6/30/95	118,145,000	78,327,000	196,472,000	1,038,160
6/30/96	125,620,000	68,576,400	194,196,400	920,015
6/30/97	133,635,000	58,206,200	191,841,200	794,395
6/30/98	142,265,000	47,170,200	189,435,200	660,760
6/30/99	151,540,000	35,418,000	186,958,000	518,495
6/30/00	161,530,000	22,895,200	184,425,200	366,955
6/30/01	105,850,000	12,200,000	118,050,000	205,425
6/30/02	64,725,000	5,377,000	70,102,000	99,575
6/30/03	34,850,000	1,394,000	36,244,000	34,850
TOTAL	1,800,000,000	2,002,103,848	3,802,103,848	

AVERAGE LIFE IS 13.70 YEARS FROM JULY 1 1980

1978/07/18 13:04:03 (REMAINING PRINCIPAL IN $ THOUSANDS)

Second Revision
7/18/78

SCHEDULE I

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,800	Financial Institutions & City Pension Funds	MAC
1,000	Public Offerings	MAC
950	Public Offerings	City Bonds*
4,500		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	500	250	-0-	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds, Commercial Banks, Other Financial Institutions	807 507	331 431	362 431	300 431	1,800
Public Sale:					
MAC Bonds	375	425	200		1,000
City Bonds	-0-	100	325*	525*	950*
	1,382	1,206	956 81 1057	956	4,500

NOTE:

* Back-up: Public sales of MAC Bonds and private placement of $950 million of Guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sale of City Bonds.

Revised Draft
07/17/78

+300 State Adv   −174 Repurd   +81 Repurd (total 200)   −207 Ref

SCHEDULE II

MUNICIPAL ASSISTANCE CORPORATION

Fiscal Year 1979
Proposed Financings
(In $ Millions)

	Cumulative Monthly Balance before Financing1/	Federally Guaranteed City	MAC Public	MAC Private	City Notes Public	City Notes Private	State Advance	Cumulative Financing4/	Monthly Closing Balance
July	294								294
August	(6)	125	125 2/	250				400 4/	394
September	(436)					225		625	189
October	(291)					225		850	559
November	(872)				100	225		1,175	303
December	(1,349)	125	125 3/	257	100			1,732 4/	383
January	(1,111)				100			1,832	721
February	(1,561)							1,832	271
March	(1,872)	150	125					2,107	235
April	(1,610)				(100)		100	2,107	497
May	(1,849)							2,107	258
June	(1,078)	100	—	—	(200)	(675)	—	1,332	254
		500	375	507	Peak 300	675	100		
					975				

NOTES:

1/ $997 million opening balance with $330 million of prepaid real estate taxes with provision for the Debt Service Fund and the purchase of City bonds by the remaining pension funds.
2/ $100 million retained by MAC for funding of reserve funds.
3/ $50 million retained by MAC for funding of reserve funds.
4/ Net of moneys retained by MAC.

Revised Draft
07/17/78

Schedule I

Purchasers and Commitments

References to a particular fiscal year ("FY") are to the twelve-month period ending on June 30 of such year.

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
1. Commercial Banks:					
Bankers Trust Company 280 Park Avenue New York, N. Y. 10017 Attention: Kim Engelbert Vice President	$ 5,220	$ 19,395	$ 19,400	$ 10,045	$ 54,060
The Bank of New York 48 Wall Street New York, New York 10015 Attention: Landon Peters Executive Vice President and Treasurer	2,250	8,365	8,365	4,330	23,310
The Chase Manhattan Bank, N.A. 1 Chase Manhattan Plaza New York, New York 10005 Attention: Palmer Turnheim Senior Vice President	10,145	37,670	37,675	19,510	105,000
Chemical Bank 20 Pine Street New York, New York 10005 Attention: Herman R. Charbonneau	8,120	30,160	30,165	15,620	84,065
Citibank, N.A. 399 Park Avenue New York, New York 10043 Attention: William F. Dore, A.V.P. Investment Portfolio 6th Floor	11,985	44,510	44,520	23,050	125,065
Irving Trust Company One Wall Street New York, New York 10015 Attention: John R. Windeler Senior Vice President	2,410	8,945	8,950	4,635	24,940
Manufacturers Hanover Trust Company 44 Wall Street New York, New York 10015 Attention: Russell K. Pope Vice President 9th Floor	7,415	27,535	27,540	14,260	76,750

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
Marine Midand Bank 140 Broadway New York, New York 10015 16th Floor Money Management Division Attention: Richard C. Keller, Senior Vice President	$ 3,895	$ 14,460	$ 14,465	$ 7,490	$ 40,310
Morgan Guaranty Trust Company of New York 23 Wall Street New York, New York 10015 Attention: Amos T. Beason Senior Vice President	6,715	24,935	24,940	12,915	69,505
National Bank of North America 44 Wall Street New York, N. Y. 10015 Attention: Gerard Dougherty Vice President	1,600	5,940	5,945	3,075	16,560
United States Trust Company of New York 45 Wall Street New York, N. Y. 10005 Attention: Edwin A. Heard Vice Chairman	620	2,310	2,310	1,195	6,435
Totals for Commercial Banks	$ 60,375	$ 224,225	$ 224,275	$ 116,125	$ 625,000
2. Savings Banks:					
American Savings Bank 335 Broadway New York, N. Y. 10013 Attention: Douglas B. Stuart Senior Vice President	$ 1,500	$ —	$ —	$ —	$ 1,500
Anchor Savings Bank 1 Dag Hammarskjold Plaza New York, N. Y. 10017 Attention: Investment Department	1,500	1,500	1,500	1,500	6,000
The Bowery Savings Bank 110 East 42nd Street New York, N. Y. 10017 Attention: Dolores J. Morrissey Vice President	9,350	9,525	9,525	9,000	37,400

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
The Brooklyn Savings Bank P. O. Box 23 Brooklyn, N. Y. 11202 Attention: Treasurer's Department Frank Tutone Vice President and Treasurer	$ 2,125	$ 2,125	$ 2,125	$ 2,125	$ 8,500
Central Savings Bank 2100 Broadway New York, N. Y. 10023 Attention: George J. Ernis Vice President and Treasurer	1,375	1,375	1,375	1,375	5,500
College Point Savings Bank 211-11 Northern Boulevard Bayside, N. Y. 11361 Attention: Raymond W. Carroll Chairman and President	125	125	125	125	500
The Dime Savings Bank of New York 589 5th Avenue New York, N. Y. 10017 Attention: Arthur J. Miles Sr. Executive Vice President	5,585	5,590	5,585	5,590	22,350
The Dime Savings Bank of Williamsburgh 209 Havemeyer Street Brooklyn, N. Y. 11211 Attention: Joseph F. Ujazdowski President	750	750	750	750	3,000
Dollar Savings Bank of New York 2530 Grand Concourse Bronx, N. Y. 10458 Attention: Fredrick J. Parent Vice President	4,440	4,435	4,440	4,435	17,750
Dry Dock Savings Bank 742 Lexington Avenue New York, New York 10022 Attention: George Klein Assistant Vice President	3,675	4,600	4,600	4,125	17,000
The East New York Savings Bank 41 West 42nd Street New York, N. Y. 10007 Attention: Robert G. Brandely Chairman	1,500	1,500	1,500	1,500	6,000

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
Emigrant Savings Bank 5 East 42nd Street New York, N. Y. 10017 Attention: Investment Department	$ 5,250	$ 5,250	$ 5,250	$ 5,250	$ 21,000
Empire Savings Bank 221 West 57th Street New York, N. Y. 10019 Attention: Richard A. Zeller Vice President	1,075	1,075	1,075	1,075	4,300
Flushing Savings Bank 114-51 Northern Boulevard Flushing, N. Y. 11354 Attention: George C. Byrnes President	375	375	375	375	1,500
Franklin Savings Bank of New York 380 Madison Avenue New York, N. Y. 10017 Attention: Securities Investment Department	2,425	2,425	2,425	2,425	9,700
The Green Point Savings Bank 807 Manhattan Avenue Brooklyn, N. Y. 11222 Attention: John W. Raber Chairman of the Board	1,750	1,750	1,750	1,750	7,000
The Greenwich Savings Bank 1356 Broadway New York, N. Y. 10018 Attention: Joseph J. Beirne, Jr. Vice President	4,375	3,775	3,775	3,775	15,700
Hamburg Savings Bank 315 Wyckoff Avenue Brooklyn, N. Y. 11227 Attention: Robert F. Pondt	250	250	250	250	1,000
Harlem Savings Bank 205 East 42nd Street New York, N. Y. 10017 Attention: John J. Daley Senior Vice President	1,250	1,250	1,250	1,250	5,000
Independence Savings Bank 130 Court Street Brooklyn, N. Y. 11202 Attention: William R. Bauman Treasurer	1,185	1,190	1,185	1,190	4,750

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
The Lincoln Savings Bank 531 Broadway Brooklyn, N. Y. 11206 Attention: R. J. Wittine Senior Vice President	$ 3,150	$ 3,150	$ 3,150	$ 3,150	$ 12,600
Metropolitan Savings Bank 189 Montague Street Brooklyn, N. Y. 11201 Attention: Bradley Hemingway President	1,500	1,500	1,500	1,500	6,000
The New York Bank for Savings 1230 Avenue of the Americas New York, N. Y. 10020 Attention: Investment Department	6,250	6,250	6,250	7,250	26,000
Northfield Savings Bank 1731 Victory Boulevard Castleton Corners, N. Y. 10304 Attention: Paul E. Proske Chairman and President	140	135	140	135	550
North Side Savings Bank 185 West 231st Street Bronx, N. Y. 10463 Attention: Donald Darcy President	825	825	825	825	3,300
Queens County Savings Bank 38-25 Main Street Flushing, N. Y. 11354 Attention: Arthur Vogt Senior Vice President	500	500	500	500	2,000
Richmond County Savings Bank 1214 Castleton Avenue Staten Island, New York 10304 Attention: Arthur T. Loehrer President	125	125	125	125	500
Richmond Hill Savings Bank 170 Tulip Avenue Floral Park, N. Y. 11001 Attention: John A. McAuliffe Vice President	1,000	1,000	1,000	1,000	4,000

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
Ridgewood Savings Bank Myrtle and Forest Avenues Ridgewood, N. Y. 11227 Attention: Joseph C. Volz	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 6,000
Roosevelt Savings Bank Administrative Headquarters 1122 Franklin Avenue Garden City, N. Y. 11530 Attention: Frederick H. Schneider President	900	900	900	900	3,600
The Seaman's Bank for Savings 30 Wall Street New York, N. Y. 10005 Attention: Robert C. Hollenbeck Vice President Securities Investment Department	3,125	3,125	3,125	3,125	12,500
Staten Island Savings Bank 81 Water Street New York, N. Y. 10304 Attention: John L. F. Sipp Chairman	500	500	500	500	2,000
Union Dime Savings Bank 1065 Avenue of the Americas New York, N. Y. 10018 Attention: Gary B. Klinger Vice President-Treasurer	1,750	2,750	2,750	2,750	10,000
United Mutual Savings Bank 1370 Avenue of the Americas New York, N. Y. 10019 Attention: Edward L. Nelson Vice President	625	625	625	625	2,500
The Williamsburgh Savings Bank One Hanson Place Brooklyn, N. Y. 11243 Attention: George W. Clark Executive Vice President	3,250	3,250	3,250	3,250	13,000
Totals for Savings Banks	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 300,000
3. Insurance Companies:					
Columbian Mutual Life Insurance Company One Columbian Mutual Plaza Binghamton, N. Y. 13902 Attention: Harry T. Gorman Senior Vice President and Secretary	$ 50	$ 50	$ 50	$ 50	$ 200

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
Companion Life Insurance Company 230 Park Avenue New York, N. Y. 10017 Attention: Charles T. Locke, Esq.	$ 100	$ —	$ —	$ —	$ 100
The Equitable Life Assurance Society of the United States 1285 Avenue of the Americas New York, N. Y. 10019 Attention: Direct Placement Department	70,000	—	—	—	70,000
Home Life Insurance Company 253 Broadway New York, New York 10007 Attention: Securities Department	4,000	—	—	—	4,000
Metropolitan Life Insurance Company One Madison Avenue New York, N. Y. 10010 Attention: Treasurer	110,000	—	—	—	110,000
The Mutual Life Insurance Company of New York 1740 Broadway New York, N. Y. 10019 Attention: Securities Investment Department	16,000	—	—	—	16,000
New York Life Insurance Company 51 Madison Avenue New York, N. Y. 10010 Attention: Investment Department Room 203	4,000	12,400	12,800	16,800	46,000
Security Mutual Life Insurance Company of New York Court House Square Binghamton, N. Y. 13902 Attention: Investment Department	100	100	100	100	400
Teachers Insurance and Annuity Association of America 730 Third Avenue New York, N. Y. 10017 Attention: Securities Division	—	1,000	500	500	2,000

Purchasers	Commitments (in thousands) FY 1979	FY 1980	FY 1981	FY 1982	Total
United States Life Insurance Company in The City of New York 125 Maiden Lane New York, N. Y. 10005 Attention: Frank Suozzo Vice President and Treasurer	$ 1,000	$ —	$ —	$ —	$ 1,000
Totals for Insurance Companies	$ 205,250	$ 13,550	$ 13,450	$ 17,450	$ 249,700
4. Pension Funds:					
New York City Employees' Retirement System 220 Church Street New York, N. Y. 10013 Attention: Harold E. Herkommer Executive Director	$ 29,640	$ 110,090	$ 110,125	$ 57,020	$ 306,875
Teachers' Retirement System for The City of New York 40 Worth Street New York, N. Y. 10013 Attention: Wallace F. Sullivan Executive Director	19,865	73,770	73,785	38,205	205,625
Board of Education Retirement System for The City of New York 65 Court Street Brooklyn, N. Y. 11201 Attention: John La Carrubba Executive Director	1,090	4,040	4,030	2,090	11,250
New York City Police Pension Fund, Article 2 1 Police Plaza New York, N. Y. 10038 Attention: Deputy Commissioner	9,780	36,325	36,335	18,810	101,250
Totals for Pension Funds	$ 60,375	$ 224,225	$ 224,275	$ 116,125	$ 625,000
Totals for All Purchasers	$ 401,000	$ 537,000	$ 537,000	$ 324,700	$1,799,700

To: Dave Hurslips
From: Gene Keilin
Andy Decker
[(212) 488-5728]

MUNICIPAL ASSISTANCE CORPORATION

DRAFT

Fiscal Year 1979
Proposed Financings
(In $ Millions)

	Cumulative Monthly Balance before Financing1/	Federally Guaranteed City	MAC Public	MAC Private	City Notes Public	City Notes Private	State Advance	Cumulative Financing4/	Monthly Closing Balance
July	294								294
August	(6)	125	125 2/	250				400	394
September	(436)					225		625	189
October	(291)					225		850	559
November	(872)				100	225		1,175	303
December	(1,349)	125	125 3/	257	100			1,732	383
January	(1,111)				100			1,832	721
February	(1,561)							1,832	271
March	(1,872)	150	125					2,107	235
April	(1,610)				(100)		100	2,107	497
May	(1,849)							2,107	258
June	(1,078)	100	—	—	(200)	(675)	—	1,332	254
					Peak				
		500	375	507	300	675	100		
					975				

NOTES:

1/ $997 million opening balance with $330 million of prepaid real estate taxes with provision for the Debt Service Fund and the purchase of City bonds by the remaining pension funds.
2/ $100 million retained by MAC for funding of reserve funds.
3/ $50 million retained by MAC for funding of reserve funds.
4/ Net of moneys retained by MAC.

07/14/78
/lsd

Program Planners, Inc.

To: PHILIP TOIA
Deputy Mayor for Finance

From: JACK BIGEL

Subject: 4-YEAR FINANCING PLAN

The following answers are required to properly evaluate the proposed 4-year financing plan:

-- what is the contemplated debt service schedule for each item (bricks and mortar, state advance, etc.), including the funding schedule for M.A.C.?

-- what is the total M.A.C. and City debt service (and/or funding schedule) over the next 20 years?

-- if the financing plan as proposed is adopted, what is the budget impact as compared to the current 4-year financial plan?

-- what is the real estate tax base assumptions for the next 4 years?

-- what are the plans for the City BAN's currently held by M.A.C.?

RECEIVED
MUNICIPAL ASSISTANCE CORPORATION
JUN 26 '78
A.M. P.M. MAIL HAND
BBA FAD LSD MFF PGC LAH EJK WJL FGR LWS MCS SJE

June 16, 1978

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 23 June 1978

To : Eugene Keilin

From: Andrew Decker AD

Re : Draft Proposal for a 1979 Issuance Schedule

Attached are four schedules detailing certain components of a financing plan. The first schedule shows the sources and schedule of issuances for the full four-year period. This schedule is still tentative. The second schedule shows the uses of the moneys over the four years. The third schedule displays a proposed schedule of issuances for Fiscal Year 1979, while the fourth displays the 1979 funding requirements if the proposed schedule is implemented.

HAD/lsd

Attachments (4)

DRAFT

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,800	Financial Institutions & City Pension Funds	MAC
950	Public Offerings	MAC
1,000	Public Offerings	City Bonds*
4,500		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	500	250	-0-	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds Commercial Banks Other Financial Institutions	507	431	431	431	1,800
Public Sale:					
MAC Bonds	375	425	200		1,000
City Bonds	-0-	100	325*	525*	950*
	1,382	1,206	956	956	4,500

NOTE:

* Back-up: Public sales of MAC Bonds and private placement of $950 million of Guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sale of City Bonds.

06/21/78

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PROPOSED SCHEDULE OF USES
$4.5 BILLION LONG-TERM FINANCING PLAN

(In $ Millions)

	1979	1980	1981	1982	TOTAL
City Capital	382	482	687	749	2,300
Capitalized Expenses	450	300	150	-0-	900
State Advance	400	100	-0-	-0-	500
MAC Capital Reserve	150	150	-0-	-0-	300
MAC Refunding	-0-	174	119	207	500
	1,382	1,206	956	956	4,500

06/23/78

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Fiscal Year 1979 -- Proposed Financings
(In $ Million)

	Cumulative Monthly Balance Before Financing 1/	Federally Guaranteed City	MAC		City Notes		State Advance	Cumulative Financing	Monthly Closing Balance
			Public	Private	Public	Private			
July	173		125	250 1/		200		500	673
August	(344)					200		700	356
September	(821)				100	200		1,000	179
October	(691)	125			100	200		1,425	734
November	(1,292)		125	257 2/	100			1,832	540
December	(1,741)				100			1,932	191
January	(1,326)							1,932	606
February	(1,777)	150	125					2,207	430
March	(2,049)							2,207	158
April	(1,735)	125			(150)	(50)	100	2,232	497
May	(1,944)				(125)			2,107	163
June	(1,144)	100			(125)	(750)		1,332	188
		500	375	507	-0-	-0-	100		

NOTES:

1/ $100 million for MAC Capital Reserve.
2/ $ 50 million for MAC Capital Reserve.

06/21/78

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1979 FUNDING REQUIREMENTS AFTER ISSUANCE OF PROPOSED FINANCINGS*

(In $ Millions)

Presently Outstanding	10/12	01/12	04/12	06/25	06/30	TOTAL
First	75.9	75.9	80.5		80.5	312.8
Second	49.2	49.2	49.2	49.2		196.0
New Debt	15.0	15.2	19.4	17.7		67.3
Operating					5.5	5.5
	140.1	140.3	149.1	66.1	86.0	581.6

NOTE:
* Funding requirements do not give effect to any interest income.

06/23/78

GO BONDS

78/06/23 08:59 (MACNYC)BONDS TEST VERSION 3.0

=> ? PR79A+PR79B+PB79A+PB79B+PB79C#PRINT*#PRINT(SER=*/SECHED=2/OPTION=FUND)
(SER=*)
78/06/23 09:00

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total	Fundins
1979		20,178,289	20,178,289	67,086,940
1980		69,726,980	69,726,980	70,560,320
1981		70,560,320	70,560,320	70,560,320
1982		70,560,320	70,560,320	70,560,320
1983		70,560,320	70,560,320	77,356,620
1984	6,935,000	70,282,920	77,217,920	77,345,720
1985	7,490,000	69,705,920	77,195,920	77,333,540
1986	8,089,000	69,082,760	77,171,760	77,320,480
1987	8,736,000	68,409,760	77,145,760	77,306,620
1988	9,435,000	67,682,920	77,117,920	77,291,720
1989	10,190,000	66,897,920	77,087,920	77,276,200
1990	11,006,000	66,050,080	77,056,080	77,258,120
1991	11,886,000	65,134,400	77,020,400	77,239,220
1992	12,837,000	64,145,480	76,982,480	77,217,740
1993	13,863,000	63,077,480	76,940,480	77,196,500
1994	14,973,000	61,924,040	76,897,040	92,348,000
1995	31,656,000	60,058,880	91,714,880	92,296,880
1996	34,188,000	57,425,120	91,613,120	92,243,120
1997	36,924,000	54,580,640	91,504,640	92,185,100
1998	39,879,000	51,508,520	91,387,520	92,120,980
1999	43,069,000	48,190,600	91,259,600	92,052,540
2000	46,515,000	44,607,240	91,122,240	91,977,920
2001	50,236,000	40,737,200	90,973,200	91,896,680
2002	54,254,000	36,557,600	90,811,600	91,810,540
2003	58,595,000	32,043,640	90,638,640	91,715,220
2004	63,281,000	27,168,600	90,449,600	91,615,460
2005	68,345,000	21,903,560	90,248,560	91,504,540
2006	73,811,000	16,217,320	90,028,320	91,387,540
2007	79,717,000	10,076,200	89,793,200	91,259,640
2008	86,094,000	3,443,760	89,537,760	
Total	882,004,000	1,538,498,789	2,420,502,789	2,415,324,540

(SER=*/OPTION=FUND)
78/06/23 09:02

Municipal Assistance Corporation
For the City of New York

FY Principal Interest Total Funding

	Principal	Interest	Total	Funding
1979		20,178,289	20,178,289	67,086,940
1980		69,726,980	69,726,980	70,560,320
1981		70,560,320	70,560,320	70,560,320
1982		70,560,320	70,560,320	70,560,320
1983		70,560,320	70,560,320	77,356,620
1984	6,935,000	70,282,920	77,217,920	77,345,720
1985	7,490,000	69,705,920	77,195,920	77,333,540
1986	8,089,000	69,082,760	77,171,760	77,320,480
1987	8,736,000	68,409,760	77,145,760	77,306,620
1988	9,435,000	67,682,920	77,117,920	77,291,720
1989	10,190,000	66,897,920	77,087,920	77,276,200
1990	11,006,000	66,050,080	77,056,080	77,258,120
1991	11,886,000	65,134,400	77,020,400	77,239,220
1992	12,837,000	64,145,480	76,982,480	77,217,740
1993	13,863,000	63,077,480	76,940,480	77,196,500
1994	14,973,000	61,924,040	76,897,040	92,348,000
1995	31,656,000	60,058,880	91,714,880	92,296,880
1996	34,188,000	57,425,120	91,613,120	92,243,120
1997	36,924,000	54,580,640	91,504,640	92,185,100
1998	39,879,000	51,508,520	91,387,520	92,120,980
1999	43,069,000	48,190,600	91,259,600	92,052,540
2000	46,515,000	44,607,240	91,122,240	91,977,920
2001	50,236,000	40,737,200	90,973,200	91,896,680
2002	54,254,000	36,557,600	90,811,600	91,810,540
2003	58,595,000	32,043,640	90,638,640	91,715,220
2004	63,281,000	27,168,600	90,449,600	91,615,460
2005	68,345,000	21,903,560	90,248,560	91,504,540
2006	73,811,000	16,217,320	90,028,320	91,387,540
2007	79,717,000	10,076,200	89,793,200	91,259,640
2008	86,094,000	3,443,760	89,537,760	
Total	882,004,000	1,538,498,789	2,420,502,789	2,415,324,540

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=> ? PRINT(SER=*/SCHED=2/OPTION=FUND)
(SER=*/SCHED=2/OPTION=FUND)
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Municipal Assistance Corporation
For the City of New York

	Oct. 12	Jan. 12	Apr. 12	Jun. 25	Jun. 30	Total
1979	15,000,040	15,140,060	19,306,760	17,640,080		67,086,940
1980	17,640,080	17,640,080	17,640,080	17,640,080		70,560,320
1981	17,640,080	17,640,080	17,640,080	17,640,080		70,560,320
1982	17,640,080	17,640,080	17,640,080	17,640,080		70,560,320
1983	19,373,830	19,373,830	19,373,830	19,235,130		77,356,620
1984	19,373,880	19,373,880	19,373,880	19,224,080		77,345,720
1985	19,373,830	19,373,830	19,373,830	19,212,050		77,333,540
1986	19,373,800	19,373,800	19,373,800	19,199,080		77,320,480
1987	19,373,830	19,373,830	19,373,830	19,185,130		77,306,620
1988	19,373,880	19,373,880	19,373,880	19,170,080		77,291,720
1989	19,374,080	19,374,080	19,374,080	19,153,960		77,276,200
1990	19,373,960	19,373,960	19,373,960	19,136,240		77,258,120
1991	19,373,990	19,373,990	19,373,990	19,117,250		77,239,220
1992	19,373,750	19,373,750	19,373,750	19,096,490		77,217,740
1993	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

1994	23,245,280	23,245,280	23,245,280	22,612,160	92,348,000
1995	23,245,160	23,245,160	23,245,160	22,561,400	92,296,880
1996	23,245,400	23,245,400	23,245,400	22,506,920	92,243,120
1997	23,245,670	23,245,670	23,245,670	22,448,090	92,185,100
1998	23,245,590	23,245,590	23,245,590	22,384,210	92,120,980
1999	23,245,710	23,245,710	23,245,710	22,315,410	92,052,540
2000	23,245,660	23,245,660	23,245,660	22,240,940	91,977,920
2001	23,245,440	23,245,440	23,245,440	22,160,360	91,896,680
2002	23,245,610	23,245,610	23,245,610	22,073,710	91,810,540
2003	23,245,210	23,245,210	23,245,210	21,979,590	91,715,220
2004	23,245,590	23,245,590	23,245,590	21,878,690	91,615,460
2005	23,245,190	23,245,190	23,245,190	21,768,970	91,504,540
2006	23,245,470	23,245,470	23,245,470	21,651,130	91,387,540
2007	23,245,380	23,245,380	23,245,380	21,523,500	91,259,640
Total					2,415,324,540

=> ? LIST
Bond Series name ? PR79A

78/06/23 09:07

Series PR79A
Dated July 1, 1978
Issued July 20, 1978
Firsst Coupon January 1, 1979

Year	Principal	Rate
1983	3,420	8.0
1984	3,693	8.0
1985	3,989	8.0
1986	4,308	8.0
1987	4,652	8.0
1988	5,025	8.0
1989	5,427	8.0
1990	5,861	8.0
1991	6,330	8.0
1992	6,836	8.0
1993	7,383	8.0
1994	7,973	8.0
1995	8,611	8.0
1996	9,300	8.0
1997	10,044	8.0
1998	10,848	8.0
1999	11,716	8.0
2000	12,653	8.0
2001	13,665	8.0
2002	14,758	8.0
2003	15,939	8.0
2004	17,214	8.0
2005	18,591	8.0
2006	20,079	8.0
2007	21,685	8.0

FIRST 1979 PRIVATE ISSUE

=> ? LIST
Bond Series name ? PR79B

78/06/23 09:07

Series PR79B
Dated November 1, 1978
Issued November 15, 1978
Firsst Coupon January 1, 1979
Stub 61 days

Year	Principal	Rate
1983	3,515	8.0
1984	3,797	8.0
1985	4,100	8.0
1986	4,428	8.0
1987	4,783	8.0
1988	5,165	8.0
1989	5,579	8.0
1990	6,025	8.0
1991	6,507	8.0
1992	7,027	8.0
1993	7,590	8.0
1994	8,197	8.0
1995	8,852	8.0
1996	9,561	8.0
1997	10,326	8.0
1998	11,152	8.0
1999	12,044	8.0
2000	13,007	8.0
2001	14,048	8.0
2002	15,172	8.0
2003	16,385	8.0
2004	17,696	8.0
2005	19,112	8.0
2006	20,641	8.0
2007	22,292	8.0

SECOND 1979 PRIVATE ISSUE

=> ? LIST
Bond Series name ? PB79A

78/06/23 09:10

Series PB79A
Dated July 1, 1978
Issued July 20, 1978
Firsst Coupon January 1, 1979

Year	Principal	Rate
1994	5,162	8.0
1995	5,575	8.0
1996	6,021	8.0
1997	6,503	8.0
1998	7,023	8.0
1999	7,585	8.0
2000	8,192	8.0
2001	8,847	8.0
2002	9,555	8.0
2003	10,319	8.0
2004	11,145	8.0
2005	12,036	8.0
2006	12,999	8.0
2007	14,039	8.0

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FIRST 1979 PUBLIC ISSUE

=> ? LIST
Bond Series name  ? PB79B


78/06/23  09:11

Series PB79B
Dated November  1,  1978
Issued November  15,  1978
Firsst Coupon January  1,  1979
Stub   61 days
Year       Principal    Rate

1994           5,162     8.0
1995           5,575     8.0
1996           6,021     8.0
1997           6,503     8.0
1998           7,023     8.0
1999           7,585     8.0
2000           8,192     8.0
2001           8,847     8.0
2002           9,555     8.0
2003          10,319     8.0
2004          11,145     8.0
2005          12,036     8.0
2006          12,999     8.0
2007          14,039     8.0


SECOND 1979 PUBLIC ISSUE

=> ? LIST
Bond Series name  ? PB79C


78/06/23  09:11

Series PB79C
Dated February  1,  1979
Issued February  15,  1979
Firsst Coupon July  1,  1979
Stub   150 days
Year       Principal    Rate

1994           5,162     8.0
1995           5,575     8.0
1996           6,021     8.0
1997           6,503     8.0
1998           7,023     8.0
1999           7,585     8.0
2000           8,192     8.0
2001           8,847     8.0
2002           9,555     8.0
2003          10,319     8.0
2004          11,145     8.0
2005          12,036     8.0
2006          12,999     8.0
2007          14,039     8.0


THIRD 1979 PUBLIC ISSUE

=> ? QUIT
THANK YOU
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DRAFT

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,800	Financial Institutions & City Pension Funds	MAC
950	Public Offerings	MAC
1,000	Public Offerings	City Bonds*
4,500		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	500	250	-0-	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds, Commercial Banks, Other Financial Institutions	507	431	431	431	1,800
[illegible]		[illegible]	[illegible]	[illegible]	
Public Sale:					
MAC Bonds	375	425	200		1,000
City Bonds	-0-	100	325*	525*	950*
	1,382	1,206	956	956	4,500

NOTE:

* Back-up: Public sales of MAC Bonds and private placement of $950 million of Guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sale of City Bonds.

06/21/78

from Karen Eisenstadt

DRAFT

Fiscal Year 1979 -- Proposed Financings
(In $ Million)

	Cumulative Monthly Balance Before Financing1/	Federally Guaranteed City	MAC Public	MAC Private	City Notes Public	City Notes Private	State Advance	Cumulative Financing	Monthly Closing Balance
July	173		125	2501/		~~200~~		500	673
August	(344)					200		700	356
September	(821)				100	200		1,000	179
October	(691)	125			100	200		1,425	734
November	(1,292)		125	2572/	100			1,832	540
December	(1,741)				100	~~200~~		1,932	191
January	(1,326)							1,932	606
February	(1,777)	~~150~~	125					2,207	430
March	(2,049)							2,207	158
April	(1,735)	~~125~~			(150)	(50)	100	2,232	497
May	(1,944)				(125)			2,107	163
June	(1,144)	~~100~~			(125)	(750)		1,332	188
		500	375	507	-0-	-0-	100		

NOTES:

1/ $100 million for MAC Capital Reserve.
2/ $ 50 million for MAC Capital Reserve.

06/21/78

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG-TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,125	Financial Institutions	MAC
625	City Pension Funds	MAC or City
1,250	Public Offerings	MAC
750	Public Offerings	City Bonds*
4,500		

PROPOSED $1.2 BILLION SEASONAL FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
400	City Pension Funds	MAC or City Notes
400	City Commercial Banks	MAC or City Notes
400	Public Offerings	MAC or City Notes
1,200		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	375	250	125	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds	150	160	1[illegible]		
Commercial Banks	320	290	[illegible]	210	
Other Financial Institutions	507	456	456	331	1,750
Public Sale:					
MAC Bonds	500	500	250		1,250
City Bonds	-0-	-0-	125*	625*	750*
	1,382	1,206	956	956	4,500

NOTE:

*Back-up: Public sales of $500 million of MAC Bonds and private placement of $750 million of guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sales of City Bonds.

Revised
06/20/78

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG-TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,125	Financial Institutions	MAC
625	City Pension Funds	MAC or City
1,250	Public Offerings	MAC
750	Public Offerings	City Bonds*
4,500		

PROPOSED $1.2 BILLION SEASONAL FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
400	City Pension Funds	MAC or City Notes
400	City Commercial Banks	MAC or City Notes
400	Public Offerings	MAC or City Notes
1,200		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	375	250	125	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds Commercial Banks Other Financial Institutions	507	456	456	331	1,750
Public Sale:					
MAC Bonds	500	500	250		1,250
City Bonds	-0-	-0-	125*	625*	750*
	1,382	1,206	956	956	4,500

NOTE:

*Back-up: Public sales of $500 million of MAC Bonds and private placement of $750 million of guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sales of City Bonds.

06/20/78

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG-TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,125	Financial Institutions	MAC
625	City Pension Funds	MAC or City
1,250	Public Offerings	MAC
750	Public Offerings	City Bonds*
4,500		

PROPOSED $1.2 BILLION SEASONAL FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
400	City Pension Funds	MAC or City Notes
400	City Commercial Banks	MAC or City Notes
400	Public Offerings	MAC or City Notes
1,200		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	375	250	125	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds Commercial Banks Other Financial Institutions	507	456	456	331	1,750
Public Sale:					
MAC Bonds	500	500	250		1,250
City Bonds	-0-	-0-	125*	625*	750*
	1,382	1,206	956	956	4,500

NOTE:

*Back-up: Public sales of $500 million of MAC Bonds and private placement of $750 million of guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sales of City Bonds.

06/20/78

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG-TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,125	Financial Institutions	MAC
625	City Pension Funds	MAC or City
1,250	Public Offerings	MAC
750	Public Offerings	City Bonds*
4,500		

PROPOSED $1.2 BILLION SEASONAL FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
400	City Pension Funds	MAC or City Notes
400	City Commercial Banks	MAC or City Notes
400	Public Offerings	MAC or City Notes
1,200		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	375	250	125	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds Commercial Banks Other Financial Institutions	507	456	456	331	1,750
Public Sale:					
MAC Bonds	500	500	250		1,250
City Bonds	-0-	-0-	125*	625*	750*
	1,382	1,206	956	956	4,500

NOTE:

*Back-up: Public sales of $500 million of MAC Bonds and private placement of $750 million of guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sales of City Bonds.

06/20/78

MUNICIPAL ASSISTANCE CORPORATION

PROPOSED $4.5 BILLION LONG-TERM FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
750	Pension Funds	Guaranteed
1,125	Financial Institutions	MAC
625	City Pension Funds	MAC or City
1,250	Public Offerings	MAC
750	Public Offerings	City Bonds*
4,500		

PROPOSED $1.2 BILLION SEASONAL FINANCING PLAN

AMOUNT ($ Millions)	SOURCES OF FUNDS	SECURITY
400	City Pension Funds	MAC or City Notes
400	City Commercial Banks	MAC or City Notes
400	Public Offerings	MAC or City Notes
1,200		

SCHEDULE OF LONG-TERM INVESTMENTS
($ Millions)

SOURCE OF FUNDS	1979	1980	1981	1982	TOTAL
Private Sale:					
Guaranteed Bonds	375	250	125	-0-	750
Private Sale:					
MAC Bonds					
City Pension Funds Commercial Banks Other Financial Institutions	507	456	456	331	1,750
Public Sale:					
MAC Bonds	500	500	250		1,250
City Bonds	-0-	-0-	125*	625*	750*
	1,382	1,206	956	956	4,500

NOTE:

*Back-up: Public sales of $500 million of MAC Bonds and private placement of $750 million of guaranteed Bonds to Pension Funds will serve as back-up to the proposed public sales of City Bonds.

06/20/78

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78/06/20  18:53     (MACNYC)BONDS     TEST VERSION 3.0

=> ? A+B^
? A+G+J+M+O+U+X+Y+BB+CC+EE+FF+GG+HH+II+JJ+1+2+3+4+5+6+7+8+9+PR79A+PR79B+PB79A+PB79B+PB79C+PB79D#PRINT*
(SER=*)
78/06/20  18:56
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Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total	Funding
1978	86,615,000	286,999,255	373,614,255	501,959,020
1979	79,455,000	437,135,727	516,590,727	579,653,368
1980	105,680,000	488,415,618	594,095,618	616,626,168
1981	126,440,000	481,783,337	608,223,337	604,257,704
1982	127,090,000	471,257,737	598,347,737	648,616,952
1983	225,360,000	460,599,038	685,959,038	717,427,536
1984	274,020,000	440,632,125	714,652,125	693,864,864
1985	250,965,000	416,751,226	667,716,226	693,757,344
1986	319,344,000	395,748,415	715,092,415	715,656,624
1987	340,796,000	368,225,659	709,021,659	716,209,952
1988	375,095,000	338,680,644	713,775,644	716,795,400
1989	407,965,000	307,063,175	715,028,175	715,161,584
1990	436,186,000	273,893,417	710,079,417	709,741,608
1991	466,196,000	238,319,318	704,515,318	710,827,576
1992	506,227,000	199,931,760	706,158,760	717,919,264
1993	551,913,000	156,962,935	708,875,935	452,698,000
1994	331,073,000	121,295,470	452,368,470	468,524,196
1995	368,556,000	94,877,830	463,433,830	285,729,176
1996	39,763,000	66,789,240	106,552,240	107,284,820
1997	42,945,000	63,480,920	106,425,920	107,217,480
1998	46,382,000	59,907,840	106,289,840	107,142,720
1999	50,092,000	56,048,880	106,140,880	107,063,200
2000	54,100,000	51,881,200	105,981,200	106,976,640
2001	58,428,000	47,380,080	105,808,080	106,881,940
2002	63,101,000	42,518,920	105,619,920	106,781,880
2003	68,150,000	37,268,880	105,418,880	106,670,880
2004	73,600,000	31,598,880	105,198,880	106,555,080
2005	79,490,000	25,475,280	104,965,280	106,425,740
2006	85,847,000	18,861,800	104,708,800	106,289,600
2007	92,716,000	11,719,280	104,435,280	106,140,980
2008	100,133,000	4,005,320	104,138,320	
Total	6,233,723,000	6,495,509,206	12,729,232,206	12,546,857,296

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=> ? PRINT(SER=*/SCHED=2/OPTION=PMT)
(SER=*/SCHED=2/OPTION=PMT)
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78/06/20 17:05

Series PR79A
Dated July 1, 1978
Issued July 20, 1978
Firsst Coupon January 1, 1979

Year	Principal	Rate
1983	3,420	8.0
1984	3,693	8.0
1985	3,989	8.0
1986	4,308	8.0
1987	4,652	8.0
1988	5,025	8.0
1989	5,427	8.0
1990	5,861	8.0
1991	6,330	8.0
1992	6,836	8.0
1993	7,383	8.0
1994	7,973	8.0
1995	8,611	8.0
1996	9,300	8.0
1997	10,044	8.0
1998	10,848	8.0
1999	11,716	8.0
2000	12,653	8.0
2001	13,665	8.0
2002	14,758	8.0
2003	15,939	8.0
2004	17,214	8.0
2005	18,591	8.0
2006	20,079	8.0
2007	21,685	8.0

FIRST 1979 PRIVATE ISSUE

=> ? PR79A+PR79B+PB79A+PB79B+PB79C+PB79D#PRINT*
(SER=*)
78/06/20 17:07

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total	Funding
1979		20,178,289	20,178,289	72,114,758
1980		77,254,818	77,254,818	80,560,400
1981		80,560,400	80,560,400	80,560,400
1982		80,560,400	80,560,400	80,560,400
1983		80,560,400	80,560,400	87,356,700
1984	6,935,000	80,283,000	87,218,000	87,345,800
1985	7,490,000	79,706,000	87,196,000	87,333,620
1986	8,089,000	79,082,840	87,171,840	87,320,560
1987	8,736,000	78,409,840	87,145,840	87,306,700
1988	9,435,000	77,683,000	87,118,000	87,291,800
1989	10,190,000	76,898,000	87,088,000	87,276,280
1990	11,006,000	76,050,160	87,056,160	87,258,200
1991	11,886,000	75,134,480	87,020,480	87,239,300

1993	13,863,000	73,077,560	86,940,560	87,196,580
1994	14,973,000	71,924,120	86,897,120	107,406,840
1995	36,818,000	69,852,480	106,670,480	107,347,500
1996	39,763,000	66,789,240	106,552,240	107,284,820
1997	42,945,000	63,480,920	106,425,920	107,217,480
1998	46,382,000	59,907,840	106,289,840	107,142,720
1999	50,092,000	56,048,880	106,140,880	107,063,200
2000	54,100,000	51,881,200	105,981,200	106,976,640
2001	58,428,000	47,380,080	105,808,080	106,881,940
2002	63,101,000	42,518,920	105,619,920	106,781,880
2003	68,150,000	37,268,880	105,418,880	106,670,880
2004	73,600,000	31,598,880	105,198,880	106,555,080
2005	79,490,000	25,475,280	104,965,280	106,425,740
2006	85,847,000	18,861,800	104,708,800	106,289,600
2007	92,716,000	11,719,280	104,435,280	106,140,980
2008	100,133,000	4,005,320	104,138,320	
Total	1,007,005,000	1,768,297,867	2,775,302,867	2,770,124,618

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=> ? 8^
? PRINT(SER=*/SCHED=2/OPTION=FUND)
(SER=*/SCHED=2/OPTION=FUND)
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Municipal Assistance Corporation
For the City of New York

	Oct. 12	Jan. 12	Apr. 12	Jun. 25	Jun. 30	Total
1979	15,000,040	15,140,060	19,306,760	22,667,898		72,114,758
1980	20,140,100	20,140,100	20,140,100	20,140,100		80,560,400
1981	20,140,100	20,140,100	20,140,100	20,140,100		80,560,400
1982	20,140,100	20,140,100	20,140,100	20,140,100		80,560,400
1983	21,873,850	21,873,850	21,873,850	21,735,150		87,356,700
1984	21,873,900	21,873,900	21,873,900	21,724,100		87,345,800
1985	21,873,850	21,873,850	21,873,850	21,712,070		87,333,620
1986	21,873,820	21,873,820	21,873,820	21,699,100		87,320,560
1987	21,873,850	21,873,850	21,873,850	21,685,150		87,306,700
1988	21,873,900	21,873,900	21,873,900	21,670,100		87,291,800
1989	21,874,100	21,874,100	21,874,100	21,653,980		87,276,280
1990	21,873,980	21,873,980	21,873,980	21,636,260		87,258,200
1991	21,874,010	21,874,010	21,874,010	21,617,270		87,239,300
1992	21,873,770	21,873,770	21,873,770	21,596,510		87,217,820
1993	21,874,010	21,874,010	21,874,010	21,574,550		87,196,580
1994	27,035,800	27,035,800	27,035,800	26,299,440		107,406,840
1995	27,035,690	27,035,690	27,035,690	26,240,430		107,347,500
1996	27,035,930	27,035,930	27,035,930	26,177,030		107,284,820
1997	27,036,280	27,036,280	27,036,280	26,108,640		107,217,480
1998	27,036,140	27,036,140	27,036,140	26,034,300		107,142,720
1999	27,036,300	27,036,300	27,036,300	25,954,300		107,063,200
2000	27,036,300	27,036,300	27,036,300	25,867,740		106,976,640
2001	27,035,990	27,035,990	27,035,990	25,773,970		106,881,940
2002	27,036,220	27,036,220	27,036,220	25,673,220		106,781,880
2003	27,035,720	27,035,720	27,035,720	25,563,720		106,670,880
2004	27,036,220	27,036,220	27,036,220	25,446,420		106,555,080
2005	27,035,670	27,035,670	27,035,670	25,318,730		106,425,740
2006	27,035,980	27,035,980	27,035,980	25,181,660		106,289,600

78/06/20 19:21

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total
1978	86,615,000	286,999,255	373,614,255
1979	79,455,000	437,135,727	516,590,727
1980	105,680,000	488,415,618	594,095,618
1981	126,440,000	481,783,337	608,223,337
1982	127,090,000	471,257,737	598,347,737
1983	225,360,000	460,599,038	685,959,038
1984	274,020,000	440,632,125	714,652,125
1985	250,965,000	416,751,226	667,716,226
1986	319,344,000	395,748,415	715,092,415
1987	340,796,000	368,225,659	709,021,659
1988	375,095,000	338,680,644	713,775,644
1989	407,965,000	307,063,175	715,028,175
1990	436,186,000	273,893,417	710,079,417
1991	466,196,000	238,319,318	704,515,318
1992	506,227,000	199,931,760	706,158,760
1993	551,913,000	156,962,935	708,875,935
1994	331,073,000	121,295,470	452,368,470
1995	368,556,000	94,877,830	463,433,830
1996	39,763,000	66,789,240	106,552,240
1997	42,945,000	63,480,920	106,425,920
1998	46,382,000	59,907,840	106,289,840
1999	50,092,000	56,048,880	106,140,880
2000	54,100,000	51,881,200	105,981,200
2001	58,428,000	47,380,080	105,808,080
2002	63,101,000	42,518,920	105,619,920
2003	68,150,000	37,268,880	105,418,880
2004	73,600,000	31,598,880	105,198,880
2005	79,490,000	25,475,280	104,965,280
2006	85,847,000	18,861,800	104,708,800
2007	92,716,000	11,719,280	104,435,280
2008	100,133,000	4,005,320	104,138,320
Total	6,233,723,000	6,495,509,206	12,729,232,206

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=> ? PRINT(SER=*/SCHED=2/OPTION=FUND)
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Municipal Assistance Corporation
For the City of New York

	Oct. 12	Jan. 12	Apr. 12	Jun. 25	Jun. 30	Total
1978	130,364,773	123,569,906	124,349,619	48,405,984	75,268,734	501,959,016
1979	139,559,140	139,699,160	148,882,510	71,045,282	80,467,266	579,653,358
1980	156,257,250	156,257,250	152,696,003	74,509,647	76,906,019	616,626,169
1981	152,541,916	152,541,916	150,271,403	74,266,959	74,635,506	604,257,700
1982	152,818,716	152,818,716	172,330,034	76,502,659	94,146,825	648,616,950
1983	180,050,734	180,050,734	179,935,191	83,359,590	94,031,281	717,427,530
1984	180,003,372	180,003,372	168,309,794	83,210,615	82,337,703	693,864,856

1986	180,572,895	180,572,895	178,879,514	82,831,250	92,800,066	715,656,620
1987	179,661,065	179,661,066	180,189,669	83,369,484	93,328,669	716,209,953
1988	179,640,653	179,640,653	180,624,650	82,576,772	94,312,666	716,795,394
1989	180,060,937	180,060,938	179,518,984	81,750,011	93,770,713	715,161,583
1990	178,741,973	178,741,974	178,262,561	80,703,798	93,291,300	709,741,606
1991	178,874,097	178,874,098	178,871,482	80,919,214	93,288,684	710,827,575
1992	181,740,648	181,740,648	179,834,835	83,220,260	91,382,872	717,919,263
1993	113,256,881	113,256,882	113,241,848	21,574,550	91,367,838	452,697,999
1994	118,403,638	118,403,638	116,226,638	26,299,440	89,190,838	468,524,192
1995	116,226,528	116,226,528	27,035,690	26,240,430		285,729,176
1996	27,035,930	27,035,930	27,035,930	26,177,030		107,284,820
1997	27,036,280	27,036,280	27,036,280	26,108,640		107,217,480
1998	27,036,140	27,036,140	27,036,140	26,034,300		107,142,720
1999	27,036,300	27,036,300	27,036,300	25,954,300		107,063,200
2000	27,036,300	27,036,300	27,036,300	25,867,740		106,976,640
2001	27,035,990	27,035,990	27,035,990	25,773,970		106,881,940
2002	27,036,220	27,036,220	27,036,220	25,673,220		106,781,880
2003	27,035,720	27,035,720	27,035,720	25,563,720		106,670,880
2004	27,036,220	27,036,220	27,036,220	25,446,420		106,555,080
2005	27,035,670	27,035,670	27,035,670	25,318,730		106,425,740
2006	27,035,980	27,035,980	27,035,980	25,181,660		106,289,600
2007	27,035,910	27,035,910	27,035,910	25,033,250		106,140,980
Total						12,546,857,245

=> ? QUIT
THANK YOU .

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Total 2,770,124,618

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=> ? 1+2+3+4+5+6+7+8^
? MERGE(**=1+2+3+4+5+6+7+8+9+PR79A+PR79B+FB79A+FB79B+FB79C+FB79D)
=> ? PRINT(SER=**)#PRINT(SER=**/SCHED=2/OPTION=FUND)
(SER=**)
78/06/20  17:17
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Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total	Funding
1978	31,150,000	113,287,717	144,437,717	202,443,504
1979	33,745,000	181,407,027	215,152,027	267,817,594
1980	36,555,000	235,671,556	272,226,556	301,879,600
1981	65,645,000	234,954,263	300,599,263	301,174,652
1982	70,150,000	229,655,713	299,805,713	311,052,288
1983	85,815,000	223,556,738	309,371,738	341,071,316
1984	123,420,000	215,107,000	338,527,000	341,126,888
1985	133,870,000	204,495,412	338,365,412	340,095,048
1986	144,099,000	193,019,627	337,118,627	341,069,596
1987	157,251,000	180,570,396	337,821,396	343,952,484
1988	173,370,000	167,090,969	340,460,969	341,512,724
1989	185,140,000	152,637,513	337,777,513	338,994,828
1990	197,826,000	137,170,567	334,996,567	335,617,580
1991	210,711,000	120,639,118	331,350,118	337,667,608
1992	230,227,000	102,777,023	333,004,023	348,576,152
1993	260,358,000	82,986,448	343,344,448	87,196,579
1994	14,973,000	71,924,120	86,897,120	107,406,840
1995	36,818,000	69,852,480	106,670,480	107,347,500
1996	39,763,000	66,789,240	106,552,240	107,284,820
1997	42,945,000	63,480,920	106,425,920	107,217,480
1998	46,382,000	59,907,840	106,289,840	107,142,720
1999	50,092,000	56,048,880	106,140,880	107,063,200
2000	54,100,000	51,881,200	105,981,200	106,976,640
2001	58,428,000	47,380,080	105,808,080	106,881,940
2002	63,101,000	42,518,920	105,619,920	106,781,880
2003	68,150,000	37,268,880	105,418,880	106,670,880
2004	73,600,000	31,598,880	105,198,880	106,555,080
2005	79,490,000	25,475,280	104,965,280	106,425,740
2006	85,847,000	18,861,800	104,708,800	106,289,600
2007	92,716,000	11,719,280	104,435,280	106,140,980
2008	100,133,000	4,005,320	104,138,320	
Total	3,045,870,000	3,433,740,207	6,479,610,207	6,377,433,741

(SER=**/SCHED=2/OPTION=FUND)

Municipal Assistance Corporation
For the City of New York

	Oct. 12	Jan. 12	Apr. 12	Jun. 25	Jun. 30	Total
1978	55,875,751	49,080,884	49,080,884	48,405,984		202,443,503

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1980	75,789,984	75,789,984	75,789,984	74,509,647	301,879,599
1981	75,635,897	75,635,897	75,635,897	74,266,959	301,174,650
1982	78,183,209	78,183,209	78,183,209	76,502,659	311,052,286
1983	85,903,909	85,903,909	85,903,909	83,359,590	341,071,317
1984	85,972,091	85,972,091	85,972,091	83,210,615	341,126,888
1985	85,767,866	85,767,866	85,767,866	82,791,448	340,095,046
1986	86,079,448	86,079,448	86,079,448	82,831,250	341,069,594
1987	86,861,000	86,861,000	86,861,000	83,369,484	343,952,484
1988	86,311,984	86,311,984	86,311,984	82,576,772	341,512,724
1989	85,748,272	85,748,272	85,748,272	81,750,011	338,994,827
1990	84,971,261	84,971,261	84,971,261	80,703,798	335,617,581
1991	85,582,797	85,582,798	85,582,798	80,919,214	337,667,607
1992	88,451,963	88,451,964	88,451,963	83,220,260	348,576,150
1993	21,874,009	21,874,010	21,874,010	21,574,550	87,196,579
1994	27,035,800	27,035,800	27,035,800	26,299,440	107,406,840
1995	27,035,690	27,035,690	27,035,690	26,240,430	107,347,500
1996	27,035,930	27,035,930	27,035,930	26,177,030	107,284,820
1997	27,036,280	27,036,280	27,036,280	26,108,640	107,217,480
1998	27,036,140	27,036,140	27,036,140	26,034,300	107,142,720
1999	27,036,300	27,036,300	27,036,300	25,954,300	107,063,200
2000	27,036,300	27,036,300	27,036,300	25,867,740	106,976,640
2001	27,035,990	27,035,990	27,035,990	25,773,970	106,881,940
2002	27,036,220	27,036,220	27,036,220	25,673,220	106,781,880
2003	27,035,720	27,035,720	27,035,720	25,563,720	106,670,880
2004	27,036,220	27,036,220	27,036,220	25,446,420	106,555,080
2005	27,035,670	27,035,670	27,035,670	25,318,730	106,425,740
2006	27,035,980	27,035,980	27,035,980	25,181,660	106,289,600
2007	27,035,910	27,035,910	27,035,910	25,033,250	106,140,980
Total					6,377,433,729

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 19 June 1978

To : Steve Clifford, Karen Eisenstadt, Sandy Manila

From: Andrew Decker AD

Re : 1979 Proposed Financings

Attached is the summary of financings discussed at our meeting this afternoon. It should be considered to be very tentative at this point.

HAD/ld

attachment

DRAFT

Fiscal Year 1979 -- Proposed Financings

	Cumulative Monthly Balance Before Financing [1]	Federally Guaranteed City	MAC Public	MAC Private	City Notes Public	City Notes Private	State Advance	Cumulative Financing	Monthly Closing Balance
July	173								173
August	(344)	200[2]	75	225[2][3]				450	106
September	(821)				175	350[4]		975	154
October	(691)		75	225[3][5]				1,225	534
November	(1,292)	100						1,325	33
December	(1,741)				325	350[6]		2,000	259
January	(1,326)							2,000	674
February	(1,777)		225	57[3][7]				2,232	455
March	(2,049)							2,232	183
April	(1,735)				(175)		100	2,157	422
May	(1,944)	200			(175)			2,182	238
June	(1,144)				(150)	(700)		1,332	188

NOTES:

1/ Assumes an opening cash balance of $870 million.
2/ To be completed as soon after the signing of the Federal guarantee legislation as is possible, July if possible.
3/ $50 million to be retained by MAC for Capital Reserve Funding.
4/ Late September.
5/ Late October.
6/ If market conditions permit, some of this issue can be moved to a later date.
7/ Late February.

06/19/78
lsd

State of New York
Municipal Assistance Corporation
For The City of New York
Two World Trade Center
New York, N.Y. 10047

(212) 488-5720

Felix G. Rohatyn
Chairman

Board Members
Francis J. Barry
George M. Brooker
Thomas D. Flynn
George D. Gould
Dick Netzer
Richard Ravitch
Robert C. Weaver

Eugene Keilin
Executive Director

Writer's Direct Wire: (212) 488-________

9 June 1978

Honorable John Heinz
UNITED STATES SENATE
4327 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Heinz:

You suggested Wednesday, during the hearing, that it would be useful to you if I would amplify in writing on my remarks with respect to seasonal financing versus long-term financing. I hasten to do so since the subject is both complicated and critical and the very nature of a hearing may not do it justice.

We are faced with a financing problem, pure and simple. The objective, yours and ours, is to get the City's budget back into balance and get the City back into the market for all its financing requirements. Total market access will require:

1. Budget balance;

2. Total financing requirements brought down to levels the market can absorb;

3. A demonstrated record of credit worthiness over a period of time;

4. Investment grade credit ratings;

5. Investor psychology 180 degrees away from today's skepticism.

The City of New York's financing structure is one of the largest and most complex in the world. The appropriate solution to this massive and complicated problem cannot be a cut-rate, minimum answer with no margins built into it. It must be comprehensive, carry stringent disciplines and security, but be adequate to do the job.

In my testimony I indicated my belief that continued seasonal financing might avoid bankruptcy but would not bring the City back to balance and to the market. Even this, however, could be optimistic. Avoidance of near-term bankruptcy could only be achieved, as I indicated, with commitments to some minimum amount of long-term financing from banks and unions. As you know, the only unguaranteed long-term commitments we now have consist of $1 billion from financial institutions, conditioned, among other things, on Federal guarantees being enacted. As I indicated to you Wednesday, for seasonal loans to enable us to avoid bankruptcy and carry the city for three or four years would require, at a minimum, the $1 billion commitment from the financial institutions to be available, with at least another $500 million from the union pension systems. Such commitment is not presently in place. Were it obtainable, it might be possible for MAC, although this is also by no means certain, to raise about $1 billion in the marketplace, for a total of $2.5 billion. I consider this absolutely the "best case" scenario with seasonal loans, and I will analyze its impact below.

The "worst case" scenario, however, comes first. This would involve seasonal loan legislation coupled with our inability to obtain the needed private placement commitments from the institutions and unions mentioned above. This would, in my judgement, foreclose the public market to MAC entirely and make bankruptcy inevitable in the next few months. I have no way of predicting the reaction of these institutions although I am aware of their skepticism regarding the likelihood of success under a seasonal plan. Since both banks and unions will be testifying before your committee next week, I would urge you to probe their willingness to invest under those circumstances. If their answer is negative, then, obviously, voting for seasonal loan extension is simply voting for bankruptcy.

If their answer is affirmative, or simply non-committal, I would like to come back to the "best case" scenario, i.e., institutions and unions purchase $1.5 billion MAC privately, MAC sells $1 billion publicly, for a total of $2.5 billion long-term financing. As you know, about one-half of the long-term financing called for by our $4.5 billion plan is dedicated to budget closing items (phase-out of capitalized expenses, refunding high-interest MAC Bonds, funding capital reserve funds) or debt-reducing items (bonding out State advance). Our capital program, moreover, must deal with a large back-log of needs. It follows inevitably, that however you allocate the $2 billion reduction in available financing, it will result in sharp reduction of important capital programs, delay budget balance and maintain high seasonal financing requirements. It is, therefore, just as inevitable that the City will not be able to finance itself publicly at the end of such program and that further Federal credit assistance will be needed.

Furthermore, MAC, at that time, will have used up almost all of its $8.8 billion authority, and the City will have only the Federal Government to look to for long-term financing since MAC will be out of the picture.

The result will be renewed requests for long-term credit assistance in significantly larger amounts than anything being discussed today.

As I said at the beginning of my letter, this is probably one of the most complicated financing problems in the world today. It requires an appropriately sophisticated solution. Extension of the seasonal loan is an easy answer; as with most easy answers, it is also, unfortunately, the wrong answer. In this particular case, it is obviously the wrong answer. The "worst case" scenario is bankruptcy, and the "best case" scenario is failure over time.

It seems to me that the real issue to be faced here is not long-term financing versus short-term financing for the Federal Government. The Federal Government, whether it likes it or not, is now a long-term lender to New York, no matter what the terminology. The real issue should be to build into the guarantees the same safeguards, the same discipline and the same pressures encompassed by the seasonal loans to keep the City's feet to the fire in its continued reform. At the same time, you might build into the guarantees incentives for early retirement of the guaranteed debt as and when City market access in size is obtained. As I told you Wednesday, these are both technically quite feasible.

I am available to you at any time to discuss any aspect of this issue. It is crucial to us and to you. I urge you not to support a course of action which, at worst, leads to disaster and, at best, leaves us worse off than when we started. Although no one can say with absolute certainty that the guarantees assure us of success, it is likely that they will since the program would achieve the prerequisites to market entry with MAC still having some reserve in case of need. The guarantees are also cheaper, involve no cash outlay and involve no greater risk to the Federal government. It is a program worthy of your support.

Sincerely yours,

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Felix Rohatyn

Felix G. Rohatyn,
Chairman

FGR/ld

cc: Chairman William Proxmire
Members of Senate Banking Committee

Felix Testimony at Senate Banking

PROPOSED $4.5 BILLION LONG-TERM FINANCING PLAN

Amount ($ millions)	Sources of Funds	Security
500	City Pension Funds	Guaranteed
500	State Pension Funds	Guaranteed
1,000	Financial Institutions	MAC
500	City Pension Funds	MAC or City
1,000	Public Offerings	MAC
1,000	Public Offerings	City bonds*
4,500		

PROPOSED $1.5 BILLION SEASONAL FINANCING PLAN

Amount	Sources of Funds	Security
500	City Pension Funds	MAC and City Notes
500	City Commercial Banks	MAC and City Notes
500	Public Offerings	City Notes
1,500		

SUMMARY OF $6.0 BILLION LONG-TERM AND SEASONAL FINANCING PLAN

Amount	Sources of Funds	Security
500	City Pension Funds	Guaranteed
500	State Pension Funds	Guaranteed
1,000	City Pension Funds	MAC and City Notes and Bonds
1,000	Commercial Banks	MAC and City Notes and Bonds
500	Other Financial Institutions	MAC Bonds
2,500	Public Offerings	MAC and City Bonds and Notes*
6,000		

*Back-up: Public sales of MAC bonds and private placement of guaranteed bonds to City and State pension funds will serve as back-up to the proposed public sales of City bonds.

SCHEDULE OF LONG-TERM INVESTMENTS
($ millions)

Source of Funds	1979	1980	1981	1982	Total
Private Sale:					
.Guarantees Bonds					
City Pension Funds	250	250	*	*	500
State Pension Funds	250	250	*	*	500
Private sale:					
MAC Bonds					
City Pension Funds / Commercial Banks / Other Financial Institutions	507	331	331	331	1,500
Public Sale:					
MAC Bonds	375	375	250		1,000
City Bonds			375*	625*	1,000*
	1,382	1,206	956	956	4,500

*Back-up: Public sales of MAC bonds and private placement of guaranteed bonds to City and State pension funds will serve as back-up to the proposed public sales of City bonds.

USES OF FUNDS

	1979	1980	1981	1982	TOTAL
Bricks & Mortar	382	482	687	749	2,300
Capitalized Expenses	450	300	150	-	900
State Advance	400	100	-	-	500
MAC Capital Reserve	150	150	-	-	300
MAC Refunding	-	174	119	207	500
	1,382	1,206	956	956	

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 6 June 1978

To : Amos T. Beason, Jac Friedgut, Palmer Turnheim

From: Eugene J. Keilin

Re : Financing Plan

I have attached three tables as follows:

1. Proposed Sorces of Funds
2. Schedule of Investments and Uses of Funds
3. Summary of City Cash Flow for Fiscal Year 1978

For purposes of scheduling long-term borrowing, we have assumed that the insurance companies will complete their entire placement in fiscal 1979, as they have suggested, and that other placements will be scheduled as required. We have also assumed that $400 million of the State advance will be bonded out in fiscal 1979, $100 million will be bonded in fiscal 1980, and the remainder will be funded from the City's available cash.

The cash flow projections in Table 3, which should be considered preliminary, indicate a maximum need for approximately $2.2 billion of seasonal and permanent financing in March, 1979. To the extent that the City's long-term financing can be completed by March, the maximum seasonal requirement would be reduced.

Seasonal Financing

The City's latest cash flow projections for its 1979 fiscal year indicate a maximum need for approximately $2,200 million of seasonal and permanent financing. The maximum cash flow requirements occurs in march, when it is anticipated that approximately $1,000 million of the City's $1,200 million of annual permanent financing will have been completed, leaving a seasonal cash flow requirement of approximately $1,200. The seasonal and permanent financing requirements are displayed in Table I.

NEW YORK CITY

Estimated Cash Flow Before Financing
and Financing Requirements
Fiscal Year 1979

($ millions)

Month	Total Uses (Sources) of Cash from Operations Before Debt Service and Financing(1)	Required Funding	Monthly Uses (Sources) for Debt Service	Cumulative Monthly Balance of Cash Before Financing(2)
July	$335	$362	$697	$173
August	464	53	517	(344)
September	477		477	(821)
October	(424)(3)	294	(130)	(691)
November	420	181	601	(1,292)
December	449		449	(1,741)
January	(596)	181	(415)	(1,326)
February	308	143	451	(1,777)
March	272		272	(2,049)
April	(598)	284	(314)	(1,735)
May	116	93	209	(1,944)
June	(800)		(800)	(1,144)

(1) Sum of funds used/(available) from operations plus capital disbursements plus certain adjustments to working capital less receipt of federal and state capital funds, net of any debt service.

(2) Assumes an opening cash balance of $870 million.

(3) Assumes $41 million from sale of Mitchell-Lama mortgages.

DRAFT

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 2 June 1978

To : Gene Keilin

From: Linda Seale

Re : Gift or Loan of State Credit

In planning to provide financial assistance to New York City for the next few years, a factor limiting the character and amount of aid which New York State can provide to the City is the State constitutional prohibition against the gift or loan of the credit of the State (New York Constitution, Art. VII, Sec. 8). Some people have suggested that this is an unusual prohibition and that the State should amend its constitution in order to be able to extend additional aid to the City, as, for example, by guaranteeing City bonds.

New York's prohibition, however, is not an unusual one. According to a recent law review article, no less than forty-four states have such restrictions in their constitutions, applicable to the extension of credit to public and private corporations.[1] In many of these states, the wording of the prohibition is analogous to the New York provision, which reads, "nor shall the credit of the state be given or loaned to or in aid of any individual, or public or private corporation or association." In another group of states such as Ohio, there are constitutional provisions that, "The state shall never assume the debts of any county, city, town, or township, or of any corporation whatever...." In still other states, such as Florida, the state may not "give, lend, or use its taxing power or credit to aid any corporation, association, partnership, or purpose," a prohibition which is potentially far more restrictive than New York's. The Florida Attorney General has ruled that municipalities are not corporations for the purpose of this section but Florida's prohibition limits the state's debt issuance authority in other ways, discussed below.

History

The original basis for state constitutional prohibitions against the lending of credit was to prohibit states from becoming involved in private industrial development ventures. In the early 1800's, states and localities issued bonds and used the proceeds to purchase vast amounts of stock in railroad companies to finance the development of rail transportation within their borders. As railroads went bankrupt, their revenues were no longer available to pay the debt service on those bonds. Then came the Depression of 1837; and in 1841 and 1842 nine states which had been actively involved in railroad financing defaulted. Maryland, one of the states hardest hit, was unable to meet its current debt service for seven years, from 1842 to 1848.

There followed a wave of state constitutional fiscal reform, with the enactment of constitutional debt limits, restrictions on the purposes for which credit could be extended, and restrictive procedural requirements, such as referenda, for incurring debt. Wisconsin in 1848 became the first state to prohibit the loan of its credit to municipal as well as other corporations.[2]

Following the Civil War a new surge of industrial development led to another crisis of local indebtedness in 1873, prompting more states to adopt constitutional debt restrictions. The Depression of the 1930s prompted another series of disruptions, as land values and property tax revenues fell. In New York in the 1930s the Governor and the Constitutional Convention Committee on State Finances and Revenues both interpreted the constitutional language then in existence to prohibit the loan of credit to public corporations as well as private. The Committee recommended the constitutional amendment adopted in 1938, which added the phrase "public or private" before the work "corporation" in order to remove any potential ambiguity. By 1977, only six states (including Massachusetts and New Hampshire) did not have constitutional prohibitions against the loan of state credit to public corporations.[3]

Prohibitions in Other States

The particular restrictions on the lending of state credit to municipalities vary from state to state. Some states prohibit transactions which would be acceptable under New York precedents; other states are less restrictive. A few examples should illustrate that the New York limitation is not an unusual one.

Wisconsin's constitutional prohibition is substantially identical to New York's: "... the credit of the state shall never be given, or loaned, in aid of any individual, association or corporation." (Wisconsin Constitution, Art. VIII, Sec. 3). When Wisconsin in the mid-60s sought to aid its communities in financing pollution abatement facilities, it did so by drafting legislation which avoided a gift or loan of the state's credit. The statute authorized the Wisconsin Department of Resource Development to enter into two kinds of agreements:

1) Agreements to pay one-third of the costs of construction over the life of the bonds issued by the municipality, or
2) Agreements by the Department to lease facilities from a non-profit corporation after construction and then to sublease them to the municipality at a rent equal to 2/3 of the Department's payments.

Since state payments under either type of agreement would be subject to appropriation by the state legislature and there is therefore no binding commitment by the state to pay, this statute was upheld by the Wisconsin courts, using reasoning very analogous to that employed in New York decisions, "Since there is no enforceable legal obligation on the part of the state to pay the obligations of the building corporations or to pay any obligations of the municipalities under their own separate leases, there can be no loaning of the credit of the state." _State ex rel La Follette v. Reuter_, 33 Wis. 2d 384 (1967).

Courts in other states have frequently been stricter than those in New York in determining whether a particular state action is a permissible gift of cash or a prohibited loan of credit. In another Wisconsin case, for example, a cash appropriation to the American Legion from the state to serve as a deposit to guarantee the payment of expenses of a national convention to be held in Milwaukee was struck down as a gift or loan of the state's credit. In New York, on the other hand, cash appropriations have been held not to be a gift or loan of credit. The state legislature's actions in appropriating $750 million in cash to New York City and MAC in 1975 were upheld by the New York Court of Appeals, even though the State issued short-term notes to fund the appropriation. (Wein v. New York, 39 NY2d 136 (1976). The court focused in its decision on the fact that the transaction placed no burden on future taxpayers because the short-term notes were payable within a year of issuance.

An example of a state where the restrictions on the state's authority to lend its credit are significantly different from those in New York is Florida, whose constitution prohibits the gift or loan of credit or taxing power to individuals, associations or corporations, potentially a far more restrictive provision. The Florida Attorney General issued an opinion in 1972 stating that public corporations are not corporations within the meaning of the provision. Before that date, however, Florida courts had repeatedly held that authorizing a public corporation to issue revenue bonds was a gift or loan of credit, even though the faith and credit of the state was not pledged to their payment. New York courts have upheld the creation of public authorities of this type as long as the faith and credit of the state were not pledged. Under a judicially created exception to the Florida prohibition, such revenue bonds were not held to be a gift or loan of credit if the primary purpose of the project to be financed was to provide a public rather than a private benefit. Under this doctrine bonds to finance airport construction and airline terminal facilities were authorized but bonds to finance industrial facilities on airport sites were not. No Florida case has tested the state's authority to guarantee loans of its municipalities, which would be a much more direct loan of credit than authorizing the issuance of revenue bonds.

Reasons for the Prohibition

The recommendation of the New York State Constitutional Convention's Committee on State Finances and Revenues provided the following reasons why states should be prohibited from loaning their credit to public corporations:

> If corporations were here defined as only private corporations, by immediate implication the State credit could be given or loaned to every municipal or other public corporation. If cities found themselves in difficulties, or if an authority were unable to sell its securities, they could rush to the State for assistance. One or two such instances might do no harm, but a general use of the State credit in this manner would dissipate the State's credit and demolish the strongest foundation of our State's financial structure. The committee feels strongly that the State's credit should be reserved for the use of the State only, with only such exceptions as may be specifically set forth in the Constitution.

Many states have not focused explicitly on how the prohibition against the gift or loan of credit should be applied to public corporations. The principles expounded by the New York Constitutional Convention, however, mirror the concerns expressed in judicial decisions in many states concerning the extension of credit to private corporations. These decisions reason that states should be prohibited from making investments which are politically popular or expedient but fiscally unsound. The authority to impose on future taxpayers the burden of present expenditures should be carefully limited.

David Hume, the eighteenth century philosopher, spoke about governments contracting debt as follows:

> "It is very tempting to a minister to employ such an expedient, as enables him to make a great figure during his administration, without overburthening the people with taxes, or exciting any immediate clamors against himself. The practice therefore of contracting debt will almost infallibly be abused, in every government. It would scarcely be more imprudent to give a prodigal son a credit in every banker's shop in London, than to empower a statesman to draw bills, in this manner, upon posterity."4

The budgets of local governments are typically large in comparison with state governments. Although it is unusual for a single city to have a budget larger than the state's budget, as in New York, the combined budgets of local governments typically do exceed the state budget. In fact, local government direct expenditures exceed those of state governments by more than 50% on a national basis.[5] If a state were to assume responsibility for the financial affairs of all its counties and municipalities, the state's total liabilities might far exceed its available resources.

On a national scale the amount of debt issued by states in 1975 was less than that of local governments, and only 25% of all long-term municipal issuances were state general obligation bonds.[6] The amount of outstanding local government debt (short- and long-term) is almost double the amount of outstanding state debt. For a state to take responsibility for the debts of its municipalities, therefore, would typically more than double its potential liability.

Conclusion

State constitutions, almost without exception, restrict the power of the State to lend its credit to municipalities. The reasons for the prohibition are the same reasons that govern prohibitions against ments of public benefit: that states should not overextend their credit and burden future generations with today's expenses.

FOOTNOTES

1) Comment, State Constitutional Prohibitions Against the Lending of State Credit to Municipal Corporations, 26 American University Law Review 657 (1977).

2) Ibid.

3) Ibid.

4) Quoted in Wein v. New York, 39 NY 2d 136 (1976), quoting New York State Comptroller Arthur Levitt's 1975 Annual Report.

5) Daily Bond Buyer, October 28, 1977.

6) Forbes, Ronald W. and John E. Peterson, Building a Broader Market: Report of the Twentieth Century Fund Task Force on the Municipal Bond Market, McGraw-Hill Book Company, 1976.

Date: June 2, 1978

MEMORANDUM FOR: SECRETARY BLUMENTHAL
(Through Deputy Secretary Carswell)

From: Roger C. Altman RCA

Subject: The EFCB and MAC Legislation Which Passed Last Week in Albany

Here is a summary of these two key pieces of State legislation which passed last week and which Bob Carswell and I thought you might want to review.

EFCB Legislation

1. The sunrise-sunset provisions are not applicable during the period Federal guarantees are outstanding.

2. The EFCB has the power to estimate the revenues of the City and the covered organizations and to formulate the financial plan and any modification thereto in the event that the City does not propose one or in the event the approval of the EFCB is not forthcoming.

3. City budgets must be balanced in accordance with GAAP for fiscal years commencing on or after July 1, 1981. However, the EFCB has the power to permit a phase-in of changes in GAAP or changes in the rules of application of GAAP if the application thereof would have a material adverse effect on the delivery of essential services to the residents of the City. Furthermore, the EFCB may also grant exceptions to the requirement that budgets be balanced in accordance with GAAP if an adjustment to the budget to accommodate an unforeseen event which occurs during a fiscal year would have a material adverse effect on the delivery of essential services to the residents of the City. There is a ten-year phase-in for covered organizations to balance their budgets in accordance with GAAP. Annual audits by independent public accounts are required.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
Initials / Date	/	/	/	/	/	/

Form OS-3129
Department of Treasury

4. All City revenues continue to belong legally to the EFCB, but the City is entitled to make all disbursements in accordance with the financial plan until the EFCB determines that (i) any disbursements made or to be made have not been or are not likely to be in compliance with the financial plan (ii) the City has violated any other provision of the Act or (iii) the City has violated any agreement with any holder or guarantor of bonds or notes issued by the City.

5. The wage freeze provisions have been deleted and replaced with a new provision which entitles the EFCB to participate through December 31, 1982 in proceedings before any impasse panel, the Board of Collective Bargaining or the Appellate Division of the New York State Supreme Court on appeal on the issue of whether a proposed award is within the ability of the City to pay without increasing taxes. This determination is to be given substantial weight in the proceedings (other factors are relevant) and is to be subject to a de novo review in the Appellate Division (the usual appellate standard is arbitrary and capricious). The final decision is not with the EFCB as originally proposed by the Mayor. While the statute does not specify how a determination of ability to pay without increasing taxes will be made, the Board of Collective Bargaining and the courts apparently take into account the impact on other items in the budget. In any event, the EFCB has the power to require a modification to the financial plan during the emergency period (including periods after December 31, 1982) whether or not its view as to the City's ability to pay is upheld.

6. The limitations on short-term debt and provisions as to the maintenance of debt service funds required by the financial institutions have been accepted and incorporated into the legislation.

7. The executive director of the EFCB is appointed jointly by the Governor and the Mayor and is removable by the board. A number of City and State officials may appoint observers who must not be Federal, State and City governmental employees.

8. The provisions of the old EFCB limiting expenditure increases to 2% above the total expenditures in fiscal 1976 (or such greater amount as may be justified by substantial inflation and increased revenues) with EFCB approval have been deleted.

MAC Legislation

The MAC legislation increases the bonding authority by $3 billion for MAC I's and II's and permits an additional $500 million in short-term notes maturing on or before June 30, 1978 to be issued. These notes will not be supported by the State's moral obligation or the capital reserve fund but are secured by a subordinate claim to the sales tax, stock transfer tax and State aid payments appropriated to MAC. MAC intends to offer these notes to the pension funds thereby requiring an amendment to the Amended and Restated Agreement which must be approved by you.

A number of problems exist with the legislation:

1. The financial institutions have requested that a market access requirement, i.e., that the City have full access to public markets, be added to the definition of "emergency" period which must be satisfied prior to any sunset of the EFCB's powers. Felix Rohatyn presented a letter to the State legislature indicating that the commitments of the financial institutions were jeopardized by the failure to agree to this requirement. Meetings are planned in New York City this week to resolve this problem.

2. All provisions of the legislation other than the $500 million MAC note authority are conditioned upon the passage of Federal guarantee legislation prior to December 31, 1978. Until such legislation is passed, the provisions are inoperative; if such legislation is not forthcoming, the legislation expires on December 31, 1978. The Senate and Assembly Majority viewed the provisions as reflecting the package nature of the deal. Objections based upon the inappropriateness of such conditions before Senate hearings on the guarantee legislation and upon the likely political impact were rejected.

The legislation also restricts the ability of the State to advance monies to the City before their due date. Again, objections based upon the political impact of this provision were rejected. In this connection, the Governor's staff indicated that there would be no practical effect upon the State's ability to advance required legislative action in any event and the due dates for most State aid programs were stated as "on or before" certain specified dates in the applicable legislation. In their view, this provision was directed at cases in 1975 where the Governor advanced funds to the City prior to the due date without a colorable argument under the applicable State legislation and was designed more for its political impact in the State than its substantive impact.

3. The statute is inconsistent with the existing draft of the guarantee legislation and the extension of P.L. ir-236 in that (a) exceptions to balanced budgets in accordance with GAAP are permitted in certain limited circumstances and (b) the State covenant is not tied to the 10% holding test in the draft of the P.L. 94-236 extension. In the latter case, the projections indicate that the pension fund holdings would be below the 10% limit within 15 years (the expected duration of the guarantees) and that the substance of the provision in P.L. 94-236 would be satisfied although technically the covenant would not be tied directly to the holdings. The Senate and Assembly Majority refused to tie the State covenant directly to the level of the holdings. Adjustments in the language of both the guarantee and P.L. 94-236 extension bill will be required.

5. As indicated above, you will be required to approve an amendment to the Amended and Restated Agreement to permit the pension funds to invest in $500 million of MAC short-term notes.

Drunk for Bartender?

That's What Current Proposals for Gotham's Reform Amount To

JAMES McGivney, meet Samuel B. Uydess, Jerry Wexler and Joe Levy: as veterans of the financial wars—more specifically, long-suffering holders of short-term New York City notes, who someday soon presumably will be getting back your original investment, plus accrued interest—you can while away the time by swapping stories. And what stories they are. McGivney, who made the pages of a leading metropolitian daily last week when he fruitlessly tried to redeem $20,000 worth of city notes at State Supreme Court, needs the money to buy a house. Seems that when the powers-that-be decreed a moratorium on repayment of such debt, he went to the Chase Manhattan Bank, where he had bought the notes, and offered them as collateral against a loan. He was turned down cold.

Similarly, Samuel B. Uydess runs a small iron works, the future of which was threatened by the moratorium, while Joe Levy, outraged at such treatment, has left the Empire State for good. Or take the case of Jerry Wexler, owner of two dry cleaning stores in Greenwood, Miss., who bought $175,000 worth of notes with money largely borrowed from a local bank. To quote The Wall Street Journal: "The loan was secured by the stores, delivery van, his home, automobile and a private airplane, Mr. Wexler said repeated threats by the bank to foreclose on his collateral, 'leaving me and my family with nothing but the shirts on our backs' . . . resulted in his seeking psychiatric help. While relieved that the moratorium was overturned, Mr. Wexler isn't celebrating. 'If they pay, wonderful. But I don't quite believe it,' he said."

* * *

Believe it or not, Jerry, that's the story. Earlier this month, after the City of New York and its financial experts failed to come up with a workable plan of repayment, the Court of Appeals set some fresh deadlines and wisely chose an upstate jurist, Judge James Gibson, to enforce them. By order of the court, Flushing National Bank, successful plaintiff in the lawsuit which threw out the moratorium, is entitled to be paid within 30 days of filing for judgment. By the same token, other individual noteholders wronged by the moratorium also must be paid in 30 days. Claims of speculative buyers of the notes, which once changed hands at 60 cents or so on the dollar, as well as those of institutions —all told, nearly $1 billion is involved —are to be settled within the next six months.

So far, so good—all that remains is to raise the necessary scratch. While there's no problem with the $590,000 needed to satisfy the Flushing National Bank, the other $990-odd million is still up for grabs. In particular, hard bargaining is in progress between City Hall and the other interested parties, the municipal labor unions, with their power over the pension fund purse-strings, and the local Clearing House banks. After a good deal of tugging and hauling (not to mention stalling), Mayor Abraham D. Beame last week "threw on the table" a set of proposals aimed at meeting everyone's demands at least halfway, thereby ea[illegible]ing the crisis. The pension funds and banks—and, hopefully, the investing public — would provide the wherewithal. In return, the city, while shunning on a long-term basis the kind of clout over its fiscal affairs currently wielded by the Emergency Financial Control Board, would agree to some sort of oversight by the Municipal Assistance Corp., up to now a financial advisory and fund-raising body. Gotham also vowed to go and sin no more.

There are grown-ups who believe in Santa Claus and the tooth fairy, a disproportionate number of whom seem to cluster in Washington and Wall Street. Be that as it may, at last report the Clearing House banks were still weighing a proposition which, notably in its designation of the Municipal Assistance Corp. as civic conscience, would get short shrift from any street-wise urchin. Created by statute to "instill investor confidence in the debt obligations of the City," not-so-big MAC promptly all-but-destroyed the credit of the state. While paying lip service to efficiency and good government, it has devoted an extraordinary amount of time and effort to publicly quarreling with those, like Moody's Investors Service, who are trying honestly to keep score. Finally, by ill-conceived and incessant legal finagling—its own legitimacy, indeed, is under challenge in the courts—MAC has forfeited all claim to the moral imperatives prerequisite to any official watchdog. Drunks, to change the metaphor, just don't make good bartenders.

And so-called financial wizards sometimes make a bad situation worse. Put together with scotch tape and paper clips by the state legislature in mid-1975, the Municipal Assistance Corp. for the City of New York tried various desperate expedients, including the sale of tax-exempt securities at unheard-of 10%-11% yields, to shore up the city's crumbling credit. It succeeded merely in placing the state's own rating in jeopardy, from which, in the fall of that year, all hands were temporarily bailed out by a multibillion-dollar loan from the federal government. With only "limited success," as the annual report concedes, MAC then turned to swaps, offering to exchange long-term securities for holdings of the defaulted notes. On the latest deal, MAC's offer of $500 million of 8%, 15-year bonds found takers for only $158 million. By autumn, Felix G. Rohatyn, MAC chairman, was publicly urging a refinancing and stretch-out of MAC obligations, to be buttressed by a federal guarantee, a move which a leading business daily took to mean "that MAC, and New York City itself, are back in very deep trouble."

Since then, several events, untoward and otherwise, have occurred. In November, the Court of Appeals, the Empire State's highest tribunal, found the moratorium in violation of the "full faith and credit" clause of New York's constitution, thereby triggering the current billion-dollar scrounge. And thanks to a policy of persistently easy money pursued by the Federal Reserve Board, speculative sap has been rising in the bond markets, in the process pushing second- and third-rate liens to recovery highs (and MAC 10¼s and 11s to a premium). Hence, as part of the package deal now being hammered out, MAC is planning to offer another $500 million of bonds, besides taking on the role of watchdog.

As to the agency's finances, Moody's (though not Standard & Poor's) last spring downgraded its bonds from A to B; in the judgment of the rating service, with which we concur, MAC obligations "lack characteristics of a desirable investment; assurance of interest or principal payments or of maintenance of other terms of the contract over a long period of time may be small." Dollars-and-cents aside, MAC, so the record suggests, is singularly ill-equipped for the broader role which Mayor Beame is pushing. For example, in the recent controversy with Moody's, MAC, like City Hall itself a few years ago, resorted to such dubious tactics as political pressure (complete with inconclusive Congressional hearing) and public name-calling, including the repeated threat, since withdrawn, of a massive suit for damages. Injudicious, to say the least, such behavior also seems a strange way to go about instilling, or rebuilding, investor confidence.

MAC's legal maneuvers—its lawyers' bills are staggering—strike us as equally ill-advised. It's one thing for the agency to contest a lawsuit aimed at the validity of its crucial expedient, the moratorium on repayment of city notes. It's quite another thing for Judge Simon H. Rifkind, chief legal counsel, to publicly deny that any default had occurred, an incredible stand which the Court of Appeals, by reaffirming the mandate of "full faith and credit," brushed aside as "merely a chimera."

Now MAC is embroiled in litigation which challenges its own legality, in response to which some curious moves have been made. One case, brought by two bondholders (and perennial gadflies), Professor Leon E. Wein and William J. Quirk, has been gathering dust in the State Supreme Court since Jan. 20. But in what looks like one of the swiftest actions in legal history, a second suit, though filed nearly a week later, has made its expedited way through affidavits, show cause orders, motions to dismiss and a lower court decision up to the Court of Appeals. This case, of course, would set a powerful precedent. Justice is supposed to be blind, but once in a while, perhaps, it may peek a little.

* * *

Yet the issues raised by Quirk and Wein (like those raised by the Flushing National Bank in similar litigation, since dropped) are too important to go by default. Briefly, plaintiffs argue that in the absence of a balanced budget—that of New York City concededly has been unbalanced for a decade or more—diversion of the stock transfer and sales taxes, which are MAC's chief source of support, impairs the rights of city bondholders and violates the U.S. Constitution. If such claims are upheld—they will be pursued in federal court as well—MAC may go the way of the moratorium. An unlikely prospect, to be sure, and equally hard to believe. But it's one the bankers, and subsequent buyers, will ignore at their own risk.

—Robert M. Bleiberg

For the Year Ending June 30

($ In Millions)

	1979	1980	1981	1982
Uses of Cash				
From Operations				
Deficit (Surplus)				
Proceeds from current and future sales of bonds	$ 529	$ 379	$ 251	$ 109
Increase (decrease) in accounts receivable	252	-	-	-
Decrease (increase) in accounts payable, accrued liabilities and other liabilities	(152)	-	-	-
Provision for disallowance of aid revenues	(100)	(100)	(100)	(100)
Funds used in operations	529	279	151	9
Capital Disbursements				
Federal and State	413	446	547	669
City	303	403	586	640
Reduction of Short-Term Borrowings				
Seasonal Loans	1200	1100	1000	1000
State Advance	800	400	300	200
Disallowances Paid	100	100	100	100
Other - Net	244	38	-	-
Total Uses	3589	2766	2684	2618
Sources of Cash				
Receipt of Federal and State Capital Funds	409	448	549	669
Proceeds from Short-Term Borrowing				
Seasonal Loans	1200	1100	1000	1000
State Advance	400	300	200	100
Proceeds from sale of Serial Bonds	500	500	687	749
Transfers From MAC	732	382	150	-
Other - Mitchell Lama Proceeds	41	-	-	-
Total Sources	3282	2730	2586	2518
Net Sources (Uses) of Cash	(307)	(36)	(98)	(100)
Unrestricted Cash-beginning of period	870	470	434	336
Restricted Cash-Debt Service Fund	(93)	-	-	-
Unrestricted Cash-end of period	$ 470	$ 434	$ 336	$ 236

5/31/78
Revised

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 31 May 1978

To : NEW YORK CITY WORKING GROUP

From: Eugene J. Keilin, Executive Director

Re :

I think you may be interested in the attached.

State of New York
Municipal Assistance Corporation
For The City of New York
Two World Trade Center
New York, N. Y. 10047

(212) 488-5720

Eugene Keilin
Executive Director

Writer's Direct Wire: (212) 488-

May 26, 1978

Gentlemen:

We met yesterday with representatives of the city's commercial banks, savings banks and insurance companies who have agreed conditionally to invest almost $1 billion in MAC bonds over the next four years. One of the conditions attached to their agreement is also contained in pending Federal guarantee legislation, namely extension of an agency like the Emergency Financial Control Board for the life of their investment.

The legislation which you are currently considering to extend and modify the Control Board contains a "sunset" provision under which many of the Control Board's powers drop away on the happening of certain events, to be restored should certain developments occur thereafter. Although it was not contemplated in their original agreement, we believe that this sunset concept can be accepted by the financial institutions.

However, the financial institutions believe that a condition of sunset should be the City's ability to market its bonds and notes to the public.

This ability would be demonstrated either by actual sales to the public or, if the City chose to obtain financing in some other way, by the opinion of independent experts that the City could have made such public sales. Since a major purpose of extending the Control Board and adopting the Four-Year Financial Plan is restoring the City's access to credit, we believe that this test is not unreasonable.

STATE OF NEW YORK
DEPARTMENT OF AUDIT AND CONTROL
ALBANY

ARTHUR LEVITT
STATE COMPTROLLER
JOHN R. THOMPSON
FIRST DEPUTY COMPTROLLER

May 19, 1978

Mr. Eugene Keilin
Executive Director
Municipal Assistance Corporation
for the City of New York
2 World Trade Center
New York, New York 10047

Dear Mr. Keilin:

I have discussed with the Comptroller your letter and enclosures of May 18 responding to the Comptroller's letter of May 11 to the legislative leaders with respect to the bill increasing MAC's borrowing authority from $5.8 billion to $8.8 billion.

The thrust of your letter is that the revenues supporting the proposed $3 billion of new MAC bonds will be more than adequate to pay the debt service on these bonds. As a result, you say, the State's "moral commitment", if expanded to cover the new bonds as proposed, "need never be called upon".

For present purposes, we assume the validity of your figures on debt service and its projected coverage by MAC revenues (sales and stock transfer taxes, per capita State aid and perhaps a small amount of debt service on City bonds MAC may receive). However, the Comptroller does not regard them as an answer to his thesis that a $3 billion increase in the State's contingent "moral commitment" liability would be improvident. This "moral commitment" liability already exceeds $12 billion as compared with the State's full-faith-and-credit debt and guarantees totaling $4 billion. The experience of the last three years shows that such contingent liabilities can well become, in effect, actual liabilities during the life of long-term financing. It shows, in addition, that the mere existence of the "moral commitment" liabilities has an adverse impact on the recurrently necessary sale of new full-faith-and-credit State obligations. Moreover, as stated in the Comptroller's letter of May 11, the revenues supporting the new $3 billion of MAC bonds are less assured than those supporting the presently outstanding bonds. However the new bonds are structured, there will be $8.8 billion of bonds supported by the revenues now earmarked to support $5.8 billion of bonds (plus, to be sure, the debt service on the small amount of City bonds which MAC may receive). A fortiori, the risk of the "moral commitment" being called upon, modest as it may appear, would be increased by the $3 billion expansion of the "moral commitment".

The Comptroller's May 11 letter assumed, as MAC's memorandum in support of the proposed legislation stated, that the new bonds would be issued under a Third Resolution. In that event, their claim on the regular MAC revenues would by definition be subordinate to the claims for debt service on MAC's presently outstanding bonds and thus less secure. Your May 18 letter now indicates that most of the new bonds would instead be issued under the First and Second Resolutions. In that case the support for the new bonds would be somewhat better but support for the outstanding bonds would be diluted. Under either proposal there would be an increased chance of the State's "moral commitment" being called upon.

Sincerely,

First Deputy Comptroller

Hon. Stanley Steingut
Hon. Warren M. Anderson
Hon. Perry B. Duryea, Jr.
Hon. Manfred Ohrenstein
Hon. Hugh L. Carey

State of New York
Municipal Assistance Corporation
For The City of New York
Two World Trade Center
New York, N. Y. 10047

(212) 488-5720

Eugene Keilin
Executive Director

Writer's Direct Wire (212) 488-

18 May 1978

Honorable Arthur Levitt,
Comptroller
STATE OF NEW YORK
270 Broadway
New York, New York 10007

Dear Mr. Comptroller:

In your letter dated May 11, 1978, addressed to leaders of the State Legislature, you expressed concerns regarding the bill introduced in the State Legislature to increase the borrowing authority of the Municipal Assistance Corporation from $5.8 billion to $8.8 billion. This letter responds to certain of those concerns.

The creation of MAC, and each previous increase in its borrowing authority, have been the State's financial solution to the continuing inability of the City to obtain, on its own, the credit it requires. The current request for additional borrowing authority is a necessary continuation of the same basic plan. Although it is only one element of an integrated plan to help the City, it is an essential element designed to obtain Federal government guarantees for New York securities. Despite substantial progress in meeting the fiscal targets set out for it, the City remains at present unable to gain access to the public credit markets. Moreover, the Federal government insists that its participation is conditioned on maximum possible local effort, including substantial participation by the State of New York.

ecretary Blumenthal wrote in his recent letter to tor Anderson:

> "Treasury's position is that MAC's authority to issue debt should be increased to its maximum economic level, regardless of whether the State advance is bonded or not. This expansion is necessary to give the City maximum flexibility to meets its true capital needs, to finance the remaining operating expenses in its capital budget, and possibly to improve the maturity and cost structure of its debt."

Your own position on the use of the State's "moral commitment" is a long-standing one. While we respect that position, we believe the proposed increase in borrowing capacity is as essential and prudent today as the creation of the MAC was in 1975. However, we are particularly concerned to note your special reservations about the current proposal. The balance of this letter, and the data attached, are designed to supply certain relevant information which might point to other conclusions and which you may not have had before you previously. We are available to answer any questions you or your staff may have.

You state in your letter that the new $3 billion of bonds and notes would be issued under a new Third General Bond Resolution, and that the revenues supporting the new bonds are less assured that those supporting the Corporation's presently outstanding obligations.

For the most part, discussions concerning the Four-Year Plan have assumed that additional MAC bonds would be issued under the First or Second General Bond Resolution. Recently, we have considered selling Third Resolution Bonds to the City Pension Funds and Sinking Funds as a substitute for approximately $700 million principal amount of City bonds scheduled to be purchased this month by these Funds. Our basic plan, however, has not changed, and we expect to issue a major part of the $3 billion additional bonds under the First or Second General Bond Resolution. Such bonds would be secured by, and have an equal lien on, the same revenues supporting MAC's currently outstanding obligations.

So long as the revenues supporting our bonds are sufficient to provide annual debt service payments, the State's "moral commitment" need never be called upon. To protect the State's finances and also to make the bonds attractive to investors, we have adopted a number of bond covenants designed to assure the adequacy of future revenues. As you know, we have put a "cap" or maximum on our First Resolution Bonds, so that no more than $425 million will ever be required in any year to make payments on these bonds. The remaining sales tax and stock transfer tax not needed for First Resolution purposes and all of per capita aid, are available to our Second Resolution Bonds. To provide a substantial margin, we have adopted a coverage test under our Second General Bond Resolution which requires that there be $2 in available revenue for every $1 in principal and interest on all Second Resolution Bonds as a prerequisite to issuance of any additional bonds thereunder. This "two times" coverage test helps assure that future revenues will be adequate to meet debt service payments.

Since these are the coverage tests which govern issuance of bonds under our existing bonds resolutions, it is significant that all of the $3 billion in requested bonding authority could be issued under these existing resolutions. As the attached tables and text indicate, $3 billion in MAC Bonds could be issued for purposes contained in the Four-Year Plan, without violating the "cap" on our First Resolution or exceeding the coverage under the Second Resolution. While the specific timing and uses of MAC Bonds may differ in the Plan as finally developed and implemented, these figures indicate the extent to which we have economic capacity under our existing coverage tests.

Just as the entire $3 billion in bonds could be issued under our existing bond resolutions and coverage tests, some or even all of this amount could be issued under a new bond resolution without signficant risk to the State's finances. Since the total of bonds will be fixed at $3 billion by the legislation, and the total revenues available to MAC will remain the same, the economic capacity to provide for bonds of a given maturity and interest rate will be the same under whichever bond resolution they are issued.

In fact, any bonds issued under the proposed new bond resolutions would also have available for their repayment payments of debt service received by MAC on City general obligation bonds which would be purchased with the proceeds of all bonds sold under a new resolution. However, we emphasize that the coverage calculations which we have attached disregard any revenues received directly from the City and rely exclusively on the streams of State revenue currently available to MAC. Even if all $3 billion of additional bonds were to be issued as Third Resolution Bonds, current levels of revenues now available to MAC will provide more than sufficient funds to service the entire MAC debt.

If we can provide any additional information, please let us know.

Very truly yours,

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Eugene J. Keilin
Executive Director

Attachments

M. Rohatyn

FP

Noted and Please

LIFE INSURANCE COUNCIL OF NEW YORK
INCORPORATED
630 Fifth Avenue
New York, New York 10020
(212) 489-9694

PETER J. FLANAGAN
President

TO: Participants at the Big Mac Meeting

FROM: Peter J. Flanagan

RE: See Enclosures

DATE: May 17, 1978

Enclosed is a roster of those who attended the meeting with representatives of the Municipal Assistance Corporation on Monday, May 15, 1978 at the Equitable Life. Also enclosed is an updated formula for life insurance company participation in the Big Mac package.

Please let us know if you have any questions.

Peter J. Flanagan /nl

PJF:nl

MUNICIPAL ASSISTANCE CORPORATION

		Assets 12/31/76	Assets % total	Suggested
1.	Metropolitan Life	$37,502 MM	42.0	84. MM
2.	Equitable Life	22,430 MM	25.0	50. MM
3.	New York Life	14,859 MM	16.7	33.4 MM
4.	Mutual Of New York	5,418 MM	6.0	12. MM
5.	TIAA	5,184 MM	5.7	11.4 MM
6.	Guardian Life	1,392 MM	1.6	3.2 MM
7.	Home Life	1,338 MM	1.5	3.0 MM
8.	Manhattan Life	430 MM	.5	1.0 MM
9.	United States Life	369 MM	.4	1.0 MM
10.	Security Mutual Life	219 MM	.3	1.0 MM
	TOTAL:	89,141 MM	99.7%	$200 MM

BIG MAC MEETING AT THE EQUITABLE

Monday, May 15, 1978
Roster

AFFILIATION	NAME
CANADA LIFE	Alfred Kelly
CITY OF NEW YORK	William Cobbs James Bingham
EMERGENCY FINANACIAL CONTROL BOARD	Donald C. Kimmerfeld Michael Smith
EQUITABLE LIFE	John T. Fey Raymond McCron Richard Dicker
GUARDIAN LIFE	Ashley Bladen
HOME LIFE	John A. Fabian
LICONY	Peter J. Flanagan
METROPOLITAN LIFE	George M. Crandler Anthony Williamson
MUNICIPAL ASSISTANCE CORP.	Felix Rohatyn Eugene Keilin
MUTUAL OF NEW YORK	David Bullwinkle Herbert Strong
NEW YORK LIFE	Donald K. Ross Harold K. Herzog Spencer H. Schroeder
SAVINGS BANK ASSOC. OF N.Y.	Leopold Rassnick
SAVINGS BANKS (representative)	Robert Rivel
TEACHERS INSURANCE	Frank J. Pados

MUNICIPAL ASSISTANCE CORPORATION

Capacity to Issue Additional Debt

The following Tables illustrate MAC's capacity to issue additional debt under existing bond resolutions for purposes for which the City will require financing prior to June 30, 1982. As the four-year plan undergoes further development, the debt actually issued may differ from the bonds projected here, but these Tables indicate MAC's economic capacity to issue additional debt.

Uses of Debt

These Tables reflect the issuance of $1 billion in bonds for City capital projects, $900 million to finance operating expenses during the accelerated period of their phase-out from the capital budget, $800 million to eliminate the annual State advance, and $300 million to meet MAC's capital reserve funding requirement. These uses are illustrative, and may be modified in the final plan.

Types of Debt

It is assumed that $450 million in bonds will be issued under MAC's First General Bond Resolution and the remaining $2.550 billion under the Second General Bond Resolution. Interest rates are assumed to be 8%. Of the total, $1.8 billion is assumed to be issued under structural constraints applicable to City bonds -- that is, as serial bonds with payments of principal throughout the life of the bond. The remaining $1.2 billion is assumed to be term bonds, with sinking fund payments as indicated.

Timing

The Tables assume issuance of the additional MAC Bonds during the fiscal years 1979-1982. Some of these bonds may be issued in the current fiscal year to City pension funds.

Coverage

Coverage calculations assume continuation of MAC's existing revenue streams at current levels. No assumption is made about growth in revenues, such as the Sales Tax. Table II demonstrates the coverage on all First Resolution Bonds after issuance of an additional $450 million. Table III demonstrates that the remaining Second Resolution Bonds can be issued with minimum coverage of 2.11, more than the covenanted minimum of 2.0 times coverage.

Refunding

Although MAC is considering refunding some of its outstanding bonds, it has not yet finalized a program for this purpose, and not refundings are included in the Tables.

May 17, 1978
Revised

Contents

For the City of New York

FY	Principal	Interest	Total
1979		6,200,000	6,200,000
1980		71,000,000	71,000,000
1981		146,000,000	146,000,000
1982	12,632,000	191,994,720	204,626,720
1983	37,152,000	233,847,804	270,999,804
1984	59,305,000	233,645,080	292,950,080
1985	60,739,000	228,843,320	289,582,320
1986	62,172,000	223,926,880	286,098,880
1987	63,606,000	218,895,760	282,501,760
1988	65,039,000	213,749,960	278,788,960
1989	75,472,000	208,129,520	283,601,520
1990	77,143,000	202,024,920	279,167,920
1991	78,812,000	195,786,720	274,598,720
1992	80,480,000	189,415,040	269,895,040
1993	82,150,000	182,909,840	265,059,840
1994	110,746,000	175,194,000	285,940,000
1995	124,641,000	166,178,520	290,819,520
1996	139,671,000	156,843,440	296,514,440
1997	145,642,000	145,497,920	291,139,920
1998	151,972,000	133,665,760	285,637,760
1999	158,691,000	121,317,240	280,008,240
2000	165,822,000	108,421,120	274,243,120
2001	154,098,000	95,715,520	249,813,520
2002	142,503,000	83,949,880	226,452,880
2003	137,552,000	72,854,480	210,406,480
2004	145,746,000	61,636,960	207,382,960
2005	154,579,000	49,747,960	204,326,960
2006	164,084,000	37,135,240	201,219,240
2007	174,283,000	23,745,160	198,028,160
2008	185,268,000	9,519,120	194,787,120
Total	3,000,000,000	4,187,791,884	7,187,791,884

ABOVE ARE ALL ISSUANCES PROPOSED BY THE CORPORATION DURING THE 4-YEAR PLAN

TABLE I

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total	Coverage
1977		6,712,326	6,712,326	170.58
1978	55,465,000	173,711,538	229,176,538	5.00
1979	45,710,000	261,928,700	307,638,700	3.72
1980	69,125,000	288,744,062	357,869,062	3.20
1981	60,795,000	282,829,076	343,624,076	3.33
1982	17,940,000	317,602,026	334,542,026	3.42
1983	139,545,000	273,042,300	412,587,300	2.78
1984	150,600,000	261,525,126	412,125,126	2.78
1985	117,095,000	248,255,812	365,350,812	3.13
1986	175,245,000	238,728,788	413,973,788	2.77
1987	183,545,000	223,655,262	407,200,262	2.81
1988	201,725,000	207,589,676	409,314,676	2.80
1989	222,825,000	190,425,662	413,250,662	2.77
1990	238,360,000	172,722,850	411,082,850	2.79
1991	255,485,000	153,680,200	409,165,200	2.80
1992	276,000,000	133,154,738	409,154,738	2.80
1993	291,555,000	109,976,488	401,531,488	2.85
1994	316,100,000	85,371,350	401,471,350	2.85
1995	331,738,000	61,025,350	392,763,350	2.92
1996	20,935,000	36,000,000	56,935,000	20.11
1997	22,610,000	34,325,200	56,935,200	20.11
1998	24,420,000	32,516,400	56,936,400	20.11
1999	26,370,000	30,562,800	56,932,800	20.11
2000	28,480,000	28,453,200	56,933,200	20.11
2001	30,760,000	26,174,800	56,934,800	20.11
2002	33,220,000	23,714,000	56,934,000	20.11
2003	35,890,000	21,056,400	56,946,400	20.11
2004	38,750,000	18,185,200	56,935,200	20.11
2005	41,850,000	15,085,200	56,935,200	20.11
2006	45,195,000	11,737,200	56,932,200	20.11
2007	48,810,000	8,121,600	56,931,600	20.11
2008	52,710,000	4,216,800	56,926,800	20.11
Total	3,637,853,000	3,940,830,130	7,578,683,130	

ABOVE ARE ALL OUTSTANDING AND PROPOSED FIRST RESOLUTION BONDS

TABLE II

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total	Coverage
1977		42,985,000	42,985,000	24.89
1978	31,150,000	113,287,717	144,437,717	7.41
1979	33,745,000	161,228,738	194,973,738	5.49
1980	36,555,000	193,416,738	229,971,738	4.65
1981	65,645,000	264,393,863	330,038,863	3.24
1982	82,782,000	305,090,033	387,872,033	2.76
1983	122,967,000	340,844,142	463,811,142	2.31
1984	175,790,000	332,469,080	508,259,080	2.11
1985	187,119,000	317,632,732	504,751,732	2.12
1986	198,182,000	301,863,667	500,045,667	2.14
1987	212,121,000	285,056,316	497,177,316	2.15
1988	228,974,000	267,157,929	496,131,929	2.16
1989	250,422,000	247,869,033	498,291,033	2.15
1990	263,963,000	227,145,327	491,108,327	2.18
1991	277,637,000	205,291,358	482,928,358	2.22
1992	297,870,000	182,046,503	479,916,503	2.23
1993	328,645,000	156,818,728	485,463,728	2.20
1994	110,746,000	139,194,000	249,940,000	4.28
1995	114,641,000	130,178,520	244,819,520	4.37
1996	118,736,000	120,843,440	239,579,440	4.47
1997	123,032,000	111,172,720	234,204,720	4.57
1998	127,552,000	101,149,360	228,701,360	4.68
1999	132,321,000	90,754,440	223,075,440	4.80
2000	137,342,000	79,967,920	217,309,920	4.92
2001	123,338,000	69,540,720	192,878,720	5.55
2002	109,283,000	60,235,880	169,518,880	6.31
2003	101,662,000	51,798,080	153,460,080	6.97
2004	106,996,000	43,451,760	150,447,760	7.11
2005	112,729,000	34,662,760	147,391,760	7.26
2006	118,889,000	25,398,040	144,287,040	7.42
2007	125,473,000	15,623,560	141,096,560	7.58
2008	132,558,000	5,302,320	137,860,320	7.76
Total	4,588,865,000	5,023,870,424	9,612,735,424	

ABOVE ARE ALL OUTSTANDING AND PROPOSED SECOND RESOLUTION BONDS

TABLE III

[illegible]
For the City of New York

FY	Principal	Interest	Total
1982		32,500,000	32,500,000
1983	11,538,000	75,882,924	87,420,924
1984	24,569,000	78,094,200	102,663,200
1985	25,067,000	76,108,760	101,175,760
1986	25,564,000	74,083,520	99,647,520
1987	26,062,000	72,018,480	98,080,480
1988	26,559,000	69,713,640	96,472,640
1989	36,056,000	67,409,040	103,465,040
1990	36,791,000	64,495,160	101,286,160
1991	37,526,000	61,522,480	99,048,480
1992	38,259,000	58,491,080	96,750,080
1993	38,993,000	55,401,000	94,394,000
1994	39,728,000	52,252,160	91,980,160
1995	40,462,000	49,044,560	89,506,560
1996	41,196,000	45,778,240	86,974,240
1997	41,931,000	42,453,160	84,384,160
1998	42,665,000	39,069,320	81,734,320
1999	43,399,000	35,626,760	79,025,760
2000	44,134,000	32,125,440	76,259,440
2001	44,867,000	28,565,400	73,432,400
2002	45,602,000	24,946,640	70,548,640
2003	46,337,000	21,269,080	67,606,080
2004	47,071,000	17,532,760	64,603,760
2005	47,804,000	13,737,760	61,541,760
2006	48,539,000	9,884,040	58,423,040
2007	49,273,000	5,971,560	55,244,560
2008	50,008,000	2,000,320	52,008,320
Total	1,000,000,000	1,206,177,484	2,206,177,484

ABOVE BONDS TO FINANCE LONG-TERM CAPITAL PROJECTS

TABLE IV

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total
1980		22,000,000	22,000,000
1981		50,000,000	50,000,000
1982	12,632,000	63,494,720	76,126,720
1983	25,614,000	61,964,880	87,578,880
1984	34,736,000	59,550,880	94,286,880
1985	35,672,000	56,734,560	92,406,560
1986	36,608,000	53,843,360	90,451,360
1987	37,544,000	50,877,280	88,421,280
1988	38,480,000	47,836,320	86,316,320
1989	39,416,000	44,720,480	84,136,480
1990	40,352,000	41,529,760	81,881,760
1991	41,286,000	38,264,240	79,550,240
1992	42,221,000	34,923,960	77,144,960
1993	43,157,000	31,508,840	74,665,840
1994	44,093,000	28,018,840	72,111,840
1995	45,029,000	24,453,960	69,482,960
1996	45,965,000	20,814,200	66,779,200
1997	46,901,000	17,099,560	64,000,560
1998	47,837,000	13,310,040	61,147,040
1999	48,772,000	9,445,680	58,217,680
2000	49,708,000	5,506,480	55,214,480
2001	31,346,000	2,264,320	33,610,320
2002	12,631,000	505,240	13,136,240
Total	800,000,000	778,667,600	1,578,667,600

ABOVE BONDS TO FINANCE SPRING ADVANCE FROM STATE TO CITY

TABLE V

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total
1979		6,200,000	6,200,000
1980		36,000,000	36,000,000
1981		72,000,000	72,000,000
1982		72,000,000	72,000,000
1983		72,000,000	72,000,000
1984		72,000,000	72,000,000
1985		72,000,000	72,000,000
1986		72,000,000	72,000,000
1987		72,000,000	72,000,000
1988		72,000,000	72,000,000
1989		72,000,000	72,000,000
1990		72,000,000	72,000,000
1991		72,000,000	72,000,000
1992		72,000,000	72,000,000
1993		72,000,000	72,000,000
1994	16,155,000	71,353,800	87,508,800
1995	17,490,000	70,008,000	87,498,000
1996	39,880,000	68,550,600	108,430,600
1997	43,130,000	65,297,200	108,427,200
1998	46,650,000	61,778,400	108,428,400
1999	50,460,000	57,972,000	108,432,000
2000	54,580,000	53,854,800	108,434,800
2001	59,035,000	49,401,400	108,436,400
2002	63,850,000	44,584,400	108,434,400
2003	69,085,000	39,373,800	108,458,800
2004	74,705,000	33,736,600	108,441,600
2005	80,805,000	27,640,200	108,445,200
2006	87,405,000	21,045,600	108,450,600
2007	94,530,000	13,912,800	108,442,800
2008	102,240,000	6,198,000	108,438,000
Total	900,000,000	1,662,907,600	2,562,907,600

GROUP BONDS TO FINANCE EXPENSE ITEMS IN CITY'S CAPITAL BUDGET

TABLE VI

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total
1980		13,000,000	13,000,000
1981		24,000,000	24,000,000
1982		24,000,000	24,000,000
1983		24,000,000	24,000,000
1984		24,000,000	24,000,000
1985		24,000,000	24,000,000
1986		24,000,000	24,000,000
1987		24,000,000	24,000,000
1988		24,000,000	24,000,000
1989		24,000,000	24,000,000
1990		24,000,000	24,000,000
1991		24,000,000	24,000,000
1992		24,000,000	24,000,000
1993		24,000,000	24,000,000
1994	10,720,000	23,569,200	34,339,200
1995	11,660,000	22,672,000	34,332,000
1996	12,630,000	21,700,400	34,330,400
1997	13,680,000	20,648,000	34,328,000
1998	14,820,000	19,508,000	34,328,000
1999	16,060,000	18,272,800	34,332,800
2000	17,400,000	16,934,400	34,334,400
2001	18,850,000	15,484,400	34,334,400
2002	20,420,000	13,913,600	34,333,600
2003	22,130,000	12,211,600	34,341,600
2004	23,970,000	10,367,600	34,337,600
2005	25,970,000	8,370,000	34,340,000
2006	28,140,000	6,205,600	34,345,600
2007	30,480,000	3,860,800	34,340,800
2008	33,020,000	1,320,800	34,340,800
Total	300,000,000	540,039,200	840,039,200

ABOVE BONDS TO FINANCE CAPITAL RESERVE FUNDS
OF THE CORPORATION

TABLE VII

Municipal Assistance Corporation
For the City of New York

FY	Principal	Interest	Total
1981		62,000,000	62,000,000
1982		60,000,000	60,000,000
1983	12,632,000	59,494,720	72,126,720
1984	12,982,000	58,470,160	71,452,160
1985	13,333,000	57,417,560	70,750,560
1986	13,684,000	56,336,880	70,020,880
1987	14,035,000	55,228,120	69,263,120
1988	14,386,000	54,091,280	68,477,280
1989	14,737,000	52,926,360	67,663,360
1990	15,088,000	51,733,360	66,821,360
1991	15,439,000	50,512,280	65,951,280
1992	15,789,000	49,263,160	65,052,160
1993	16,140,000	47,986,000	64,126,000
1994	32,646,000	46,034,560	78,680,560
1995	34,332,000	43,355,440	77,687,440
1996	36,138,000	40,536,640	76,674,640
1997	38,064,000	37,568,560	75,632,560
1998	40,125,000	34,441,000	74,566,000
1999	42,336,000	31,142,560	73,478,560
2000	44,696,000	27,661,280	72,357,280
2001	47,223,000	23,984,520	71,207,520
2002	30,630,000	20,870,400	51,500,400
2003	33,195,000	18,317,400	51,512,400
2004	35,955,000	15,551,400	51,506,400
2005	38,955,000	12,555,000	51,510,000
2006	42,210,000	9,308,400	51,518,400
2007	45,720,000	5,791,200	51,511,200
2008	49,530,000	1,981,200	51,511,200
Total	750,000,000	1,084,559,440	1,834,559,440

ABOVE ARE THE ISSUANCES PROPOSED IN FY 1980

TABLE IX

Municipal A istance Corporation
For the City of New York

FY	Principal	Interest	Total
1981		12,000,000	12,000,000
1982		60,500,000	60,500,000
1983	11,538,000	57,538,480	69,076,480
1984	20,190,000	56,269,360	76,459,360
1985	20,655,000	54,635,560	75,290,560
1986	21,120,000	52,964,560	74,084,560
1987	21,585,000	51,256,360	72,841,360
1988	22,049,000	49,511,000	71,560,000
1989	22,514,000	47,728,480	70,242,480
1990	22,979,000	45,908,760	68,887,760
1991	23,443,000	44,051,880	67,494,880
1992	23,907,000	42,157,880	66,064,880
1993	24,372,000	40,226,720	64,598,720
1994	30,222,000	38,042,960	68,264,960
1995	31,132,000	35,588,800	66,720,800
1996	32,081,000	33,060,280	65,141,280
1997	33,071,000	30,454,200	63,525,200
1998	34,106,000	27,767,120	61,873,120
1999	35,191,000	24,995,240	60,186,240
2000	36,326,000	22,134,560	58,460,560
2001	37,515,000	19,180,920	56,695,920
2002	38,764,000	16,129,760	54,893,760
2003	27,219,000	13,490,440	40,709,440
2004	28,370,000	11,266,880	39,636,880
2005	29,600,000	8,948,080	38,548,080
2006	30,916,000	6,527,440	37,443,440
2007	32,317,000	3,998,120	36,315,120
2008	33,818,000	1,352,720	35,170,720
Total	725,000,000	907,686,560	1,632,686,560

ABOVE ARE ISSUANCES PROPOSED IN FY 1981

TABLE X

For the City of New York

FY	Principal	Interest	Total
1983		46,344,444	46,344,444
1984	12,800,000	49,488,000	62,288,000
1985	13,067,000	48,453,320	61,520,320
1986	13,333,000	47,397,320	60,730,320
1987	13,600,000	46,320,000	59,920,000
1988	13,867,000	45,221,320	59,088,320
1989	23,133,000	43,741,320	66,874,320
1990	23,637,000	41,870,520	65,507,520
1991	24,141,000	39,959,400	64,100,400
1992	24,644,000	38,008,000	62,652,000
1993	25,147,000	36,016,360	61,163,360
1994	25,651,000	33,984,440	59,635,440
1995	26,154,000	31,912,240	58,066,240
1996	26,658,000	29,799,760	56,457,760
1997	27,162,000	27,646,960	54,808,960
1998	27,665,000	25,453,880	53,118,880
1999	28,168,000	23,220,560	51,388,560
2000	28,672,000	20,946,960	49,618,960
2001	29,175,000	18,633,080	47,808,080
2002	29,679,000	16,278,920	45,957,920
2003	30,183,000	13,884,440	44,067,440
2004	30,686,000	11,449,680	42,135,680
2005	31,189,000	8,974,680	40,163,680
2006	31,693,000	6,459,400	38,152,400
2007	32,196,000	3,903,840	36,099,840
2008	32,700,000	1,308,000	34,008,000
Total	625,000,000	756,676,944	1,381,676,944

ABOVE ARE THE ISSUANCES PROPOSED IN FY 1982

TABLE XI

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 16 May 1978

To : Legislative Staff Members

From: Municipal Assistance Corporation

Re : Capacity to Issue Additional Debt

Following are schedules of First and Second Resolution MAC Bonds which show the debt service payments on bonds presently outstanding and on such bonds combined with additional MAC bonds proposed to be issued pursuant to the City's Four-Year Financing Plan.

The schedule of the First Resolution Bonds also shows the "spill-over" available after First Resolution debt service, for the Second Resolution Bond purposes.

The schedule of the Second Resolution Bonds also illustrates the coverage on such bonds provided by revenues presently available to the Corporation.

On First Resolution debt it should be noted that the coverage is essentially fixed by the $425 million 'cap' of maximum annual debt service which the Corporation has covenanted, at 2.71 times available revenues.

Coverage on Second Resolution Bonds is based on revenues received over the 12 months ended March 31, 1978: $910 million Sales Tax; $240 million Stock Transfer Tax (net of surcharge); $350 million net Per Capita Aid. In all years the coverage on the Second Resolution Bonds exceeds the 2.0 times coverage which the Corporation has covenanted, by substantial amounts.

MUNICIPAL ASSISTANCE CORPORATION

FIRST RESOLUTION
Debt Service on Present Outstanding and
Additional $432 Milliong with Spillover

(In $ Thousands)

Fiscal Year	Presently Outstanding	Additional	Total	Spillover 1/
1979	303,444	3,733	307,177	767,823
1980	321,869	31,110	352,979	722,021
1981	307,624	45,331	352,955	722,045
1982	298,542	48,816	341,858	733,142
1983	376,587	51,012	427,598	647,402
1984	276,125	50,015	326,140	748,860
1985	329,351	49,973	379,324	695,676
1986	377,974	46,823	424,797	650,203
1987	371,200	46,790	417,990	657,010
1988	373,315	45,688	419,002	655,998
1989	377,251	44,447	332,805	742,195
1990	375,083	43,216	423,298	651,702
1991	373,165	41,947	415,111	659,889
1992	373,155	40,689	413,844	661,156
1993	365,531	39,292	404,844	670,177
1994	365,471	37,907	403,378	671,622
1995	356,763	36,482	393,245	681,755
1996		35,020	35,020	1,039,986
1997		33,513	33,513	1,041,482
1998		31,978	31,978	1,043,027
1999		30,399	30,399	1,044,601
2000		12,250	12,250	1,062,751
2001		11,615	11,615	1,063,386
2002		4,860	4,860	1,070,640
TOTAL	6,022,450	867,953	6,890,403	

NOTE:
1/ Based upon revenues collected during 12 months ended March 31, 1978, of $910 million in Sales Tax and $240 million Stock Transfer Tax (net of surcharge).

MUNICIPAL ASSISTANCE CORPORATION

SECOND RESOLUTION
Debt Service on Presently Outstanding and
Additional $2.4 Billion with Coverage

(In $ Thousands)

Fiscal Year	Presently Outstanding	Additional 1/	Total	Coverage 2/
1979	155,653	6,100	161,753	6.65
1980	155,651	24,100	179,751	5.98
1981	189,719	127,668	308,386	3.49
1982	179,925	167,066	346,991	3.10
1983	189,491	216,330	405,821	2.65
1984	187,627	226,145	413,772	2.60
1985	187,606	243,961	431,568	2.49
1986	214,292	240,501	454,793	2.36
1987	215,170	236,927	452,097	2.38
1988	253,343	233,240	486,583	2.21
1989	250,690	229,437	480,127	2.24
1990	247,940	225,519	473,459	2.27
1991	244,330	221,488	465,817	2.31
1992	246,021	217,341	463,363	2.32
1993	256,404	213,081	469,485	2.29
1994		238,625	238,625	4.50
1995		234,048	234,048	4.59
1996		229,356	229,356	4.69
1997		224,540	224,540	4.79
1998		219,604	219,604	4.90
1999		214,548	214,548	5.01
2000		195,471	195,471	5.50
2001		165,148	165,148	6.51
2002		162,314	162,314	6.62
2003		159,422	159,422	6.74
2004		156,460	156,460	6.89
2005		153,434	153,434	7.01
2006		150,341	150,341	7.15
2007		147,176	147,176	7.30
2008		143,945	143,945	7.47
	3,312,971	5,623,346	8,936,313	

1/ $2.417 million

2/ Coverage is based on collections in the twelve months ended March 31, 1978, of $910 million Sales Tax, $240 million Stock Transfer (net of Surcharge), $350 million net Per Capita Aid less $425 million First Resolution Cap.

78/05/13 11:58

DEBT SERVICE FORECAST
FISCAL YEARS 1979 to 2000

($ Thousands)

Fiscal Year	Present Debt Redempt	Present Debt Interest	New Debt Redempt	New Debt Interest	TOTAL DEBT Redempt	TOTAL DEBT Interest	TOTAL DEBT TOTAL	Tax Rate
1979	865,284	398,829	4,397	76,141	869,681	474,971	1,344,652	8.87
1980	639,904	336,076	95,061	126,504	734,965	462,580	1,197,544	8.77
1981	531,319	278,119	143,908	174,352	675,227	452,471	1,127,698	8.75
1982	431,820	237,714	200,422	219,325	632,242	457,039	1,089,281	8.64
1983	416,186	207,326	257,511	268,234	673,697	475,561	1,149,258	8.69
1984	400,367	178,145	287,298	320,339	687,666	498,484	1,186,149	8.73
1985	346,599	149,728	320,012	371,483	666,611	521,211	1,187,822	8.70
1986	232,849	130,071	343,343	424,062	576,192	554,132	1,130,325	8.52
1987	205,758	115,439	316,825	477,504	522,583	592,943	1,115,526	8.46
1988	182,397	101,333	347,441	531,934	529,838	633,267	1,163,105	8.56
1989	155,589	88,288	391,084	583,889	546,673	672,177	1,218,850	8.68
1990	135,097	76,595	428,767	633,192	563,863	709,787	1,273,650	8.79
1991	116,352	66,250	464,654	680,096	581,006	746,345	1,327,351	8.89
1992	89,705	59,062	496,957	724,892	586,662	783,953	1,370,615	8.97
1993	87,035	53,720	501,248	769,269	588,283	822,989	1,411,272	9.03
1994	82,900	49,054	548,991	812,240	631,891	861,294	1,493,185	9.20
1995	79,185	44,583	570,268	853,144	649,453	897,727	1,547,180	9.29
1996	76,343	40,235	598,947	892,722	675,290	932,956	1,608,246	9.40
1997	73,078	36,039	642,156	930,066	715,234	966,105	1,681,339	9.54
1998	67,658	31,694	688,031	964,755	755,689	996,449	1,752,138	9.67
1999	62,192	28,061	737,663	996,333	799,854	1,024,393	1,824,247	9.79
2000	57,732	24,754	786,593	1,024,722	844,325	1,049,476	1,893,801	9.91

NEW YORK CITY
TAX AND BUDGET FORECAST
FISCAL YEARS 1979 TO 1990

($Thousands)

Fiscal Year	Tax Rate	Tax Levy	Net Collections	Debt Service (Note 1)	Balance for Operations	Available for Budget (Note 2)	Consitutional Tax Limit	Restructure Amount (Note 3)
1979	8.87	3,372,095	3,127,281	1,287,095	2,085,000	1,992,629	2,085,000	
1980	8.77	3,305,306	3,065,011	1,167,806	2,137,500	2,014,766	2,137,500	
1981	8.75	3,299,379	3,067,762	1,126,879	2,172,500	2,051,064	2,172,500	
1982	8.64	3,292,565	3,060,110	1,090,065	2,202,500	2,074,829	2,202,500	
1983	8.69	3,344,824	3,110,687	1,133,412	2,211,412	2,120,274	2,211,412	
1984	8.73	3,395,120	3,157,462	1,171,258	2,223,863	2,131,135	2,223,863	
1985	8.70	3,416,108	3,176,981	1,171,772	2,244,336	2,150,509	2,244,336	
1986	8.52	3,379,168	3,142,626	1,109,770	2,269,398	2,174,575	2,269,398	
1987	8.46	3,390,069	3,152,764	1,095,625	2,294,444	2,198,982	2,294,444	
1988	8.56	3,464,871	3,222,330	1,147,482	2,317,388	2,220,818	2,317,388	
1989	8.68	3,546,584	3,298,323	1,206,022	2,340,562	2,242,672	2,340,562	
1990	8.79	3,627,016	3,373,124	1,263,048	2,363,968	2,265,055	2,363,968	

Notes:

1. Includes debt service on funded debt, less offsetting revenues and prior years collections allocatable to debt service, plus a reserve for uncollectable levy.

2. Is arrived at by deducting from the gross collections an amount for debt service on funded debt less offsetting revenues and prior collection allocatable to debt service less gross uncollectables.

3. Is the balance after deducting Balance for Operations from Constitutional Tax Limit adjusted by the collection rate.

Report -- DEBT SERV, TAX, DEBT OUT,STOP ? STOP

NEW YORK CITY
TAX AND BUDGET FORECAST
FISCAL YEARS 1979 TO 1990

($Thousands)

Fiscal Year	Tax Rate	Tax Levy	Net Collections	Debt Service (Note 1)	Balance for Operations	Available for Budget (Note 2)	Consitutional Tax Limit	Restructur Amount (Note 3)
1979	8.75*	3,325,000	3,083,605	1,287,095	2,037,905	1,948,953	2,085,000	43,676
1980	8.75*	3,298,750	3,058,931	1,167,430	2,131,320	2,008,686	2,137,500	5,731
1981	8.75*	3,298,750	3,067,178	1,126,836	2,171,914	2,050,479	2,172,500	545
1982	8.64	3,292,562	3,060,107	1,090,062	2,202,500	2,074,826	2,202,500	
1983	8.69	3,344,827	3,110,689	1,133,414	2,211,412	2,120,269	2,211,412	
1984	8.73	3,395,120	3,157,462	1,171,258	2,223,863	2,131,135	2,223,863	
1985	8.70	3,416,108	3,176,981	1,171,772	2,244,336	2,150,509	2,244,336	
1986	8.52	3,379,168	3,142,626	1,109,770	2,269,398	2,174,575	2,269,398	
1987	8.46	3,390,069	3,152,764	1,095,625	2,294,444	2,198,982	2,294,444	
1988	8.56	3,464,871	3,222,330	1,147,482	2,317,388	2,220,818	2,317,388	
1989	8.68	3,546,584	3,298,323	1,206,022	2,340,562	2,242,672	2,340,562	
1990	8.75*	3,611,424	3,358,624	1,263,048	2,348,376	2,250,554	2,363,968	14,500

Notes:

1. Includes debt service on funded debt, less offsetting revenues and prior years collections allocatable to debt service, plus a reserve for uncollectable levy.

2. Is arrived at by deducting from the gross collections an amount for debt service on funded debt less offsetting revenues and prior collection allocatable to debt service less gross uncollectables.

3. Is the balance after deducting Balance for Operations from Constitutional Tax Limit adjusted by the collection rate.

Report -- DEBT SERV, TAX, DEBT OUT,STOP ? STOP

```
The following city issues have been read:
$      32,228,000 in 1978-1 at 9.000% CON First Prin. 18 months and 13 payments for PENSION FUNDS
$      21,122,000 in 1978-1 at 9.000% CON First Prin. 18 months and  7 payments for PENSION FUNDS
$      19,000,000 in 1978-2 at 9.000% LEV First Prin. 18 months and 10 payments for SINKING FUNDS
$      71,000,000 in 1978-2 at 9.000% LEV First Prin. 18 months and  4 payments for SINKING FUNDS
$     410,000,000 in 1978-2 at 8.000% CON First Prin. 18 months and 13 payments for PENSION FUND MAC 3
$     273,000,000 in 1978-2 at 8.000% CON First Prin. 18 months and  7 payments for PENSION FUNDS MAC 3
$      20,000,000 in 1978-2 at 8.000% LEV First Prin. 18 months and  8 payments for SINKING FUNDS MAC 3
$      29,000,000 in 1979-1 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      25,000,000 in 1979-1 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$       6,000,000 in 1979-1 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      18,000,000 in 1979-1 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$      97,000,000 in 1979-1 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$      29,000,000 in 1979-2 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      25,000,000 in 1979-2 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND  MORTAR (10)
$       6,000,000 in 1979-2 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS ANDMORTAR (15)
$      18,000,000 in 1979-2 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$      97,000,000 in 1979-2 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$     300,000,000 in 1979-2 at 8.000% CON First Prin. 18 months and 14 payments for STATE ADVANCE (15)
$      34,000,000 in 1980-1 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      34,000,000 in 1980-1 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$      10,000,000 in 1980-1 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      23,000,000 in 1980-1 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$     124,000,000 in 1980-1 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$      34,000,000 in 1980-2 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      34,000,000 in 1980-2 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$      10,000,000 in 1980-2 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      23,000,000 in 1980-2 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$     124,000,000 in 1980-2 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$     200,000,000 in 1980-2 at 8.000% CON First Prin. 18 months and 14 payments for STATE ADVANCE (15)
$      45,000,000 in 1981-1 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      55,000,000 in 1981-1 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$      23,000,000 in 1981-1 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      30,000,000 in 1981-1 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$     197,000,000 in 1981-1 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$      45,000,000 in 1981-2 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      55,000,000 in 1981-2 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$      23,000,000 in 1981-2 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      30,000,000 in 1981-2 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$     197,000,000 in 1981-2 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$      44,000,000 in 1982-1 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      40,000,000 in 1982-1 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$      48,000,000 in 1982-1 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      30,000,000 in 1982-1 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAR (20)
$     238,000,000 in 1982-1 at 8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
$      44,000,000 in 1982-2 at 8.000% CON First Prin. 18 months and  4 payments for BRICKS AND MORTAR (5)
$      40,000,000 in 1982-2 at 8.000% CON First Prin. 18 months and  9 payments for BRICKS AND MORTAR (10)
$      48,000,000 in 1982-2 at 8.000% CON First Prin. 18 months and 14 payments for BRICKS AND MORTAR (15)
$      30,000,000 in 1982-2 at 8.000% CON First Prin. 18 months and 19 payments for BRICKS AND MORTAT (20)
                              8.000% CON First Prin. 18 months and 29 payments for BRICKS AND MORTAR (30)
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MUNICIPAL ASSISTANCE CORPORATION

NET COST

($ Millions)

Fiscal Year	Additional Funding Cost of City Approach	Increased Loss in Real Property Levy Under MAC Plan	Cost of City Plan
1979	26.5	11.3	15.2
1980	36.8	64.4	(27.6)
1981	36.1	69.2	(33.1)
1982	35.3	26.4	8.9
1983	34.6	16.5	18.1
1984	33.7		33.7
1985	32.9		32.9
1986	31.9		31.9
1987	30.9		30.9
1988	29.9		29.9
			140.8

05/12/78

INCREMENTAL FUNDING COST OF CAPITALIZED EXPENSE FINANCING

($ Millions)

	City Plan (1)	MAC Plan (2)	Additional Cost
79	6.9	(19.6)	26.5
80	17.4	(19.4)	36.8
81	54.4	18.3	36.1
82	69.9	34.6	35.3
83	77.4	42.8	34.6
84	76.0	42.3	33.7
85	74.6	41.7	32.9
86	73.0	41.1	31.9
87	71.3	40.4	30.9
88	69.6	39.7	29.9
89	67.7	38.9	28.8
90	65.7	38.1	27.6
91	63.7	37.2	26.5
92	61.5	36.2	25.3
93	88.4	88.4	0
94	84.5	84.5	0
95	41.6	41.6	0
96	13.6	13.6	0
97			

(1) 410/13
20/8
273/7

$332 BAN Bond

(2) 410/13
20/8
200/4
73/3

$605 BAN Bond

LOSS IN PROPERTY TAX DUE TO TAX RATE IN EXCESS OF CAP

($ Millions)

	City	MAC	Excess
79	39.6	50.9	11.3
80	18.6	83.0	64.4
81	4.3	73.5	69.2
82		26.4	26.4
83		19.3	16.5
84	2.8		
85	.3		
86			
87			
88			
89			
90			

PROPOSED $4.5 BILLION FINANCING PLAN

Amount ($ Millions)	Sources of Funds	Security
500	City Pension Funds	Guaranteed
500	State Pension Funds	Guaranteed
1,000	Financial Institutions	MAC 2
500	City Pension Funds	MAC or City
1,000	Public Offerings	MAC 1 and 2
1,000	Public Offerings	MAC 3 or City*
4,500		

* Back-up: Guaranteed bonds purchased by City and State Pension Funds.

Terms of Guaranteed Bonds:

1. City bonds or new State agency.
2. 15-year final maturity.
3. Fully guaranteed, principal and interest, to final maturity.
4. Rate: Federal agencies of comparable maturity.
5. Fee: 1/2 of 1% paid by City.
6. First Call: Immediate, no penalty.
7. Non-transferable.

N.Y.C. Financing: F '79 - F ' 82 (In Millions of Dollars)

	Long-Term: Uses and Sources						Short-Term: Sources		
	Capitalized Expenses	Bonding State Adv.	Capital Needs	Total	Public Market	Other	Total	Fed.	Public Market
F 79	450	100	400	950	750	200	1,900	1,750	150
F 80	300	200	500	1,000	800	200	1,700	1,350	350
F 81	150	250	650	1,050	850	200	1,450	900	550
F 82	-	250	800	1,050	?	?	1,200	?	?

STATE OF NEW YORK
DEPARTMENT OF AUDIT AND CONTROL
ALBANY

ARTHUR LEVITT
STATE COMPTROLLER

May 11, 1978

Hon. Stanley Steingut
Speaker
New York State Assembly
State Capitol -- Rm. 349
Albany, New York 12224

Dear Speaker Steingut:

This letter concerns two features of the bill drafted by MAC to increase its borrowing authority from $5.8 billion to $8.8 billion (A. 12384), which was introduced yesterday. I am writing a similar letter to the President Pro Tem of the Senate.

MAC's memorandum in support indicates that the new $3 billion of bonds or notes would be issued under a new Third Resolution by MAC. They would be supported, first, by any "spillover" revenues from the First and Second Resolution bonds -- that is, from any money left over from the special sales tax, the stock transfer tax and per capita aid for New York City after payment of all debt service on the First and Second Resolution bonds. Secondly, they would be supported by payments MAC would receive on City bonds which it obtained in return for some, but not all, payments it made to the City out of the proceeds of Third Resolution bonds.

In addition, although the memorandum does not say so, the new bonds would be backed by the State's "moral commitment" to appropriate any funds necessary to replenish the capital reserve fund which related to the bonds. See §§3036, subdivision 4, and 3036-a, subdivision 3, of the Public Authorities Law as they would be amended by §§4 and 5 of the draft bill.

As you are well aware, I regard any extension of the State's "moral commitment" as contrary to the spirit of the Constitution. The creation of any additional contingent liability of this kind is also a threat to the integrity of State finances. In the case of the proposed new $3 billion of bonds, this threat is particularly pointed since the other revenues supporting the new bonds are less assured than those supporting MAC's presently outstanding obligations. For further security you may want to consider rechanneling through MAC some additional revenues which now go directly to the City.

The other feature of the draft bill which disturbs me is a proposal to widen the save-harmless provision to include consultants to MAC. See §9 of the draft bill. The memorandum in support does not explain the intent or rationale of this proposal. Presumably it is designed to protect financial advisers, bond counsel and other private attorneys retained by MAC. However, such persons are retained precisely because of the professional competence, experience, judgment and care they can provide. It strikes me as highly doubtful whether the State should agree to hold them harmless for their mistakes.

In addition, the bill provides no explicit control over the legal fees the State would pay for MAC employees, as well as consultants, who are sued. Approval by the Attorney General and/or the Comptroller would supply the State with some added protection.

Sincerely,

State Comptroller

cc: Hon. Perry B. Duryea, Jr.
Hon. Hugh L. Carey

THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Senator Anderson:

You asked us on Wednesday about the wisdom of expanding MAC's borrowing authority to permit a bonding of the $800 million State advance.

Treasury's position is that MAC's authority to issue debt should be increased to its maximum economic level, regardless of whether the State advance is bonded or not. This expansion is necessary to give the City maximum flexibility to meet its true capital needs, to finance the remaining operating expenses in its capital budget, and possibly to improve the maturity and cost structure of its debt.

A final decision on bonding the State advance should be made by MAC and the City. We view it as an inherently local matter and thus will not require that the City do it or not do it.

Our own judgment, however, is that it makes sense to bond the State advance for several reasons. First, we think that the City's annual seasonal needs are somewhat too large to be financed efficiently and should be reduced. As you know, the State advance and its subsequent repayment is responsible for a large part of this large seasonal need. Bonding it out would be one of the most direct ways of reducing the City's short-term borrowing needs.

Second, it will be difficult for the City to finance all of its own seasonal needs, unless it bonds this advance. From a lender's viewpoint, the collateral for this $800 million of City notes is somewhat uncertain, i.e., the willingness of the State to make its annual spring borrowing and to subsequently appropriate this $800 million advance of general purpose fiscal assistance to the City. In comparison, the City's other seasonal borrowings are collateralized by far more predictable State categorical assistance (education, etc.).

Third, the State advance arose in 1974 as part of financing the City's accumulated deficit at that time. In other words, the yearly State advance is viewed by some investors as the rolling over annually of a past City deficit. Bonding it out would eliminate the spectre of financing past deficits and thus increase investors confidence in the City.

Let me emphasize, however, that we expect the State to continue to assist the City to finance its seasonal needs. Even if this $800 million is bonded, we think that State advances should be made if New York City needs them again. Our long standing position, and that of Congress, is that the City is primarily responsible for financing itself; the State has second-line responsibility; and the Federal Government's role is a residual and temporary one. The State certainly has helped New York mightily in the past and we expect that it will continue to do so.

I hope that these views are responsive to your question.

Sincerely,

/s/ W. Michael Blumenthal

W. Michael Blumenthal

The Honorable
Warren M. Anderson
Majority Leader
The State Senate
Capitol Building
Albany, New York 12224

The City of New York Office of the Mayor Office of Management and Budget

Municipal Building
New York, N.Y. 10007

May 9, 1978

To: Messrs Cobbs
Halverson
Bender
Schweitzer
Hopkins

Ms. Griffiths
Altman
Friedman ✓
Weiss
Eisenstadt

From: Mark Page, Deputy General Counsel, OMB MP

Various technical changes in the local finance law are needed to enable the city to sell its obligations under the requirements of federal guarantee legislation, the new MAC legislation, changed circumstances which would presumably accompany city re-entry into the public market, and the possible use of MAC for sales to the pension funds this month. Some changes are probably absolutely necessary, some would simplify sales otherwise made unnecessarily complicated by existing statutory requirements.

The current requirement for public sale of bonds to be purchased by MAC comes under the last category. A draft of an amendment to §57 of the local finance law to allow private sale of city bonds to MAC is attached. By the end of the week I hope to circulate similar draft amendments covering downpayment, notes, underwriters, refunding, extension of MAC BAN's and possibly other topics.

I would be very interested in your comments both as to the substance of amendments to the local finance law which may be needed, and as to when and how it would be best to submit these amendments to the legislature. I am at 566-2666, room 1204 Municipal Building, 1 Center Street, New York 10007.

DRAFT
5/8/78

An Act to amend the local finance law to allow the city of New York to sell bonds at private sale to the municipal assistance corporation for the city of New York, and to allow sale of bonds at an interest rate in excess of five percent until the first day of July, nineteen hundred eighty two.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

§ 1. Paragraph a of section fifty seven of the local finance law, as last amended by chapter nine hundred two of the laws of nineteen hundred seventy-two, is hereby amended to read as follows:

a. Bonds shall be sold only at public sale and in accordance with the procedure set forth in this section and sections 58.00 and 59.00 of this chapter, except as otherwise provided in this paragraph. Bonds may be sold at private sale to the United States government, the state of New York municipal bond bank agency, [or] to any sinking fund or pension fund of the municipality, school district or district corporation selling such bonds, in the case of the city of New York, to the municipal assistance corporation for the city of New York, or, in the case of bonds or other obligations of a municipality issued for the construction of any sewage treatment works, sewage collecting system, storm water collecting system, water management facility, air pollution control facility or solid waste disposal facility, also to the New York state environmental facilities corporation. Bonds of a river improvement or drainage district established by or under the supervision of the department of conservation may be sold at private sale to the State of New York as investments for any funds of the state which by law may be invested, provided, however, that the rate of interest on any such bonds so sold shall be approved by the water power and control commission and the state comptroller. Bonds may also be sold at private sale as provided in section 63.00 of this chapter. No bonds shall be sold on option or on a deferred payment plan, except that options to purchase, effective for a period not exceeding one year, may be given:

1. in any case to the state of New York municipal bond bank agency with respect to any bonds or bond anticipation notes; and

2. in the case of a municipality to the New York state environmental facilities corporation with respect to

bonds or other obligations issued for the construction of any sewage treatment works, sewage collecting system, storm water collecting system, water management facility, air pollution control facility or solid waste disposal facility. A loan commitment may also be entered into by and between a municipality, and the state of New York municipal bond bank agency and by and between a municipality and the New York state environmental facilities corporation, such commitment to be fulfilled by the purchase of the bonds or other obligations referred to therein by such agency or such corporation, as the case may be. As used in this paragraph, the term "sinking fund" means a fund required by law to be established and maintained for the purpose of amortizing indebtedness evidenced by sinking fund bonds issued pursuant to the provisions of this chapter or issued by any municipality, school district or district corporation under any other law.

§ 2. Paragraph b of section fifty seven of the local finance law, as last amended by chapter two hundred thirty one of the laws of nineteen hundred seventy-seven, is hereby amended to read as follows:

b. Bonds shall be sold at a rate of interest not to exceed five per centum per annum, and for a sum not less than the par value of, and the accrued interest on, such obligations, except that bonds may be sold at any time after the thirtieth day of June, nineteen hundred seventy-six, and prior to the first day of July nineteen hundred [seventy-eight] <u>eighty-two</u>, without limitation as to the rate of interest and may also be sold by municipalities at private sale to the state of New York municipal bond bank agency, <u>and by the city of New York to the municipal assistance corporation for the city of New York</u> at such rate or rates of interest as may be agreed upon by and between the issuing [municipality] <u>municipalities</u> and such [agency] <u>agencies</u>. When sold at public sale, the rate of interest shall be determined in the manner provided in section 59.00 of this chapter. However, the agency prescribing the terms, form and contents of such bonds, subject to the foregoing provisions of this paragraph, may fix a maximum rate of interest at which such bonds shall be sold.

draft 5/9/78

An Act to amend the local finance law to exempt all obligations of the city of New York from the requirement of section one hundred seven of the local finance law for down payment

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

§ 1. Paragraph d of section one hundred seven of the local finance law, as last amended by chapter nine hundred twenty-one of the laws of nineteen hundred seventy two, is hereby amended by the addition of a subdivision eight, to follow subdivision seven, which shall read as follows:

8. The financing by the city of New York of any object or purpose which has a period of probable usefulness under the local finance law.

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THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

PHILIP L. TOIA
DEPUTY MAYOR FOR FINANCE

May 8, 1978

MEMORANDUM

To : Eugene Keilin

From : William W. Cobbs

Subject: Four Year Financial Plan

Attached is the Uses and Sources table I mentioned to you. Although it has a couple of changes from the Four Year Plan, such as the deferral of certain MAC refundings and a reduction in true capital expenditures, it does offer the benefit of symmetry: pension fund purchases of guaranteed bonds would equal their purchases of unguaranteed bonds which in turn would equal the financial institutions purchases of unguarantted bonds. Further, you should note that the pension funds purchases of unguaranteed bonds would be roll-overs of their existing holdings except in fiscal 1981 when the amount is increased by $59 million to bring the total unguaranteed commitment to $1 billion over the four year period. In addition, the pension funds and the financial institutions would put up their money in the first month of the fiscal years so that the City's seasonal needs could be reduced; equally as important, this means that from August, 1980 to June, 1982 - a twenty-three month period - only bonds for true capital expenses would have to be sold, publicly or privately. Finally, the MAC refundings that have been reduced below the Four Year Plan level could be made up as the market permits.

State of New York
Department of Law
Albany 12224

Louis J. Lefkowitz
Attorney General

May 5, 1978

Hon. Felix Rohatyn
Chairman
Municipal Assistance Corporation
for the City of New York
Two World Trade Center
New York, New York 10047

Dear Felix:

On April 19th, I received from Judah Gribetz, for comment, copies of proposed legislation (not yet introduced) and supporting memoranda which would extend the borrowing power of the Corporation and make other changes in existing statutes.

The proposed amendments have been examined by my staff and Marilyn Friedman, MAC's general counsel, has been advised of recommended drafting changes as follows:
In bill sections 2 (using "Notwithstanding the foregoing" instead of "In addition"), 5 and 6 (a need for rewriting and clarification of the ceiling on the aggregate amount of City short-term and MAC debt which can be outstanding), 7 (to remove or define "legal or personal representatives" and continued inclusion of reference to Public Officers Law, § 17 to preserve rights under that section) and the need for further definition of "short term obligations" and "seasonal borrowings" to avoid apparent conflict in maturities arising out of sections 3033(d) and 3037(a) and (d) as they would be amended by this bill.

The following additional comments, in the light of possible litigation, I offer for discussion purposes, as a basis for possible consideration of at least some of the new directions contained in the proposed amendments.

The State's moral obligation with respect to MAC bonds would be increased by $3 billion to $8.8 billion and the moral obligation would continue for thirty years, from June 30, 1982, an increase of ten years' duration over the present twenty-year maximum. Further, MAC would no longer constitute an *emergency* response to a fiscal crisis brought on by the City's large short-term debt, designed to convert short-term notes into long-term paper and to support the City's *current* operating needs during the emergency. In its new role, MAC would be evolving into a *standard* tool to meet the needs of the City's long-term capital budget, as well as current seasonal borrowing needs. These changes would, of course, all be set forth fully in the MAC prospectus.

Apart from the obvious practical implications for the State's credit, the legal implications of the proposed amendments merit serious reflection.

As the State's moral obligation behind MAC securities mushrooms, the Court of Appeals might consider it to be its duty to seize upon any available constitutional argument to turn off the flow. The fact that the bill as amended might appear to alter unmistakably the design of Article VIII of the State Constitution could provide the Court with the avenue to retreat from its earlier support of MAC-type legislation. (They have been a harsh Court on issues involving the finance articles of the Constitution, as is apparent from the *Flushing Bank* case and *Hurd* v. *City of Buffalo*, and the position taken by Chief Judge Breitel and Judge Jasen in *Wein* v. *Levitt* [42 N Y 2d 300].)

The so-called MAC litigation (*Quirk* v. *Wein*, 41 N Y 2d 644, app. dsmd. ___ U.S. ___, 54 L. Ed. 2d 66), as you know, decided only the "narrow" question whether City bondholders had a contract right in the sales and stock transfer tax revenues, holding that they did not.

The principal legal support for MAC is found in Wein v. City of New York (36 N Y 2d 610), wherein the Court of Appeals upheld the Stabilization Reserve Corporation Act over the objection, inter alia, that it was a device to circumvent the City's constitutional duty to pledge its full faith and credit behind its bonds. The decision in that case was not unanimous; three judges of the Court of Appeals dissented (Chief Judge Breitel and Associate Judges Jasen and Jones).

The proposed amendments to the MAC legislation would, for the first time, put MAC in the business of buying City bonds. Furthermore, once MAC buys the bonds, the City may at any time cancel its obligation on the bonds. Through mutation, the City bonds, by constitutional design in effect secured by the City real estate tax levy, become MAC bonds, actually repayable out of sales tax receipts, and thus revenue bonds which the City itself could not issue.

The potential reaction of the Courts to this new plan is, of course, speculative at best. Thus, Article VIII, section 12 of the State Constitution prohibits the Legislature from restricting the power to levy taxes on real estate for the payment of principal and interest on indebtedness. The Courts could construe this plan as so attractive to the City that it amounts not to an option but rather to an actual restriction on the City's power to rely on the real estate tax for debt service.

Moreover, the judges who dissented in Wein v. City of New York or the Court as a whole may, if the question is presented to them, wonder anew whether MAC-type legislation, viewed overall and not narrowly, is an impermissible subterfuge to avoid the constitutional design whereby cities are permitted to issue only general obligation bonds, secured by full faith and credit, rather than revenue bonds secured by specific revenues, such as sales taxes.

Of course, no one can predict the outcome of a future Court test. But the foregoing considerations indicate the need for caution.

Incidentally, it is noted that while the 1977 Legislature "repealed" the stock transfer tax, it is still being imposed, subject to rebate to the extent not needed to meet MAC's debt service requirements. With the growth in MAC's debt obligations proposed by this legislation, that repealer could, in years to come, become a mirage.

The foregoing comments should also be considered in light of the possible effect of this proposed legislation on pending Federal negotiations.

Best wishes.

Sincerely,

LOUIS J. LEFKOWITZ
Attorney General

cc: Hon. Judah Gribetz

USES AND SOURCES OF LONG-TERM FINANCING

($ in Millions)

USES (1)	FY 1979	FY 1980	FY 1981	FY 1982	Total
True Capital	$ 400	$ 500	$ 500	$ 700	$2,100
Capitalized Expenses	450	300	150	-	900
State Advance	400	200	200	-	800
MAC Capital Reserve	200	50	-	-	250
MAC Refunding	-	450	-	-	450
	$1,450	$1,500	$ 850	$ 700	$4,500
SOURCES					
City Pension Funds					
Guaranteed (2)	$ 200	$ 250	$ -	$ -	$ 450
MAC (3)	287	272	175	-	734
City (4)	-	-	111	155	266
State Pension Funds					
Guaranteed	200	250	-	-	450
Financial Institutions					
MAC (3)	287	272	175	-	734
City (4)	-	-	111	155	266
Public					
MAC (5)	476	456	-	-	932
City (6)	-	-	278	390	668
	$1,450	$1,500	$ 850	$ 700	$4,500

---

(1) Assumes $265 million reduction in true capital expenditures from Revised Four Year Plan and a $110 million reduction in MAC refunding; the MAC refunding would be effected as market conditions permit and the capital spending would be deferred.

(2) Guaranteed bond proceeds to be used for true capital projects.

(3) Sales of MAC bonds to City Pension Funds and to Financial Institutions would be used, along with a portion of MAC's public sales, to bond the State Advance and to fund capitalized expenses, with the proceeds to be taken down in July of the indicated fiscal year; these sales, equal in amount for the Pension Funds and the Financial Institutions, are the amount of maturing City and MAC securities held by the Pension Funds in each year, except in fiscal 1981 when a portion of the funds to be rolled over is invested in City bonds with the proceeds to be used for true capital purposes.

(4) These sales of City bonds, to be used for true capital purposes, will be effected only if the City achieves an investment grade rating; otherwise they would be MAC bonds. For 1981 the amount to be invested
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PYFP/NY 111

LIFE INSURANCE COUNCIL OF NEW YORK
INCORPORATED
630 Fifth Avenue
New York, New York 10020
(212) 489-9694

PETER J. FLANAGAN
President

TO: Participants at the "Big Mac" meeting on April 24, 1978

Enclosed for your information you will find a listing of those who attended the meeting at the Equitable Life on April 24, 1978.

As stated at the conclusion of the meeting, John T. Fey, Equitable, and John A. Fabian, Home Life are jointly designated as our liaison with Mr. Felix Rohatyn and his staff at MAC.

Peter J. Flanagan

PJF:nl
Enclosure

4/26/78

RECEIVED
MUNICIPAL ASSISTANCE CORPORATION
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MCS
SJW
GDG ✓

A.M.
P.M.
MAIL
HAND

PARTICIPANTS AT THE "BIG MAC" MEETING ON APRIL 24, 1978

Name	Affiliation
Bladen, Ashly	Guardian Life
Burtt, Carleton	Equitable Life
Ehlers, Walter	TIAA
Fabian, John A.	Home Life
Flanagan, Peter J.	LICONY
Fey, John T.	Equitable Life
Gould, George P.	MAC
Herzog, Harold K.	New York Life
Jenkins, George	Metropolitan Life
Kehrli, Ronald L.	Franklin United
Keilin, Eugene	MAC
Keiter, William E.	New York Life
Lundvall, Robert	Columbian Mutual
Rohatyn, Felix	MAC
Romaine, Henry S.	Mutual Of New York
Strong, Herbert	Mutual Of New York
Taylor, Mervyn L.	IDS Life
Toia, Philip	N.Y.C.
Tobin, Steven M.	Beneficial National Life

	F 79	F 80	F 81	F 82	Total
True Capital	325	375	450	550	1,700
Capitalized Exp.	450	300	150	-	900
State Advance	25	225	225	325	800
MAC Refunding	100	100	100	100	400
MAC Reserve	50	50	50	25	175
TOTAL	950	1,050	975	1,000	3,975
Fed. Guaranteed	500	500	*	*	1,000
Other	450	550	975	1,000	2,975

*About $650MM, on a contingency basis, divided between F 81 and F 82.

NYC

($ In Millions)

NEW YORK CITY EXPENDITURES BY TYPE FY 77-82*

	FY 1977[1]	FY 1978[2]	FY 1979	FY 1980	FY 1981	FY 1982
I. PERSONAL SERVICE						
1. Salaries & Wages - Human Services (Health & Welf.)						
2. " " - Education (including Higher Ed)						
3. " " - Uniformed Services						
4. " " - Other Agencies						
5. Pensions						
6. Other Fringe Benefits						
II. OTHER THAN PERSONAL SERVICES						
7. Administrative OTPS (Supplies, eg. etc.)						
8. Contractual Services						
9. Public Assistance						
10. Medical Assistance						
11. Health & Hospitals Corporation:						
- General Support						
- Medicaid						
12. Covered Agency Support & Various Subsidies						
III. DEBT SERVICE						
13. City Debt Service						
14. MAC Debt Service Funding						
IV. GENERAL RESERVE						
TOTAL EXPENDITURES						
15. (Less) Intra-City Expenditures						
NET TOTAL EXPENDITURES						

Notes on Table of Expenditures

1 From NYC Financial Plan (1/20/78)
2 Through Modification #13

*Source New York City Financial Plan 4/26/78

NEW YORK CITY REVENUES BY TYPE FY 77-82*

($ In Millions)

	FY 1977[1]	FY 1978[2]	FY 1979	FY 1980	FY 1981	FY 1982
1. General Property Tax						
2. General Sales Tax						
3. Personal Income Tax						
4. Business Taxes[3]						
5. Other Taxes[4]						
6. Charges, Permits & Fines[5]						
7. Other City Revenues[6]						
8. Unrestricted Federal Aid						
9. Unrestricted State Aid						
10. Categorical Federal Aid						
11. Categorical State Aid						
12. Transfer From Capital Funds						
13. (Less) Provisions For Disallowances						
14. (Less) Tax Refunds						
TOTAL REVENUES						
15. (Less) Intra-City Revenues						
NET TOTAL REVENUES						

NOTES ON TABLE OF REVENUES

1 From NYC Financial Plan 1/20/78
2 Through Modification #13

* Source New York City Financial Plan 4/26/78

NOTES ON TABLE OF REVENUES (Continued)

3. Business Taxes include: General Corporation Tax, Financial Corporation Tax, Unincorporated Business Tax, Commerical Rent Tax, Utility Tax, Stock Transfer Tax, Vault Tax, Commercial Motor Vehicle Tax, Payment in lieu of Taxes, Hotel Occupancy Tax, Occupancy Tax, and Transportation Tax.

4. Other Taxes include: Cigarette Tax, Mortgage Tax, Conveyance of Real Property Tax, Auto Use Tax, Gas Tax, OTB Surtax, Horse Race Admissions Tax, and All Other Taxes.

5. Charges Permits & Fines include: Water & Sewer Charges, Motor Vehicle Registration Fees Highway Maintenance Fees, Licenses, Permits, Franchises & Privileges, Government Charges, and Fines & Forfeitures.

6. Other City Revenues include: Title IVA & XVI Settlement, OTB Revenues, Interest & Penalties, Railroad Reimbursement, Housing Revenues, Rental Income, Interest Income, Miscellaneous, and All Other Revenues not included above.

Eugene Keilin

As a follow up on the material I have sent you with respect to proposed New York City note auctions, the attached description of the role of the London Discount Houses vis-a-vis the British Treasury Bill Tender shows that there is nothing new under the sun.

For Your Comments | Please Approve

Return With Reply | Please Handle

Money Market Division
95 Wall-23rd

4/17/78

Phone Ext | Date

Up to September 1971 the treasury bill tender was dominated by certain rigid conventions, most of which have now ceased to operate. The most important of these was that the members of the London Discount Market Association submitted tenders at an identical price agreed among themselves—the 'syndicated bid'. The other conventions were: (1) the discount houses accepted an informal obligation to submit tenders for at least the total amount of bills on offer—'to cover the tender'; (2) the London clearing banks agreed not to tender on their own behalf and not to buy bills less than seven days old; (3) the London clearing banks do not normally sell on their own initiative bills which they have taken into their portfolios, but hold them to maturity unless the Bank of England wishes to buy them as part of its operations. The last convention was more a matter of custom than of agreement, and probably still obtains. Of the other conventions only the informal obligation to cover the tender remains.

The syndicated bid, like many other conventions of the discount market, dates back to 1935, and came into being as a means of enabling the discount houses to survive in the face of declining yields on treasury bills. Each Friday the London Discount Market Association met to agree a common rate at which members would tender for treasury bills, and at the same meeting they agreed prices at which they would sell treasury bills and the minimum price at which they would discount prime bank bills (bills payable in the United Kingdom and accepted by an accepting house, a London or Scottish clearing bank, one of the larger British overseas banks or one of the Commonwealth banks which have had branches in London for many years). The other side of the coin to the syndicated bid was the informal obligation to cover the tender. Each house was given a quota calculated according to a formula based on its capital and resources, and its total bid was for this quota, or occasionally for slightly more. All members were bound by the agreed price, except that each house could bid at a price equivalent to $\frac{1}{16}$% per annum higher for up to 15% of its quota if it had special commitments to customers.

Although the authorities stated to the Radcliffe Committee that they set great store by this arrangement, all that remains after the drastic changes of September 1971 is the informal obligation to cover the tender. Each discount house now bids on its own for as many bills as it wants. In order to make the obligation to cover the tender effective, however, a remnant of the syndicated bid still exists. In addition to bidding for the bills which it really wants at its own price each house has to submit a bid for the remainder of its quota, and this part of the bid is at a rate agreed by the L.D.M.A. each week; if the rate for this part of the bid were not agreed, individual houses could effectively leave the others to take up the bills by bidding extra low.

If the discount houses were completely free agents, they would decide their bids solely on their assessment of the profitability of holding treasury bills over the next three months, and the most important factor would be their guess as to the future level of interest rates. If rates were expected to go up, the houses would not want bills because the cost of borrowing would rise and they would suffer capital losses when they sold the bills. Conversely they would want as many bills as possible if they thought that rates were likely to go down. However, the discount houses are not completely free agents. They are relatively small bodies, poised uneasily between the Bank of England on one side and the large banks on the other, and both the Bank of England and the large banks are in a position to raise the average cost of borrowing to the discount houses if they are displeased.

The bidders at the tender can be divided into three groups: (1) the discount houses, (2) the Bank of England on behalf of its customers (mainly overseas central banks) and (3) all the others (known collectively as the 'outsiders'). When the syndicated bid was in force, things were so arranged that the bid of the Bank of England on behalf of its customers was always satisfied in full, but since September 1971 even the Bank of England has been unsuccessful at the tender on occasion. The proportion of the amount of treasury bills allotted which the discount houses secure at the tender fluctuates widely from week to week. When the syndicated bid was in force, an approximation to the allotment received by the discount houses could be made by assuming that it was equal to the proportion allotted at the minimum price: because the syndicate covered the tender, nobody bidding below the discount houses received any bills. During the first six months of 1971 the discount houses received no allotment on four occasions; taking this into account an estimate of their average allotment over the period is 45%.

Excerpted from <u>The British Financial System</u> by Jack Revell, pp. 225-226.

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : April 24, 1978

To : Legislative Staff Members

From: Municipal Assistance Corporation For The City of New York

Re : Proposed Legislation

At our last meeting to discuss proposed legislation respecting the Corporation's debt issuing authority, certain information was requested. The purpose of this memorandum is to furnish that information. The City's future financing plans, which bear on the Corporation's future financing plans, are still under discussion. However, we believe it is important to proceed to finalize the legislation and therefore furnish you with this memorandum and a new draft of the legislation at this time.

Table I of this memorandum shows debt service payment requirements for debt outstanding at present. Tables II to IV of this memorandum set forth the effect of approximately \$3.1 billion of debt issuance by the Corporation.

This amount of debt represents the maximum amount issuable under the proposed legislation. It is assumed that this debt is issued at 7.5% for up to thirty years.

TABLE I

Debt Service on Presently Outstanding MAC Bonds
($ millions)

FY Ending 6/30	First General Bond Resolution	Second General Bond Resolution	Total
1979	303.4	195.0	498.4
1980	321.9	195.0	516.8
1981	307.6	220.0	527.7
1982	298.5	219.2	517.8
1983	376.6	228.8	605.4
1984	376.1	251.3	627.4
1985	329.3	251.2	580.5
1986	378.0	250.0	627.9
1987	371.2	250.7	621.9
1988	373.3	253.3	626.7
1989	377.3	250.7	627.9
1990	375.1	247.9	623.0
1991	373.2	244.3	617.5
1992	373.2	246.0	619.2
1993	365.5	256.4	621.9
1994	365.5		365.5
1995	356.8		356.8
TOTAL	$6,022.5	$3,559.8	$9,582.3

TABLE II

Debt Service on Presently Outstanding and Additional $625 Million First Resolution Debt
($ millions)

FY Ending 6/30	Debt Service On: Presently Outstanding Debt	Debt Service On: Additional $625 million Debt	Total*
1979	$ 303.4	$ 27.3	$ 330.8
1980	321.9	46.9	368.7
1981	307.6	46.9	354.5
1982	298.5	46.9	345.4
1983	376.6	46.9	423.5
1984	376.1	46.9	423.0
1985	329.3	46.9	376.2
1986	378.0	46.9	424.8
1987	371.2	46.9	418.1
1988	373.3	46.9	420.2
1989	377.3	46.9	424.1
1990	375.1	46.9	421.9
1991	373.2	46.9	420.0
1992	373.2	46.9	420.0
1993	365.5	46.9	412.4
1994	365.5	46.9	412.3
1995	356.8	46.9	403.6
1996		73.6	73.6
1997		73.6	73.6
1998		73.6	73.6
1999		73.6	73.6
2000		73.6	73.6
2001		73.6	73.6
2002		73.6	73.6
2003		73.6	73.6
2004		73.6	73.6
2005		73.6	73.6
2006		73.6	73.6
2007		73.6	73.6
2008		73.6	73.6
2009		73.6	73.6
TOTAL	$6,022.5	$1,808.8	$7,831.30

* The Corporation has covenanted not to exceed maximum annual debt service of $425 million for debt issued under the First General Bond Resolution.

TABLE III

Debt Service on Presently Outstanding and Additional
$2,475 Million Second Resolution Debt
($ millions)

FY Ending 6/30	Debt Service On: Presently Outstanding Debt	Debt Service On: Additional $2,400 million Debt	Total*
1979	$ 195.0	$ 185.6	$ 380.6
1980	195.0	185.6	380.6
1981	220.0	185.6	405.6
1982	219.2	185.6	404.8
1983	228.8	185.6	414.4
1984	251.3	185.6	436.9
1985	251.2	185.6	436.8
1986	250.0	185.6	435.6
1987	250.7	185.6	436.3
1988	253.3	185.6	438.9
1989	250.7	185.6	436.3
1990	247.9	185.6	433.5
1991	244.3	185.6	429.9
1992	246.0	185.6	431.6
1993	256.4	185.6	442.0
1994		270.7	270.7
1995		270.7	270.7
1996		270.7	270.7
1997		270.7	270.7
1998		270.7	270.7
1999		270.7	270.7
2000		270.7	270.7
2001		270.7	270.7
2002		270.7	270.7
2003		270.7	270.7
2004		270.7	270.7
2005		270.7	270.7
2006		270.7	270.7
2007		270.7	270.7
2008		270.7	270.7
2009		270.7	270.7
TOTAL	$3,559.9	$7,115.2	$10,675.1

* The Corporation has covenanted to a 2.0 time coverage lost for new issuances of Second Resolution Debt. Assuming approximately $1 billion of available reserve for Second Resolution purposes would imply a maximum annual debt service of $500 million.

TABLE IV

Debt Service on Combined First and Second Resolution Debt After Issuance of $3,025 Million of Debt
($ millions)

FY Ending 6/30	First General Bond Resolution	Second General Bond Resolution	Total
1979	$ 330.8	$ 380.6	$ 711.4
1980	368.7	380.6	787.8
1981	354.5	405.6	760.1
1982	345.4	404.8	750.2
1983	423.5	414.4	837.9
1984	423.0	436.9	859.9
1985	376.2	436.8	813.0
1986	424.8	435.6	860.4
1987	418.1	436.3	854.4
1988	420.2	438.9	859.1
1989	424.1	436.3	860.4
1990	422.0	433.5	855.5
1991	420.0	429.9	849.9
1992	420.0	431.6	851.6
1993	412.4	442.0	854.4
1994	412.4	270.7	683.1
1995	403.6	270.7	674.3
1996	73.6	270.7	344.3
1997	73.6	270.7	344.3
1998	73.6	270.7	344.3
1999	73.6	270.7	344.3
2000	73.6	270.7	344.3
2001	73.6	270.7	344.3
2002	73.6	270.7	344.3
2003	73.6	270.7	344.3
2004	73.6	270.7	344.3
2005	73.6	270.7	344.3
2006	73.6	270.7	344.3
2007	73.6	270.7	344.3
2008	73.6	270.7	344.3
2009	73.6	270.7	344.3
TOTAL	$7,831.3	$10,675.1	$18,506.4

It can be seen that the issuance of approximately $3 billion bonds would not cause the Corporation to exceed its coverage tests. You will recall that the applicable coverage tests are as follows:

1. For First Resolution Bonds, debt service is not to exceed $425 million per annum.

2. For Second Resolution Bonds, debt service is not to exceed one-half the total revenues available for payment of Second Resolution Bonds. Under this test allowable debt service is currently $550 million (1.5 billion in sales tax, stock transfer tax and per capita aid less $425 million for payment of First Resolution Bonds).

A request was made for information respecting the amounts, and actual maturities of the Corporation's bonds by series. Such information is set forth in the Quarterly Report of the Corporation furnished herewith.

A request was also made for information respecting the amounts and maturities of City bonds outstanding. That information is enclosed as Exhibit A.

Debt Service on Gross Funded Debt and Provisions for Retirement of Net Funded Debt

(Includes long term debt of Long Term Debt Group of Accounts and Housing Enterprise Fund)

Fiscal Year Ending June 30	(1) Total Debt Service (Columns 2 and 5)	(2) Interest on Funded Debt	(3) Redemption of Serial Bonds	(4) Sinking Fund Installments (1)	(5) Total Retirement Charges (Columns 3 and 4)	(6) Earnings of Sinking Funds (2)	(7) Provisions for Retirement of Net Funded Debt (Columns 5 and 6)
1978	$ 1,428,409,977 48	$ 471,150,146 48	$ 945,893,240 00	$11,366,591 00	$ 957,259,831 00	$ 28,746,607 00	$ 986,006,438 00
1979	1,274,658,101 67	398,829,154 67	865,284,240 00	10,544,707 00	875,828,947 00	27,439,428 00	903,268,375 00
1980	986,177,186 50	336,075,606 50	639,904,040 00	10,197,540 00	650,101,580 00	25,359,502 00	675,461,082 00
1981	815,837,579 94	278,119,119 94	531,319,240 00	6,399,220 00	537,718,460 00	10,005,472 00	547,723,932 00
1982	674,857,440 90	237,713,685 90	431,820,240 00	5,323,515 00	437,143,755 00	7,931,843 00	445,075,598 00
1983	628,545,598 09	207,326,388 09	416,186,240 00	5,032,970 00	421,219,210 00	8,038,417 00	429,257,627 00
1984	583,545,189 05	178,144,979 05	400,367,240 00	5,032,970 00	405,400,210 00	8,559,425 00	413,959,635 00
1985	501,358,338 99	149,727,949 99	346,599,240 00	5,031,149 00	351,630,389 00	9,093,836 00	360,724,225 00
1986	367,951,012 49	130,070,623 49	232,849,240 00	5,031,149 00	237,880,389 00	9,658,836 00	247,539,225 00
1987	326,227,818 47	115,439,069 47	205,757,600 00	5,031,149 00	210,788,749 00	8,928,085 00	219,716,834 00
1988	287,922,642 73	101,333,354 73	182,396,600 00	4,192,688 00	186,589,288 00	7,570,321 00	194,159,609 00
1989	246,963,151 97	88,288,220 97	155,588,600 00	3,086,331 00	158,674,931 00	5,257,216 00	163,932,147 00
1990	213,644,240 23	76,595,302 23	135,096,600 00	1,952,338 00	137,048,938 00	3,199,132 00	140,248,070 00
1991	183,551,762 97	66,249,875 97	116,351,600 00	950,287 00	117,301,887 00	1,868,946 00	119,170,833 00
1992	149,246,153 73	59,061,479 73	89,705,100 00	479,574 00	90,184,674 00	405,480 00	90,590,154 00
1993	140,857,730 97	53,719,500 97	87,035,100 00	103,130 00	87,138,230 00	305,911 00	87,444,141 00
1994	132,056,747 23	49,053,517 23	82,900,100 00	103,130 00	83,003,230 00	322,273 00	83,325,503 00
1995	123,871,560 97	44,583,330 97	79,185,100 00	103,130 00	79,288,230 00	339,288 00	79,627,518 00
1996	116,680,501 60	40,234,771 60	76,342,600 00	103,130 00	76,445,730 00	356,986 00	76,802,716 00
1997	109,219,860 35	36,039,130 35	73,077,600 00	103,130 00	73,180,730 00	325,301 00	73,506,031 00
1998	99,351,815 35	31,694,215 35	67,657,600 00	......	67,657,600 00	......	67,657,600 00
1999	90,252,145 35	28,060,545 35	62,191,600 00	......	62,191,600 00	......	62,191,600 00
2000	82,485,390 35	24,753,790 35	57,731,600 00	......	57,731,600 00	......	57,731,600 00
2001	75,581,327 85	21,665,327 85	53,916,000 00	......	53,916,000 00	......	53,916,000 00
2002	65,285,562 85	18,809,562 85	46,476,000 00	......	46,476,000 00	......	46,476,000 00
2003	57,057,485 35	16,471,485 35	40,586,000 00	......	40,586,000 00	......	40,586,000 00
2004	48,660,357 85	14,429,357 85	34,231,000 00	......	34,231,000 00	......	34,231,000 00
2005	38,327,030 35	12,746,030 35	25,581,000 00	......	25,581,000 00	......	25,581,000 00
2006	36,520,782 85	11,419,782 85	25,101,000 00	......	25,101,000 00	......	25,101,000 00
2007	35,534,770 35	10,098,770 35	25,436,000 00	......	25,436,000 00	......	25,436,000 00
2008	34,531,760 35	8,760,760 35	25,771,000 00	......	25,771,000 00	......	25,771,000 00
2009	33,580,085 35	7,404,085 35	26,176,000 00	......	26,176,000 00	......	26,176,000 00
2010	32,596,395 35	6,035,395 35	26,561,000 00	......	26,561,000 00	......	26,561,000 00
2011	31,201,965 35	4,645,965 35	26,556,000 00	......	26,556,000 00	......	26,556,000 00
2012	27,882,652 85	3,266,652 85	24,616,000 00	......	24,616,000 00	......	24,616,000 00
2013	23,233,572 85	2,052,572 85	21,181,000 00	......	21,181,000 00	......	21,181,000 00
2014	16,031,467 85	1,065,467 85	14,966,000 00	......	14,966,000 00	......	14,966,000 00
2015	6,468,020 35	352,020 35	6,116,000 00	......	6,116,000 00	......	6,116,000 00
2016	719,835 35	68,835 35	651,000 00	......	651,000 00	......	651,000 00
2017	664,765 35	38,765 35	626,000 00	......	626,000 00	......	626,000 00
2018-2147	712,704 95	584,204 95	128,500 00	......	128,500 00	......	128,500 00
	$10,128,262,490 78	$ 3,342,178,802 78	$ 6,705,915,860 00	$80,167,828 00	$6,786,083,688 00	$163,712,305 00	$6,949,795,993 00

(1) "These installments will be reduced to the extent that the funds earn in excess of 4% on investments. The Comptroller expects the future earnings of the funds to be sufficient to eliminate the need for future installments."

(2) These computations are based on a 4% interest earnings assumption pursuant to paragraph 276 of Chapter 868 of the laws of 1975.

F4FP/prop

State of New York
Municipal Assistance Corporation
For The City of New York

MEMORANDUM

April 7, 1978

TO: The Directors and Representatives of the Municipal Assistance Corporation

FROM: Felix G. Rohatyn - Eugene Keilin

On January 11 we suggested to the Board that we were about to enter an unpredictable storm. We are there now and will stay there until June 30, 1978.

Since our memorandum of January 11 several positive things had happened. First, the City and the State agreed upon a budget. Second, the Administration and the Moorehead Committee came out with a Federal financing plan based on long-term guarantees.

As a result the market for our bonds recovered significantly, despite Sen. Proxmire's continued opposition, and we had started consultations with the Treasury, the financial community and the City unions on the elaboration of a detailed $4.5 billion financing plan to take to the Congress. We were confident of being able to construct such a plan by the latter part of April in order to permit the legislative process to go forward in Congress.

Critical to this was a citywide labor agreement by March 31 on terms that would be clearly and credibly payable within the limits of the City's financial plan. The settlement with the Transit workers without a concurrent settlement with the City unions has created an unresolved situation which cannot be permitted to continue much longer without serious reprecussions for all. It is not within the purviews of MAC to pass judgement on labor contracts. This is a function for the EFCB which, we trust, will act promptly. We however, have a responsibility for financing and it is in the context of financing that the MAC Board should examine the present situation.

1. A stalemate exists, at present, between the City and its unions. A lengthy stalemate will simply destroy whatever chances we may have had in

Washington to obtain long-term financing. It is my judgement that, this issue must be satisfactorily resolved by April 21st, lest we jeopardize the guarantees.

2. The City and unions appear to be so far apart at present that, unless a deadline is set by a third party who can make it stick, resolution seems unlikely. The only party who can create such a deadline and make it credible, is the Secretary of the Treasury by setting a date for settlement. It is conceivable that beyond that date, the Administration might withdraw its support for long-term guarantees. In addition, the Secretary might consider having a representative present during the negotiations.

3. If a settlement is reached, on terms the City can clearly afford, a major effort will have to be made in Congress to restore the City's credibility. This makes a simple, austere, non-gimmicky settlement all the more vital.

We cannot assume that this will happen and must therefore begin to plan for worst-case.

1. During the next 60 days, the City Pension systems are required to invest $700 million in City bonds as the final part of their $2.5 billion commitment entered into in December 1975. Controller Goldin has indicated, unequivocally, that he would vote against the investment unless he had clear indication of Congressional action for a post-June Federal credit role. On the assumption this money is not forthcoming, we must examine with the City how much of the City's excess cash can be used to reduce the amount needed and MAC must attempt to make up the difference through a public offering or private placement or both. How much money we could raise, and at what cost, is obviously unpredictable at this time.

2. We have asked counsel to review the Credit Agreement of December 1975 in order to determine the legal commitments of the Pension Fund trustees and to advise us of our own responsibilities.

3. If we successfully surmounted this particular hurdle we would probably have to fall back on some kind of extension of the Federal Seasonal Loan to avoid

bankruptcy on June 30th. As you know, it is my judgement that a simple extension of the Seasonal Loan does not solve any of our fundamental problems but merely postpones the date when those problems have to be solved or bankruptcy faced. Nevertheless it would obviously be our duty to cope with such a situation as best we could with the following uncertainties:

i) Depending on what is done about the accelerated phaseout of capital expense items, etc., the City would face an additional budget gap of possibly significant magnitude next year which could only be offset by major cuts.

ii) As much as $1 billion of long-term financing might have to be raised, entirely by MAC, during the 6/30/78 - 6/30/79 period. The market, in my judgement, is most unlikely to absorb anything like this, under the circumstances. A major part thereof would thus have to be placed privately with banks and pension systems.

iii) With respect to Seasonal financing, since the State advance could obviously not be refunded, the requirements for Seasonal financing would remain close to $2 billion. If a reduction in Seasonal financial is legislated, the City could not go to market with its own notes, in my judgement. Moody's has informed us that, absent an overall financing plan involving both long and short term, they could not give us a definite answer with respect to a rating on MAC notes. Seasonal requirements, as a practical matter, would have to continue 100% from the Federal Government.

There are other issues of importance that are being left in abeyance as a result of the current situation. In addition to State legislation increasing MAC's borrowing authority, there is the key issue of the successor to the EFCB, the long-term fiscal monitor, which must be resolved and legislated.

Our memorandum of January 11 pointed out the fact that so little margin for error existed in the various senarios we are facing. Whatever margins existed are rapidly disappearing

City and MAC Debt Service

Four-Year Plan

	1979	1980	1981	1982
City				
Long	1,427	1,338	1,262	1,213
Short	108	98	79	55
MAC	466	474	497	555
TOTAL	2,001	1,910	1,838	1,823

Revised Estimates*

City	1428	1381	1353	1357
Long	1,427	1,343	1,280	1,247
Short	108	98	79	55
MAC	445	415	430	503
TOTAL	1,980	1,856	1,789	1,805
	1981	1894	1864	1817

* MAC Revised and City Bricks & Mortar 15-year maturities; OC's 20-year maturities; BAN Bond.

Pool - 10 year maturities

5/10/79

City and MAC Debt Service

Four-Year Plan

	1979	1980	1981	1982
City				
Long	1,427	1,338	1,262	1,213
Short	108	98	79	55
MAC	466	474	497	555
TOTAL	2,001	1,910	1,838	1,823

Revised Estimates*

	1979	1980	1981	1982
City				
Long	1,427	1,343	1,280	1,247
Short	108	98	79	55
MAC	445	415	430	503
TOTAL	1,980	1,856	1,789	1,805

* MAC Revised and City Bricks & Mortar 15-year maturities; OC's 20-year maturities; BAN Bond.

FYPP / Proposals

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 5 April 1978

To : Dr. Jackson Phillips, Moody's Investors Service, Inc.

From: Eugene J. Keilin, Executive Director

Re : MAC Notes

If Federal legislation is enacted to provide long-term loans or bond guarantees for The City of New York rather than a renewal of the Federal Seasonal Loan Program, alternative forms of seasonal financing for the City will be required after June 1978. It is assumed that the City's seasonal borrowing needs for fiscal 1979 could be reduced to approximately $1 billion. Part of the seasonal financing could be provided by a public sale of approximately $500 million of MAC notes. These notes would be issued during the first few months of the 1979 fiscal year (between July and September 1978) and be payable during the last few months of the 1979 fiscal year (in April and June 1979). It is assumed that these notes would be issued only as part of a comprehensive plan which provides for all of the City's seasonal and long-term financing requirements.

MAC would issue these notes under a new Note Resolution, to be adopted by the Corporation. At present, the Corporation has no notes outstanding; previously, the Corporation has issued notes only for private placement. The new Note Resolution would provide, among other things, that the notes would have a charge or lien with respect to State per capita aid payable to the City pursuant to Section 54 of the State Finance Law ("Per Capita Aid"), State sales and compensating use taxes imposed by Section 1107 of Article 28 of the State Tax Law ("Sales Tax") and the State tax on sale or transfer of stock or other certificates imposed by Section 270 of Article 12 of the State Tax Law ("Stock Transfer Tax"), all of which are available to the Corporation under its enabling legislation. While such claims of the new notes would be legally subordinate to bonds issued under the Corporation's existing resolutions, as explained below, the revenues available to the Corporation after funding debt service on those bonds would be more than sufficient to pay the notes, as demonstrated below.

A capital reserve fund would not be established for the MAC notes, inasmuch as all of the obligations would mature within a year. Issuance of the MAC notes would require certain amendments to the Corporation's enabling legislation with regard to its issuance authorization and purpose of its payments to the City.

MAC is entitled to receive Per Capita Aid on June 25 of each year, and is entitled to receive Sales Tax and Stock Transfer Tax revenues, as collected, on October 12, January 12, April 12, and June 30 of each year. To maximize the seasonal financing for the City, the notes would be payable to the extent possible at the end of June 1979 in order to minimize the revenues which MAC would have to take earlier in the year.

A projected total of $1.5 billion in revenues will be available to MAC in fiscal 1978 from the three State sources, as follows: $914 million in Sales Tax; $250 million in Stock Transfer Tax; and $350 million in Per Capita Aid (net of possible prior claims).

In fiscal 1979, assuming the levels of State tax collections and State aid projected in the City's four-year financial plan, a total of $1.65 billion will be available to MAC as follows: $959 million in Sales Tax; $250 million in Stock Transfer Tax; and $442 million in Per Capita Aid (net of possible prior claims). Revenue projections for each of the dates on which MAC certifies its revenue needs are set out in Table I.

TABLE I

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Projected Revenues for 1978 and 1979
(in $ millions)

	FUNDING DATE					
	10/12	1/12	4/12	6/25	6/30	Total
1978 (1)						
Sales Tax	229.8	224.0	265.1		195.2	914.1
Per Capita Aid (Net)				350.0		350.0
Stock Transfer Tax (3)	55.0	62.5	70.0		62.5	250.0
	284.8	286.5	335.1	350.0	257.7	1514.1
1979 (2)						
Sales Tax	241.1	235.1	278.1		204.7	959.0
Per Capita Aid (Net)				442.0		442.0
Stock Transfer Tax (3)	55.0	62.5	70.0		62.5	250.0
	296.1	297.6	348.1	442.0	267.2	1651.0

(1) from Financial Plan Statements for New York City, January 1978
(2) from The City of New York Four-Year Financial Plan, Fiscal Years 1979-1982

(3) estimate

Obligations issued by the Corporation under its First General Bond Resolution adopted July 2, 1975 ("First Resolution") are payable out of the Sales Tax and Stock Transfer Tax revenues. Obligations issued by the Corporation under its Second General Bond Resolution adopted November 25, 1975 ("Second Resolution") are payable out of the State Per Capita Aid and, subject to prior claims of First Resolution obligations, out of the Sales and Stock Transfer Tax revenues. All MAC obligations presently outstanding are bonds which have been issued under either the First Resolution or Second Resolution.

Aggregate 1979 MAC debt service funding requirements on all obligations currently outstanding are $312,657,000 under the First Resolution, and $195,703,000 under the Second Resolution, for a total of $508,360,000. Assuming the issuance of some additional MAC bonds as a part of the implementation of the City's four-year financial plan, the total funding requirements would increase by about $60 million (without taking account of any decrease in such requirements due to either possible refunding or receipt of payments on City obligations), to a total of $568,360,000. In addition, MAC operating expenses are projected to be $5.5 million. Debt service funding requirements for each MAC certification date are set out in Table II.

TABLE II

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Projected Funding Requirements for 1979
(in $ millions)

	FUNDING DATE					
	10/12	1/12	4/12	6/25	6/30	Total
Presently Outstanding Bonds						
First Resolution	75.9	75.9	80.5		80.5	312.8
Second Resolution	49.1	49.1	49.1	48.4		195.7
Operating Fund					5.5	5.5
Total	125.0*	125.0	129.6	48.4	86.0	514.0
Projected Additional Debt**	15.0	15.0	15.0	6.0	9.0	60.0
TOTAL	140.0*	140.0	144.6	54.4	95.0	574.0

* Assumes bonding of remaining 1979 capital reserve fund requirements of approximately $50 million; if not bonded, the funding requirements for Oct. 12, 1978 would be increased by that amount.

** Assumes a conservative case -- implementation of New York City Four-Year Financial Plan, but does not include the effects of payments from the City to MAC on any City obligation held by MAC.

These figures indicate that there would be more than $1 billion available to MAC in fiscal 1979 to cover debt service on the proposed notes, after providing for all debt service funding requirements for all MAC obligations presently outstanding and those contemplated to be issued in the City's four-year financial plan, as required by the First and Second Resolutions. Accordingly, the Note Resolution would provide that the claims of the notes to be issued thereunder would be subordinate to the claims of any obligations issued under the First Resolution and the Second Resolution.

In either case, these revenue projections indicate that there would be at least $203 million available to MAC in April 1979 and $560 million in June 1979, after meeting all First Resolution and Second Resolution funding requirements, as shown in Table III.

TABLE III

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Projected Additional Debt Carrying Capacity for 1979
(in $ millions)

	FUNDING DATE					
	10/12	1/12	4/12	6/25	6/30	Total
1979 Revenues[1]						
Sales Tax	241.1	235.1	278.1		204.7	959.0
Per Capita Aid (Net)				442.0		442.0
Stock Transfer Tax	55.0	62.5	70.0		62.5	250.0
Less: Total Funding Requirements[2]	140.0	140.0	144.6	54.4	95.0	574.0
AVAILABLE	156.1	157.6	203.5	387.6	172.2	1077.0

(1) from The City of New York Four-Year Financial Plan, Fiscal Years 1979-1982

(2) Includes debt presently outstanding and debt to be issued under City's Four-Year Financial Plan, and assumes bonding of capital reserve fund requirements.

These calculations indicate that the Sales Tax and Per Capita Aid revenues would alone be more than sufficient to pay principal and interest on $500 million in MAC notes on April 12, 1979 and June 30, 1979. However, the Stock Transfer Tax revenues, projected to be $250 million in 1979, are also available to MAC and, accordingly, are included in the above figures. The Stock Transfer Tax rebate program established by the State Legislature last year preserves both the tax and its availability to MAC if necessary to meet its debt service requirements.

MAC could expect to have available approximately $793 million in total revenues during April and June after providing funding for its First and Second Resolution bonds presently outstanding, or $763 million after providing funding for additional First and Second Resolution bonds as contemplated by the City's four-year financial plan. If $500 million in notes were issued, the expected total revenues would provide coverage of principal and interest of between approximately 1.5 and 1.6 to 1.0. Using the Sales Tax and Per Capita Aid revenues only, MAC could expect to have available between $631 and $661 million in April and June, which would provide coverage on $500 million in notes of between approximately 1.2 and 1.3 to 1.0.

In addition, the Corporation and the City are exploring the possibility of providing additional backing for the MAC notes in the form of short-term obligations of the City which would be issued and payable to the Corporation.

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 17 March 1978

To : Gedale Horowitz, Salomon Brothers

From: Eugene J. Keilin, Executive Director

Re : MAC Notes

If Federal legislation is enacted to provide long-term loans or bond guarantees for The City of New York rather than a renewal of the Federal Seasonal Loan Program, alternative forms of seasonal financing for the City will be required after June 1978. Part of the seasonal financing could be provided by a public sale of MAC notes. These notes would be issued during the first few months of the 1979 fiscal year (between July and September 1978) and be payable during the last few months of the 1979 fiscal year (in April and June 1979). It is assumed that these notes would be issued only as part of a comprehensive plan which provides for all of the City's seasonal and long-term financing requirements.

MAC would issue these notes under a new General Note Resolution, to be adopted by the Corporation. Such Note Resolution would provide, among other things, that the notes would have a charge or lien with respect to State per capita aid payable to the City pursuant to Section 54 of the State Finance Law ("Per Capita Aid"), State sales and compensating use taxes imposed by Section 1107 of Article 28 of the State Tax Law ("Sales Tax") and the State tax on sale or transfer of stock or other certificates imposed by Section 270 of Article 12 of the State Tax Law ("Stock Transfer Tax"), all of which are available to the Corporation under its enabling legislation. At present, the Corporation has no notes outstanding; previously, the Corporation has issued notes only for private placement.

MAC is entitled to receive Per Capita Aid on June 25 of each year, and is entitled to receive Sales Tax and Stock Transfer Tax revenues, as collected, on October 12, January 12, April 12 and June 30 of each year. To maximize the true seasonal financing for the City, the notes would be payable to the extent possible at the end of June 1979 in order to minimize the revenues which MAC would have to take earlier in the year.

A projected total of $1.5 billion in revenues will be available to MAC in fiscal 1978 from the three State sources, as follows: $914 million in Sales Tax; $250 million in Stock Transfer Tax; and $350 million in Per Capita Aid (net of possible prior claims).

In fiscal 1979, assuming the levels of State tax collections and State aid projected in the City's four-year financial plan, a total of $1.65 billion will be available to MAC as follows: $959 million in Sales Tax; $250 million in Stock Transfer Tax; and $442 million in Per Capita Aid (net of possible prior claims). Revenue projections for each MAC certification date are set out in Table I.

TABLE I

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Projected Revenues for 1978 and 1979
(in $ millions)

	FUNDING DATE					
	10/12	1/14	4/12	6/25	6/30	Total
1978 (1)						
Sales Tax	229.8	224.0	265.1		195.2	914.1
Per Capita Aid (Net)				350.0		350.0
Stock Transfer Tax						250.0
						1514.1
1979 (2)						
Sales Tax	241.1	235.1	278.1		204.7	959.0
Per Capita Aid (Net)				442.0		442.0
Stock Transfer Tax						250.0
						1651.0

(1) from Financial Plan Statements for New York City, January 1978
(2) from The City of New York Four-Year Financial Plan, Fiscal Years 1979-1982

Obligations issued by the Corporation under its First General Bond Resolution adopted July 2, 1975 ("First Resolution") are payable out of the Sales Tax and Stock Transfer Tax revenues. Obligations issued by the Corporation under its Second General Bond Resolution adopted November 25, 1975 ("Second Resolution") are payable out of the State Per Capita Aid and, subject to prior claims of First Resolution obligations, out of the Sales and Stock Transfer Tax revenues. All MAC obligations presently outstanding are bonds which have been issued under either the First Resolution or Second Resolution.

Aggregate 1979 MAC debt service funding requirements on all obligations currently outstanding are $312,657,000 under the First Resolution, and $195,703,000 under the Second Resolution, for a total of $508,360,000. Assuming the issuance of some additional MAC bonds as a part of the implementation of the City's four-year financial plan, the total funding requirements would increase by about $60 million (without taking account of any decrease in such requirements due to either possible refunding or receipt of payments on City obligations), to a total of $568,360,000. In addition, MAC operating expenses are projected to be $5.5 million. Debt service funding requirements for each MAC certification date are set out in Table II.

TABLE II

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Projected Funding Requirements for 1979
(in $ millions)

	FUNDING DATE					
	10/12	1/14	4/12	6/25	6/30	Total
Presently Outstanding Bonds						
First Resolution	75.9	75.9	80.5		80.5	312.8
Second Resolution	49.1	49.1	49.1	48.4		195.7
Operating Fund					5.5	5.5
Total	125.0	125.0	129.6	48.4	86.0	514.0
Projected Additional Debt*	15.0	15.0	15.0	6.0	9.0	60.0
TOTAL	140.0	140.0	144.6	54.4	95.0	574.0

* Assumes 'most conservative case' -- implementation of New York City Four-Year Financial Plan, but does not include the effects of payments from the City to MAC on any City obligation held by MAC.

These figures indicate that there would be more than $1 billion available to MAC in fiscal 1979 to cover debt service on the proposed notes, after providing for all debt service funding requirements for all MAC obligations presently outstanding and those contemplated to be issued in the City's four-year financial plan, as required by the First and Second Resolutions. Accordingly, the General Note Resolution would provide that the claims of the notes to be issued thereunder would be subordinate to the claims of any obligations issued under the First Resolution and the Second Resolution.

In either case, these revenue projections indicate that there would be at least $133 million available to MAC in April 1979 and $498 million in June 1979, exclusive of the Stock Transfer Tax revenues, after meeting all First Resolution and Second Resolution funding requirements, as shown in Table III.

TABLE III

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YROK

Projected Additional Debt Carrying Capacity for 1979
(in $ millions)

	FUNDING DATE					
	10/12	1/14	4/12	6/25	6/30	Total
1979 Revenues[1]						
Sales Tax	241.1	235.1	278.1		204.7	959.0
Per Capita Aid (Net)				442.0		442.0
Less: Total Funding Requirements[2]	140.0	140.0	144.6	54.4	95.0	574.0
AVAILABLE	101.1	95.1	133.5	387.6	109.7	827.0

(1) from The City of New York Four-Year Financial Plan, Fiscal Years 1979-1982

(2) Includes debt presently outstanding and debt to be issued under City's Four-Year Financial Plan.

The Stock Transfer Tax revenues, projected to be $250 million in 1979, are also available to MAC, but are not included in the above calculations because of the desirability of permitting them to be rebated to taxpayers under the rebate program established by the State Legislature last year. However, that rebate program preserves both the tax and its availability to MAC if necessary to meet its debt service requirements.

Using the above Sales Tax and Per Capita Aid projections, MAC could expect to receive approximately $691 million in revenues during April and June after providing funding for its First and Second Resolution bonds presently outstanding, or $631 million after providing funding for additional First and Second Resolution bonds pursuant to the City's four-year financial plan. These revenues could provide for payment of principal and interest on MAC notes on April 12, 1979 and June 30, 1979. If $500 million in notes were issued, the expected revenues would provide coverage of principal and interest of between approximately 1.2 and 1.4 to 1.0.

SOURCES (City-MAC Plan 3/13/78)

	Vehicle	FY '79	FY '80	FY '81	FY '82	Total
City Pension Funds	MAC 2	62.5MM	62.5MM	62.5MM	62.5MM	250MM
	Gtd. New Agency	250.0MM	250.0MM	-0-	-0-	500MM
	NYC	-0-	-0-	125.0MM	125.0MM	250MM
Financial Institutions	MAC 2	187.5MM	187.5MM	187.5MM	187.5MM	750MM
	NYC	-0-	-0-	125.0MM	125.0MM	250MM
State Pension Funds	Gtd. New Agency	250.0MM	250.0MM	-0-	-0-	500MM
Public Market	MAC 1	400.0MM	-0-	-0-	-0-	400MM
	MAC 2	100.0MM	500.0MM	-0-	-0-	600MM
	NYC	-0-	-0-	500.0MM	500.0MM	1,000MM
		1,250.0MM	1,250.0MM	1,000.0MM	1,000.0MM	4,500MM

COMMENTS

STATE CONSTITUTIONAL PROHIBITIONS AGAINST THE LENDING OF STATE CREDIT TO MUNICIPAL CORPORATIONS

INTRODUCTION

On September 5, 1975, Governor Hugh Carey of New York formally called the New York State Legislature into emergency session for the purpose of providing desperately needed financial assistance to the City of New York.[1] By this time, some two months after the adjournment of the 198th regular legislative session, New York City

1. Governor Carey stated that:

The City of New York is on the brink of financial collapse; an unparalleled disaster looms over it.

New York City is unable to raise the funds it needs to pay debts as they become due and to insure that essential municipal services continue uninterrupted. The doors to the capital markets have been closed to it directly, and now also indirectly. New York City's financial failure threatens to paralyze vital governmental functions, endangering the health, safety, and welfare of the more than 12 million people in the city and region. If not quickly and decisively contained and resolved, this crisis portends a severe financial risk for New York State and perhaps for the nation as well. . . .

Message of Necessity from the Governor to the State Legislature (Sept. 5, 1975), N.Y. Times, Sept. 6, 1975, at 8, col. 6. *See* N.Y. CONST. art. IV, § 3 (power to call emergency sessions); art. IX, § 2(b)(2) (purpose of message of necessity).

City officials appealed to the state legislature for massive amounts of financial aid when it became apparent that they did not possess the powers and resources necessary to respond adequately to the major economic, social, and political problems which the city confronted. *See generally* F. FERRETTI, THE YEAR THE BIG APPLE WENT BUST (1976).

Like most American cities, New York City is a municipal corporation created by the state legislature and has only those powers and privileges which the legislature confers upon it from time to time. *In re* Water Front of Upper New York Bay, 246 N.Y. 1, 157 N.E. 911 (1927), *cert. denied*, 276 U.S. 626 (1928). As a municipal corporation, it may thus do only that which the state allows. *See* Atkin v. Kansas, 191 U.S. 207 (1903). In order to cope with the crisis they faced, New York City officials had no other legal or financial choice than to appeal to the state legislature for emergency powers and monetary resources.

Historically, the principle that the state legislature is the source of all local governmental power, known as the "delegation doctrine," was first articulated by state courts during the period from the 1850's through the 1870's. *E.g.*, People v. Miner, 46 Ill. 384 (1868); Dennis v. Maynard, 15 Ill. 477 (1854); Anderson v. Kerns Draining Co., 14 Ind. 199 (1860); Davidson v. Otis, 24 Mich. 22 (1871); People v. Shephard, 36 N.Y. 285 (1866); People v. Draper, 15 N.Y. 532 (1857); Sharpless v. Mayor, 21 Pa. 147 (1853). *See also* 2 J. KENT, COMMENTARIES ON AMERICAN LAW 305 (6th ed. 1848) ("In respect to public or municipal corporations, which exist *only* for public purposes, as counties, cities, and was in the midst of the worst fiscal crisis in its history and appeared to be on the brink of defaulting on its outstanding obligations.[2]

towns, the legislature, under proper limitations, have [sic] a right to change, modify, enlarge, restrain, or destroy them. . . ." (emphasis in original). The classic statement of the "delegation doctrine," usually referred to as "Dillon's Rule," is:

> It is a general and undisputed proposition of law that a municipal corporation possesses, and can exercise, the following powers, and no others: First, those granted in *express words*; second, those *necessarily or fairly implied* in, or *incident* to the powers expressly granted; third, those *essential* to the declared objects and purposes of the corporation—not simply convenient, but indispensable.

1 J. DILLON, MUNICIPAL CORPORATIONS, § 55, at 173 (2d ed. 1873) (emphasis in original). *See generally* Herget, *The Missing Power of Local Governments: A Divergence Between Text and Practice in Our Early State Constitutions*, 62 VA. L. REV. 999 (1976) (framers' failure in early state constitutions to allocate governmental powers to local entities resulted in courts' construing municipal authority as having descended from the constitutional grant of powers to the state legislature).

2. Similar to other large cities, New York is heavily dependent upon borrowing to insure the adequate and efficient provision of services to its residents and commuters. The immediate budgetary crisis which prompted the emergency session of the state legislature resulted from the city's inability to borrow money through the issuance of bonds or notes in the tax-exempt municipal bond market. JOINT ECONOMIC COMM., 94TH CONG., 1ST SESS., NEW YORK CITY'S FINANCIAL CRISIS, AN EVALUATION OF ITS ECONOMIC IMPACT AND OF PROPOSED POLICY SOLUTIONS 3 (Comm. Print 1975). The city thus faced the prospect of imminent default in September, 1975, in the absence of dramatic new governmental action. MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK, ANNUAL REPORT 12 (1976) [hereinafter cited as MAC ANNUAL REPORT]. The long- and short-term debt required to finance various social services was so enormous that for several years New York City undertook the rather dubious accounting practice of "rolling over" its prior debts. Money was borrowed continually through the issuance of municipal bonds, primarily short-term bonds, at high rates of interest in order to repay previously borrowed money, thus swelling the short-term debt.

TABLE I

NEW YORK CITY BALANCE SHEET ITEMS
Fiscal Years Ending June 30
($ Millions)

	1970	1971	1972	1973	1974	1975	Change 1970-75
SHORT-TERM DEBT							
Budget Notes	–	308	461	308	308	–	–
Tax Anticipation Notes	170	206	232	265	317	380	+ 210
Revenue Anticipation Notes	537	1,066	1,180	887	1,798	2,560	+2,023
Bond Anticipation Notes (Including Notes for Limited Profit Housing)	468	587	688	957	909	1,570	+1,103
Urban Renewal Notes	55	94	86	94	84	30	– 25
TOTAL SHORT-TERM	1,229	2,291	2,647	2,511	3,416	4,540	+3,311
LONG-TERM DEBT (Net of Sinking Fund Assets)	4,361	4,714	5,515	6,007	6,734	6,798	+2,437
GRAND TOTAL	5,590	7,005	8,162	8,519	10,150	11,338	+5,748

In an effort to convince potential investors in City of New York Municipal Bonds and Municipal Assistance Corporation (MAC)[3] Bonds of the seriousness with which the state and city regarded this crisis, the legislature enacted comprehensive measures which had a major impact upon virtually every aspect of the governance and financing of the City of New York.[4] In so doing, the state assumed major re-

MAC ANNUAL REPORT at 8.

For further discussion of the causes of the economic and political problems which beset New York City, see F. FERRETTI, THE YEAR THE BIG APPLE WENT BUST (1976); JOINT ECONOMIC COMM., 94TH CONG., 1ST SESS., NEW YORK CITY'S FINANCIAL CRISIS, AN EVALUATION OF ITS ECONOMIC IMPACT AND OF PROPOSED POLICY SOLUTIONS (Comm. Print 1975); MAC ANNUAL REPORT, *supra*; Interview with Abraham Beame, Financing New York City, CHALLENGE, Sept./Oct., 1975, at 37; Newfield & DuBrul, *Banks to City: Drop Dead*, The Village Voice, Nov. 22, 1976, at 11; BUS. WEEK, Sept. 1, 1975, at 51; NEWSWEEK, Sept. 15, 1975, at 27, 31; N.Y. Times, Aug. 30, 1975, § 1, at 1, col. 6; *id.*, Sept. 28, 1975, § 4, at 14, col. 1; *id.*, Oct. 18, 1975, at 1, col. 4; T. Clark, Why Did New York Go Broke? And How Many Cities Will Follow? Eleven Wrong Answers and Eight Right Ones (Sept. 1976) (unpublished paper delivered at the American Bar Association National Institute on "Freedom from Fiscal Fiasco"; Washington, D.C., Dec. 2-3, 1976).

3. The Municipal Assistance Corporation for the City of New York was established by the State of New York on June 10, 1975. Its two statutory purposes are to assist the city in providing essential services to its inhabitants without interruption, and to instill investor confidence in the debt obligations of the city. MAC ANNUAL REPORT, *supra* note 2, at 11. MAC was empowered to raise up to $3 billion in the public capital market through the sale of "moral obligation bonds" (bonds which are morally, but not legally, backed by the credit of the issuing instrumentality). N.Y. PUB. AUTH. LAW §§ 3001-3040 (McKinney Supp. Pamphlet 1970-75) (originally enacted as New York State Municipal Assistance Corporation Act of June 10, 1975, chs. 168-169, 1975 N.Y. LAWS (McKinney)). MAC was some $1 billion short of its goal at the commencement of the emergency session of the New York State Legislature, however, despite tax-free interest rates as high as 9.25%, "A" ratings from the municipal bond rating agencies, and presentations by MAC board members to bankers in Boston, Chicago, Dallas, Des Moines, Hartford, Houston, Los Angeles, Minneapolis, Philadelphia, San Francisco, and Seattle. MAC ANNUAL REPORT, *supra* note 2, at 11.

On the legal status of bonds which are not backed by the "full faith and credit" of the issuing government, *compare* Wein v. City of New York, 36 N.Y.2d 610, 331 N.E.2d 514, 370 N.Y.S.2d 550 (1975) (city cannot become indebted on moral obligation bonds issued by public corporations expressly created to aid city); Williamsburgh Sav. Bank v. State, 243 N.Y. 231, 153 N.E. 58 (1926) (holder of moral obligation bonds has a moral but not a legal claim enforceable against the issuing state); Town of Guilford v. Board of Supervisors, 13 N.Y. 143 (1855) (legislature can recognize nonlegal claims founded in equity and justice); *and* Griffith, *"Moral Obligaton" Bonds: Illusion or Security?*, 8 URB. LAW. 54 (1976), *with* Address by Leon E. Wein, Professor of Law, Brooklyn Law School, to the City Club of New York (Mar. 7, 1975) *and* Quirk & Wein, *Twilight of N.Y. Municipal Bond: Equivocating Judiciary Blamed*, The Daily Bond Buyer, June 30, 1976, at 1, col. 2.

4. New York State Financial Emergency Act for the City of New York, 1975 N.Y. Laws, chs. 868-870 [hereinafter cited as Financial Emergency Act], 1975 N.Y. Laws, chs. 871-895 (McKinney 1975 Extraordinary Sess. Special Pamphlets) (legislation concerning the financial emergencies of the cities of New York and Yonkers). *See* Freilich, Bracken, & Denney, *Recent Developments in Local Government Law*, 8 URB. LAW. 589, 591-601

sponsibility for the financial direction of the city and committed its own funds, and possibly its credit, to save New York City from defaulting on its obligations and from probable bankruptcy.[5]

(1976); Comment, *The Limits of State Intervention in a Municipal Fiscal Crisis*, 4 FORDHAM URB. L.J. 545 (1976).

5. Despite these measures, New York City nearly defaulted on the repayment of its bonded debt in October, 1975. N.Y. Times, Oct. 19, 1975, § 4, at 1, col. 1. Without federal assistance, city officials predicted that there would be a December default. *Id.* On December 9, 1975, President Ford reluctantly signed a law approving a $2.3 billion short-term loan to the city. New York City Seasonal Financing Act of 1975, Pub. L. No. 94-143, 89 Stat. 797 (codified at 31 U.S.C. §§ 1501-1510 (Supp. V 1975)). *See generally* 2 MOODY'S INVESTORS SERVICE, INC., THE APPRAISAL OF MUNICIPAL CREDIT RISK, ch. 8 (1975); Address by New York City Comptroller Harrison J. Goldin, "Municipal Bankruptcy: The Ultimate 'Fiscal Fiasco,'" American Bar Association National Institute on "Freedom from Fiscal Fiasco," Washington, D.C. (Dec. 2, 1976).

The Financial Emergency Act, *supra* note 4, also includes a section entitled "Local Obligations: Financial Emergency, Condition Precedent to Claims, Stay of Claims; Repayment Plan for Municipality; Termination of Stay." *Id.*, ch. 868, § 19, (amending N.Y. LOCAL FIN. LAW art. II, tit. 6 by adding § 85 (McKinney 1976-77)). Usually called the "prebankruptcy statute," the law outlines the procedure for a city which actually does default on its obligations: 1) notice of suit by creditors, 2) stay of such actions while the city develops a plan to cure default, 3) judicial approval of such a plan; and 4) filing a petition in bankruptcy under any federal law "for the composition or adjustment of municipal indebtedness." In 1976, Chapter IX of the Bankruptcy Act, 11 U.S.C. § 401 (1970), was revised to provide such a federal law.

Revised Chapter IX provides that "essential services" be maintained in a major city in a state of bankruptcy, but does not explain what these services are. Address by New York City Comptroller Harrison J. Goldin, "Municipal Bankruptcy: The Ultimate 'Fiscal Fiasco,'" American Bar Association National Institute on "Freedom from Fiscal Fiasco," at 4, Washington, D.C. (Dec. 2, 1976). There is considerable doubt whether education, courts, jails, mass transit, vocational and employment programs, and social services would be considered "essential services." *Id.* at 4-5. Massive litigation to determine the status and priorities of these services would undoubtedly follow a formal declaration of bankruptcy.

New York City is unique in that it bears certain fiscal responsibilities which are not shared by other major American cities. Because the city is the exclusive local government for taxing and spending, it provides many public services which in other cities are provided by local governments other than the municipalities themselves. MAC ANNUAL REPORT, *supra* note 2, at 7. The city historically has provided some public services which are not provided by most local governments in this country, notably extensive hospital and higher education systems. Unlike most states, New York State law requires the City of New York to fund locally a relatively large percentage of certain other costly services, principally welfare and the court system. In fact, about one-fifth of the city's local tax proceeds is applied to hospitals, higher education, welfare, and courts. *Id.* Were New York City to declare bankruptcy it would lose its real estate taxing authority, used to pay debt service on funded debts. Address by Comptroller Goldin, *supra*, at 6. This would jeopardize some 43% of the city's tax levy. *Id.*

For materials dealing with revised Chapter IX, *see* King, ***Municipal Insolvency:*** *Chapter IX, Old and New; Chapter IX Rules*, 50 AM. BANKR. L.J. 55 (1976); Klein, *New Chapter IX of the Bankruptcy Act*, 22 PRAC. LAW. 75 (1976); Note, *The Recent Revision of the Federal Municipal Bankruptcy Statute: A Potential Reprieve for Insolvent Cities?*, 13 HARV. J. LEGIS. 549 (1976); Note, *Municipal Bankruptcy, the Tenth Amendment and the New Federalism*, 89 HARV. L. REV. 1871 (1976); Note, *Executory*

Upon declaring that a state of financial emergency existed within the city,[6] the legislature took a number of steps to deal with the crisis. It created the New York State Emergency Financial Control Board to assure that the New York City budget would be balanced by fiscal 1977-78;[7] instituted a wage freeze upon city employees;[8] authorized the State Comptroller to buy MAC bonds with the monies of seven pension funds;[9] imposed a three-year moratorium on actions to enforce the city's outstanding short-term obligations, *i.e.*, tax anticipation notes, bond anticipation notes, revenue anticipation notes, budget notes, and urban renewal notes,[10] but only with respect to noteholders who declined to exchange their notes for an equivalent

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Labor Contracts and Municipal Bankruptcy, 85 YALE L.J. 957 (1976); Note, *Reform of Creditor Participation Procedures in Municipal Bankruptcy*, 85 YALE L.J. 423 (1976); M. Cook, Revision of Chapter IX of the Bankruptcy Act: "Adjustment of Debts of Political Subdivisions and Political Agencies and Instrumentalities"; R. Laufer, State Laws Involving Adjustment of Municipal Debt: Provisions, Constitutionality and Relationship to Federal Municipal Bankruptcy Law (unpublished papers delivered at the American Bar Association National Institute on "Freedom from Fiscal Fiasco"; Washington, D.C. (Dec. 2-3, 1976).

Prior to assuming office, President Carter announced in a meeting with Governor Hugh Carey, Mayor Abraham Beame, and Treasury Secretary W. Michael Blumenthal, that bankruptcy was not a viable alternative for New York. Wash. Post, Dec. 29, 1976, § A, at 4, col. 6.

6. Financial Emergency Act, *supra* note 4, at ch. 868, § 2-a. The significance of a state declaration of financial emergency was discussed by the Supreme Court in Home Bldg. & Loan Ass'n v. Blaisdell, 290 U.S. 398 (1934). The declaration of the existence of a financial emergency "cannot be regarded as a subterfuge or as lacking in adequate basis." *Id.* at 444. Nor does an emergency increase the constitutional powers possessed by a state nor diminish their restrictions. *Id.* at 425. Rather, the legislative finding of an emergency furnishes the occasion for the state to exercise power which, while already possessed, is rarely employed. *Id.* at 426.

7. Financial control of the city is to be exercised by the Governor, as Chairman of the Board, the State Comptroller, the Mayor, the City Comptroller, and three members appointed by the Governor. Financial Emergency Act, *supra* note 4, at §§ 5-6. The city must submit for the Board's approval a financial plan which will balance the New York City budget. Furthermore, all major city expenditures as well as contracts entered into by the city or by any organization receiving funds from the city, must be consistent with the financial plan. *Id.* §§ 7-9. Thus, the Financial Emergency Act subjects various fiscal functions traditionally within the city's home rule powers to direct oversight by state agencies.

8. *Id.* at § 10. For a discussion of issues raised by this action, see Comment, *The Constitutionality of the New York Municipal Wage Freeze and Debt Moratorium: Resurrection of the Contract Clause*, 125 U. PA. L. REV. 167 (1976).

9. Financial Emergency Act, *supra* note 4, at ch. 870, § 14. This provision was declared violative of N.Y. CONST. art. V, § 7 (pension benefits shall neither be diminished nor impaired) in Sgaglione v. Levitt, 37 N.Y.2d 507, 337 N.E.2d 592, 375 N.Y.S.2d 79 (1975).

10. New York State Emergency Moratorium Act for the City of New York, 1975 N.Y. Laws, ch. 874, *as amended by* ch. 875 (McKinney 1975 Extraordinary Sess. Special Pamphlet).

principal amount of long-term MAC bonds;[11] and appropriated from a local assistance fund $250 million to the City of New York and $500 million to the Municipal Assistance Corporation.[12]

In exchange for these appropriations, the state received from the city and MAC a total of $750 million in securities.[13] Anticipating the interest that would accrue on these notes, as well as the revenue to be derived from the eventual sale of the city and MAC bonds, it then issued $755 million of its own securities.[14] The state therefore secured its own bonds in part with the revenues it hoped to derive from the future sale of municipal securities, the same securities whose non-marketability served in the first instance to elevate New York City's economic problems to the level of a "crisis."[15]

Shortly after this arrangement was finalized it was challenged in court. In *Wein v. State*[16] the issue arose whether the appropriation of $750 million to the City of New York and MAC was a grant of cash, as claimed by the state,[17] or a loan of state credit to a municipal corporation and a public corporation[18] in order to enhance the marketability

11. *Id.* ch. 874. The moratorium was declared violative of N.Y. CONST. art. VIII, § 2 (city prohibited from contracting any indebtedness unless it pledges its "faith and credit" for the payment of the principal and interest of the indebtedness) in Flushing Nat'l Bank v. Municipal Assistance Corp., 40 N.Y.2d 731, 358 N.E.2d 848, 390 N.Y.S.2d 22 (1976). *See* Will, *New York: Defaulting on the Constitution*, Wash. Post, Nov. 25, 1976, § A, at 27, col. 4. *But cf.* Ropico, Inc. v. City of New York, 425 F. Supp. 577 (S.D.N.Y. 1976) (Moratorium Act upheld against challenges under federal law that it impaired the obligation of contracts in violation of article I, Section 10 of the U.S. Constitution, deprived noteholders of their property without due process in violation of the fourteenth amendment, denied noteholders access to the judiciary to enforce their claims, and violated section 83(i) of the Federal Bankruptcy Act).

12. Financial Emergency Act, ch. 868, §§ 22, 23.

13. *Id.* These notes were in turn secured by mortgages issued and held by the city as well as by future cash payments appropriated by the state to the city. *Id.*

14. *Id. See also* NEW YORK STATE COMPTROLLER, OFFICIAL STATEMENT: BOND ANTICIPATION NOTES, TAX ANTICIPATION NOTES AND REVENUE ANTICIPATION NOTES *and* Annex I to Official Statement, PROPOSED OPINION OF NEW YORK STATE ATTORNEY GENERAL LOUIS J. LEFKOWITZ (Sept. 15, 1975) (concerning the legal validity of the note sale).

15. *See* notes 2, 3 *supra.*

16. 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

17. Brief for Defendant-Respondent at 11, Wein v. State, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

18. A public corporation, as distinguished from a private corporation, is one created for political purposes only. In the administration of civil government, its political powers are to be exercised for purposes connected with the public good. 1 E. MCQUILLIN, THE LAW OF MUNICIPAL CORPORATIONS § 2.03, at 130 (3d ed. 1971). A public corporation is either municipal or quasi-municipal. *Id.* §§ 2.03-2.30(a). The City of New York, as a municipal corporation, and the Municipal Assistance Corporation, as a quasi-municipal corporation, are both public corporations.

of their seemingly worthless securities. The Constitution of the State of New York makes a clear distinction between a gift or loan of money to a public corporation and a gift or loan of credit: the former is constitutional, the latter, which refers to the use of the state's credit by an entity other than the state, is not.[19] The pertinent provision dictates in part that "[t]he *money* of the state shall not be given or loaned to or in aid of any . . . *private* undertaking, nor shall the *credit* of the state be given or loaned to or in aid of any . . . *public or private* corporation . . . or *private* undertaking . . . ."[20]

The New York Court of Appeals upheld the constitutionality of the state appropriation against a taxpayer's challenge.[21] Had the appropriation been found unconstitutional, however, disastrous economic consequences would have resulted from invalidating one of the most critical elements of the complex municipal aid plan which is detailed in the Appendix to this comment. Furthermore, the vast majority of other American cities considered to be in fiscal danger[22] are situated

19. *In re* City of New York, 72 Misc. 2d 535, 538-39, 339 N.Y.S.2d 292, 297 (Sup. Ct. 1972); Union Free School Dist. v. Town of Rye, 280 N.Y. 469, 474, 21 N.E.2d 681, 683 (1939).

20. N.Y. CONST. art. VII, § 8 (emphasis added).

21. Wein v. State, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

22. One indicator of potential fiscal crisis is the financial rating of general obligation bonds which are secured by the taxing power of the issuer. The quality of the analysis behind the ratings is often undistinguished. *E.g.*, Moody and Standard & Poor both upgraded New York City's bond rating at precisely the time that the city began to accelerate its accumulation of hidden budget deficits. Petersen, *Finance*, in THE URBAN PREDICAMENT 66-67 (W. Gorham & N. Glazer eds. 1976). The ratings, however, do tend to serve as accurate confirmations of fiscal trouble.

In 1976 the more populous cities whose general obligation bonds were rated lowest by Moody, and their ratings were (with lowest rated first): New York City, N.Y. (*Caa*), Newark, N.J. (*Baa*), Detroit, Mich. (*Baa*), Philadelphia, Pa. (*Baa*), Buffalo, N.Y. (*Baa*), Cleveland, Ohio (*A*), St. Louis, Mo. (*A*), Boston, Mass. (*A*), Baltimore, Md. (*A-1*), New Orleans, La. (*A-1*), Jacksonville, Fla. (*A-1*), and Pittsburgh, Pa. (*A-1*). MOODY'S MUNICIPAL AND GOVERNMENT MANUAL, as updated by periodic releases (1976). Moody's Investors Service reports on the general obligation bond rating of most American cities on a scale from Aaa (a gilt-edged security) to C (an extremely poor risk). An A rating, within the range of most of the above cities' bonds, indicates "upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future." MOODY'S INVESTORS SERVICE, PITFALLS IN ISSUING MUNICIPAL BONDS 13 (1974).

Although many northeastern cities, such as Buffalo, Trenton, and Paterson, remain technically solvent and able to market their securities, underlying forces of decay often outside their control threaten their existence. Buck, *More Than One City in the Region Needs Propping Up*, N.Y. Times, Oct. 24, 1976, § E, at 5, col. 3. For extended discussions of the "urban crisis," *see generally* ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, CITY FINANCIAL EMERGENCIES: THE INTERGOVERNMENTAL DIMENSION in states with similar constitutional prohibitions against the lending of state credit to municipalities.[23] Thus, the credit lending issue confronted by the State of New York is one that will probably face state legislatures across the country as they devise aid packages for their financially troubled cities.

This comment will discuss the history and theory behind state constitutional prohibitions against lending state credit to municipal corporations and will suggest possible judicial responses to the problems that are raised by these provisions. *Wein v. State*[24] will be evaluated in light of the analysis presented, and legislative repeal of the prohibitions will also be discussed. Throughout, the implicit biases of this study are that metropolitan areas within the United States ought to receive massive infusions of state assistance and that they are denied this assistance in part because of the constitutional credit lending provisions.

I. HISTORICAL BACKGROUND OF THE PROHIBITIONS

Constitutional limitations on the ability of state legislatures to lend credit to their municipal corporations have been referred to as anachronistic because they create serious difficulties in marketing bonds for many financially burdened smaller units of local government.[25] Despite this characterization, forty-four states generally forbid loans of credit to or on behalf of any public or private corporation, including municipal corporations.[26] Massachusetts maintains a similar prohibition only on loans of state credit to private corporations.[27]

The economic and legislative history of various state constitutional credit lending prohibitions indicates that their original purpose was to limit state indebtedness and to restrict legislative involvement in private financial ventures. During the nineteenth century, as the United States was rapidly expanding westward, an adjacent railroad was often vital to a growing community's economic health.[28] As a result, state and local governments offered rather freely many of their financial and political resources to railroads as inducements for specific routes and spurs.[29] Judicial acquiescence to these governmental schemes was prevalent. For example, a fairly substantial body of case law developed in the nineteenth century which held that constitutional provisions prohibiting states from taking stock in a corporation, lending their credit to a corporation, and incurring indebtedness in aid of a corporation did not restrain state legislatures from empowering public corporations, including cities or counties, to provide such aid.[30] Thus, prior to the widespread adoption of the credit lending

(1973); J. JACOBS, THE DEATH AND LIFE OF GREAT AMERICAN CITIES (1961); R. LINEBERRY & I. SHARKANSKY, URBAN POLITICS AND PUBLIC POLICY (1971); Z. MILLER, THE URBANIZATION OF MODERN AMERICA (1973); REPORT OF THE NATIONAL ADVISORY COMMISSION ON CIVIL DISORDERS (1968); D. Yates, Goals and Strategies for a National Urban Growth Policy, Institution for Social and Policy Studies, Yale University (1973) (working paper of the Center for the Study of the City and its Environment). *But cf.* P. PORTER, THE RECOVERY OF AMERICAN CITIES (1976) (events favor the ability of cities to attain financial independence and to compete with suburbs as attractive places of residence).

23. It should be noted that with the exception of Boston, all of the financially troubled cities listed in note 22, *supra*, are located in states with constitutional provisions forbidding loans of state credit to municipal or other public corporations. *See* notes 26, 27 & accompanying text *infra*. Massachusetts officials have made it clear, however, that they do not intend to assist Boston with its fiscal problems. Boston Globe, Nov. 29, 1976, § 1, at 1, col. 5.

24. 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

25. *See* J. FORDHAM, LOCAL GOVERNMENT LAW 61 (1975); Minge, *Guarantying Municipal Bonds*, 1974 WIS. L. REV. 89.

26. ALA. CONST. amend. XXVI; ALAS. CONST. art. IX, § 6 (public credit may not be used except for a public purpose); ARIZ. CONST. art. IX, § 7; ARK. CONST. art. 16, § 1; CAL. CONST. art. XVI, § 6; COLO. CONST. art. XI, § 1; DEL. CONST. art. VIII, § 4; FLA. CONST. art. VII, § 10; GA. CONST. art. VII, § 2-5604; HAW. CONST. art. VI, § 2 (use of state credit is limited to public purpose); IDAHO CONST. art. VIII, § 2; ILL. CONST. art. VIII, § 1(a) (public credit shall be used only for public purposes); IND. CONST. art. 11, § 12; IOWA CONST. art. VII, § 1; KY. CONST. § 177; LA. CONST. art. VII, § 14(A) (cf. § 14(B) (allows pledge of public credit for public purposes with respect to the issuance of bonds or other evidences of indebtedness to meet public obligations)); ME. CONST. art. IX, § 14; MD. CONST. art. III, § 34; MICH. CONST. art. IX, § 18; MINN. CONST. art. XI, § 2; MISS. CONST. art. XIV, § 258; MO. CONST. art. III, §§ 38(a) (credit may be loaned in cases of "public calamity"), 39(1); NEB. CONST. art. XIII, § 3; NEV. CONST. art. VIII, §9; N.J. CONST. art. VIII, § 2 ¶ 1; N.M. CONST. art. IX, § 14; N.Y. CONST. art. VII, § 8; N.C. CONST. art. V, § 3(2); N.D. CONST. § 185 (credit may be loaned for reasonable support of poor); OHIO CONST. art. VIII, § 4; OKLA. CONST. art. X, § 15; ORE. CONST. art. XI, § 7; PA. CONST. art. VIII, § 8; R.I. CONST. art. XXXI, § 1 (credit may be loaned with express consent of people); S.C. CONST. art. X, § 6; S.D. CONST. art. XIII, § 1 (delineates exceptions to an implied general credit lending proscription); TENN. CONST. art. II, § 31; TEX. CONST. art. III, § 50; UTAH CONST. art. VI, § 31; VA. CONST. art. X, § 10; WASH. CONST. art. VIII, § 5, art. XII, § 9; W. VA. CONST. art. X, § 6; WIS. CONST. art. VIII, § 3; WYO. CONST. art. XVI, § 6.

27. MASS. CONST. art. LXII, § 1 (forbidding loans of state credit to any individual, private association, or privately owned and managed corporation).

28. *See generally* L. BENSON, MERCHANTS, FARMERS & RAILROADS (1969); C. GOODRICH, GOVERNMENT PROMOTION OF AMERICAN CANALS AND RAILROADS, 1800-1890 (1960).

29. Comment, *State Constitutional Provisions Prohibiting the Loaning of Credit to Private Enterprise—A Suggested Analysis*, 41 U. COLO. L. REV. 135, 136 (1969).

30. *E.g.*, Taylor v. Ypsilanti, 105 U.S. 60 (1881); Cotten v. County Comm'rs of Leon County, 6 Fla. 610 (1856); Prettyman v. Supervisors of Tazewell County, 19 Ill. 406 (1858); Aurora v. West, 9 Ind. 74 (1857); Dubuque County v. Dubuque and Pacific R.R., 4 Greene 2 (Iowa 1853); Commissioners of Leavenworth County v. Miller, 7 Kan. 298 (1871); Clark v. Janesville, 10 Wis. 119 (1859); *but see* Griffith v. Commissioners of

prohibitions, public deference to the railroads had become virtually unlimited.[31]

Governmental assistance for state internal improvements such as railroads and canals usually took the form of security or stock purchases[32] or cosignatures on bonds issued by railroads.[33] The completion of the Erie Canal in 1825 served as a successful precedent for such assistance[34] and led New York and the rest of the nation into a wave of publicly funded, but privately built, internal improvement construction.[35]

Many of these highly speculative private ventures failed and left various governmental units, and therefore taxpayers, either holding worthless stock certificates or liable for large, inadequately secured debts.[36] As a result of the Depression of 1837, nine states which had acted as loan guarantors defaulted on their debts.[37] In an effort to reassert popular control over legislative power to create state indebtedness, reformers enacted various constitutional prohibitions against the

Crawford County, 20 Ohio 609 (1851). See generally 2 B. ELLIOT & W. ELLIOT, LAW OF RAILROADS § 1001 (3d ed. 1897).

31. The experience of New York State, historically a leader in industrial development, is unique in this respect. In 1858, the state legislature received a petition requesting that a new constitutional convention be called. The [illegible] petitioners, claiming that they only would be formalizing existing political relationships and thereby be saving tax dollars, urged that the legislative and executive branches of government be abolished and that those powers be vested in the hands of the President, Vice President and Board of Directors of the New York Central Railroad. [illegible] referendum, the measure was narrowly defeated. 2 C. LINCOLN, THE CONSTITUTIONAL HISTORY OF NEW YORK 233-34 (1906). See also Quirk & Wein, A Short Constitutional History of Entities Commonly Known as Authorities, 56 CORNELL L. REV. 521 (1971). This article, coauthored by the plaintiff in Wein v. State, advances the thesis that the rise of state constitutional government is correlative with a growing public desire to limit legislative power to create indebtedness and that the [illegible] legislative response has been to attempt to subvert these constitutional limitations.

32. See, e.g., Colorado Cent. R.R. v. Lea, 5 Colo. 192 (1879) (attempted subscription by county to railroad stock held unconstitutional).

33. One member of the 1867 Constitutional Convention of New York stated that because of this practice "in very many instances the State lost the entire amount of [its] investment." 3 REPORT OF THE DEBATES AND PROCEEDINGS OF THE CONVENTION FOR THE REVISION OF THE CONSTITUTION OF THE STATE OF NEW YORK, 1867, at 1844. See also 2 C. LINCOLN, supra note 31, at 73-101.

34. A. HEINS, CONSTITUTIONAL RESTRICTIONS AGAINST STATE DEBT 3 (1963).

35. H. ADAMS, PUBLIC DEBTS 329-31 (1893); Quirk & Wein, supra note 31, at 526.

36. Comment, State Constitutional Provisions Prohibiting the Loaning of Credit to Private Enterprise—A Suggested Analysis, 41 U. COLO. L. REV. 135, 136 (1969).

37. Mississippi and Florida defaulted first in 1841, followed shortly by Arkansas and Indiana. Illinois, Michigan, Maryland, Pennsylvania, and Louisiana defaulted in 1842, bringing the total of defaulting states to nine. A. HEINS, CONSTITUTIONAL RESTRICTIONS AGAINST STATE DEBT 7 (1963).

lending of credit by a state or any of its political subdivisions to private corporations.[38]

In 1842 Rhode Island became the first state to expressly limit its borrowing power by adding a debt restriction provision to its constitution.[39] Other forerunners of the modern credit lending clauses appeared in the New Jersey Constitution of 1844,[40] the New York Constitution of 1846,[41] and an 1848 amendment to the Maine Constitution.[42] In the same year as Maine's constitutional amendment, Wisconsin became the first state to constitutionally prohibit the loan of its credit to municipal as well as other corporations.[43] Kentucky adopted a similar provision in 1850.[44]

By 1873, following a period of renewed interest in internal improvements after the Civil War,[45] local indebtedness reached crisis proportions[46] and over the next several decades prompted a new wave of state constitutional provisions limiting the ability of states to incur indebtedness.[47] These provisions can be classified into four general categories: prohibitions on public debt in excess of a stated amount or a stated percentage of the total value of taxable property within a local unit; restrictions on the purposes for which public funds could be expended or for which taxes could be levied and debts incurred; restrictive procedures for incurring debt; and credit lending clauses which specified the types of instrumentalities through which public expenditures could be made.[48]

38. For a concise history of prohibitions against the extension of New York State's credit from the colonial period to the present, see Brief for Plaintiff-Appellant at 16-27, Wein v. State, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

39. R.I. CONST. of 1842 art. IV, § 13 (annulled 1951) (legislature cannot, without express consent of people, incur state debts to an amount exceeding $50,000 or pledge the faith of the state for the payment of obligations of others).

40. N.J. CONST. of 1844 art. IV, § 6 (1947).

41. N.Y. CONST. of 1846 art. VII, § 9 (1895).

42. ME. CONST. of 1820, amend. VI (1848).

43. WIS. CONST. art. VIII, § 3.

44. KY. CONST. of 1850 art. II, § 33 (1891).

45. J. HOLLANDER, THE CINCINNATI SOUTHERN RAILWAY 15-18 (1894).

46. H. SECRIST, AN ECONOMIC ANALYSIS OF THE CONSTITUTIONAL RESTRICTIONS UPON PUBLIC INDEBTEDNESS IN THE UNITED STATES 55-56 (1914).

47. Id. at 59-60.

48. Note, Legal Limitations on Public Inducements to Industrial Location, 59 COLUM. L. REV. 618, 620-21 (1959).

The desirability of debt limitations has been questioned on the ground that they provide a false sense of security for bondholders and taxpayers. It is argued that relatively extensive debt limitations did not prevent governmental units from defaulting on their bonds during the 1930's. See J. ZIMMERMAN, STATE AND LOCAL GOVERNMENT 238 (2d ed. 1970).

There were few new developments relating to any of these classifications until the Great Depression of the 1930's revealed the frail financial underpinnings of local governments across the United States.[49] Land values, which form the basis for municipal taxation,[50] declined precipitously.[51] Using the prohibitions against lending credit to municipal and other public corporations, states hoped to avoid risking their fiscal solvency through credit extensions to their economically weaker political subdivisions.[52] By 1977, only Connecticut, Kansas,

49. The extent of the economic havoc caused by the Depression upon municipal corporations can be determined by the following chart which records the number of defaults by these units of local government from 1900 through 1969.

TABLE II

1900–09	1910–19	1920–29	1930–39	1940–49	1950–59	1960–69
51	17	89	1434	31	31	111

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, CITY FINANCIAL EMERGENCIES: THE INTERGOVERNMENTAL DIMENSION 10 (1973). Among the cities to default during the 1930's were Fall River, Mass.; Detroit, Mich.; Asheville, N.C.; Jackson, Mich.; Fort Lee, N.J.; Akron, Ohio; Grand Rapids, Mich.; and Asbury Park, N.J. Id. at 17-24.

50. R. LINEBERRY & I. SHARKANSKY, URBAN POLITICS AND PUBLIC POLICY 45 (1971).

51. Z. MILLER, THE URBANIZATION OF MODERN AMERICA 150 (1973).

52. This reasoning was expressed by the 1938 New York State Constitutional Convention's Committee on State Finances and Revenues, which reported that with regard to the proposed credit lending prohibition (enacted as N.Y. CONST. art. VII, § 8):

> [C]ustom has long established that the word "corporation" as used in connection with the gifts or loan of credit has meant all corporations, of a governmental as well as private character. This was the position taken by the Governor in his annual message to the Legislature on January 6, 1937. To remove any doubt which may exist and to make the existing language conform to such meaning, the committee has in Section 1 of Article VII inserted before the words "association or corporation" the words "public or private," which adjectives qualify both nouns.
>
> But, even were this not the correct interpretation of the existing language, the committee believes that this is the limitation which should prevail. If corporations were here defined as only private corporations, by immediate implication the State credit could be given or loaned to every municipal or other public corporation. If cities found themselves in difficulties, or if an authority were unable to sell its securities, they could rush to the State for assistance. One or two such instances might do no harm, but a general use of the State credit in this manner would dissipate the State's credit and demolish the strongest foundation of our State's financial structure. The committee feels strongly that the State's credit should be reserved for the use of the State only, with only such exceptions as may be specifically set forth in the Constitution.

Report of the Committee on State Finances and Revenues, JOURNAL OF THE CONSTITUTIONAL CONVENTION OF THE STATE OF NEW YORK, App. 3, Doc. 3, at 5-6 (1938).

Massachusetts, Montana, New Hampshire, and Vermont lacked constitutional provisions proscribing guarantees of municipal corporate indebtedness.[53]

State constitutional provisions which restricted the creation of debt were intended to safeguard public money, to prevent the making of improvident investments, and to keep the public debt from imposing too great a burden upon taxpayers.[54] Underlying the prohibitions originally was the clear assumption that subsidizing private, profit-making corporations was an improper governmental activity,[55] but application of the prohibitions to public corporations often was intended also. As the next section discusses, however, the prohibitions should not be interpreted as absolute proscriptions against all legislative appropriations for public purposes which might include credit loans.[56]

II. THE PUBLIC-PURPOSE DOCTRINE

A. Sharpless v. Mayor of Philadelphia *and Its Progeny*

The public-purpose doctrine governs most state expenditures, including loans of state credit.[57] First enunciated in 1853 in *Sharpless v.*

53. See note 26 & accompanying text supra.

54. See Pressman v. Mayor of Baltimore, 200 Md. 107, 113, 88 A.2d 471, 473 (Md. Ct. App. 1952) (street signs and block number plates proposed to be installed by the city were not traffic control signs and signals within the statute and ordinance which authorized indebtedness for that purpose).

55. H. SECRIST, AN ECONOMIC ANALYSIS OF THE CONSTITUTIONAL RESTRICTIONS UPON PUBLIC INDEBTEDNESS IN THE UNITED STATES 68 (1914).

56. For example, some courts have held that a state may lend its credit for public purposes if approved in a referendum. E.g., Hinton v. Lacy, 193 N.C. 496, 137 S.E. 669 (1927) (bond issue to raise money for World War I veterans); Opinion to the Governor, 101 R.I. 529, 225 A.2d 766 (1966) (mortgage loans for recreational projects).

57. The credit provisions are subordinate to the public-purpose doctrine, which is directed to all exercises of governmental power, not just expenditures. 2 E. McQUILLIN, THE LAW OF MUNICIPAL CORPORATIONS, § 10.31 at 817 (3d ed. 1970). Unlike other states, Arizona and Nebraska derive the public-purpose doctrine from the credit clause. City of Phoenix v. Michael, 61 Ariz. 238, 148 P.2d 353 (1944); State ex rel. Beck v. City of York, 164 Neb. 223, 82 N.W.2d 269 (1957).

For background discussion of the public-purpose doctrine, see, e.g., Abbey, *Municipal Industrial Development Bonds*, 19 VAND. L. REV. 25 (1965); McAllister, *Public Purpose in Taxation*, 18 CAL. L. REV. 137 (1930); Pinsky, *State Constitutional Limitations on Public Industrial Financing: An Historical and Economic Approach*, 111 U. PA. L. REV. 265 (1963); Virtue, *The Public Use of Private Capital: A Discussion of Problems Related to Municipal Bond Financing*, 35 VA. L. REV. 285 (1949); Note, *Incentives to Industrial Relocation: The Municipal Industrial Bond Plans*, 66 HARV. L. REV. 898 (1953); Note, *State Constitutional Limitations on a Municipality's Power to Appropriate Funds or Extend Credit to Individuals and Associations*, 108 U. PA. L. REV. 95 (1959); Note, *The "Public Purpose" of Municipal Financing for Industrial Development*, 70 YALE L.J. 789 (1961).

Mayor of Philadelphia,[58] the doctrine holds that the state treasury may be utilized only for public purposes.[59] It thus reflects the democratic concern that if public funds are to be risked, the risk must flow from public rather than private decisions.[60] In *Sharpless*, the Pennsylvania Supreme Court defined taxation as "a mode of raising revenue for *public* purposes,"[61] and stated that the taxation power granted the legislature by the state constitution did not include the power to raise funds for private purposes by what purports to be taxation.[62] This reasoning typifies the reaction of state courts to the same legislative excesses which prompted the simultaneous enactment of constitutional restraints on the creation of debt. Beginning with *Sharpless*, the public-purpose doctrine evolved as a limitation of constitutional dimensions on the powers to tax, to incur debt on the security of the taxing authority, and to spend funds derived from taxation.[63]

The public-purpose doctrine found support in several state supreme court decisions following the *Sharpless* case. In 1870, the Michigan Supreme Court ruled that taxation must be for a public purpose, must be exercised according to some rule of apportionment throughout the state, and must be based on a similar local scheme if meant to affect a municipal subdivision.[64] The court reasoned that public purpose was not to be measured by the urgency of the public need to which it was addressed nor to the public benefit to follow. Rather, it was a term of art which designated certain endeavors to be public and, by implication, other endeavors to be private.[65] Faced

58. 21 Pa. 147 (1853) (state legislative authorization of a city to subscribe to railroad stock held constitutional).

59. *Id.* at 169. The test of a public purpose should be whether the expenditure confers a direct benefit of reasonably general character to a significant part of the public, as distinguished from a remote or theoretical benefit. Opinion of the Justices, 337 Mass. 777, 781, 150 N.E.2d 693, 696 (1958).

60. The court probably drew upon the rule traditionally applied in eminent domain cases that private property could be appropriated only for public purposes. *See, e.g.*, *In re* John & Cherry Streets, 19 Wend. 659, 676-77 (N.Y. Sup. Ct. 1839); Varick v. Smith, 5 Paige Ch. 137, 143 (N.Y. Ch. 1835). *See also* Note, *Legal Limitations on Public Inducements to Industrial Location*, 59 COLUM. L. REV. 618, 622-23, 640-42 (1959).

61. 21 Pa. at 169 (emphasis in original).

62. *Id.* at 168-69.

63. The doctrine is also applicable to all appropriations or expenditures of public money by municipalities. 15 E. MCQUILLIN, THE LAW OF MUNICIPAL CORPORATIONS, § 39.19 (3d ed. 1970).

64. *People ex rel.* Detroit & Howell R.R. v. Township Bd. of Salem, 20 Mich. 452, 474-77 (1870) (township tax on behalf of railroad held unconstitutional); *accord*, Weismer v. Village of Douglas, 64 N.Y. 91 (1876).

65. 20 Mich. at 475.

with a similar situation that same year, the Wisconsin Supreme Court used comparable reasoning to deny a county's attempt to aid a railroad.[66] As the doctrine developed, so did the emphasis upon the public nature to be served by the expenditure in question.

In 1872, a tremendous fire in the city of Boston caused vast property damage and tremendous disruption in the state's center of government, commerce, and culture. In response, the Massachusetts legislature passed a bill which authorized the city to issue bonds and lend the proceeds to the landowners whose buildings had been destroyed in the fire. Despite the seemingly overwhelming public purpose of restoring Boston to its previous condition, the Supreme Judicial Court of Massachusetts held the act to be unconstitutional because it violated the public-purpose doctrine.[67] Even though the primary object of the statute was not to benefit private persons[68] but to restore and increase the taxable property and resources of the state,[69] the court declared that "[t]he expenditure authorized by [the] statute [is] for private and not for public objects, in a legal sense."[70] Without a doubt, there are few stricter applications of the public-purpose doctrine.

The United States Supreme Court has not had many occasions to review the public-purpose doctrine. In its initial consideration, the Court tacitly approved the doctrine's development by state judiciaries.[71] It held that Kansas could not justify as lawful taxation a state statute authorizing a city to issue its bonds in aid of private industry because taxation must be for a public rather than a private purpose.[72] On other occasions, the Court has declared that there must be a showing of public purpose to justify the power of eminent domain[73] and has held the public-purpose doctrine to be a requirement of the four-

66. Whiting v. Sheboygan & Fond du Lac R.R., 25 Wis. 167 (1870).

67. Lowell v. City of Boston, 111 Mass. 454 (1873); *see also* Allen v. Jay, 60 Me. 124 (1872) (whether or not the use for which private property is taken is public is a question for the judiciary, not the legislature).

68. 111 Mass. at 457.

69. *Id.*

70. *Id.* at 473.

71. Citizens' Sav. & Loan Ass'n v. City of Topeka, 87 U.S. (20 Wall.) 655 (1874) (voiding statute which authorized a town to issue its bonds in aid of an iron works).

72. *Id.* at 664-65.

73. *E.g.*, Milheim v. Moffat Tunnel Improvement Dist., 262 U.S. 710 (1923) (construction of a railroad tunnel is a public purpose); Rindge Co. v. County of Los Angeles, 262 U.S. 700 (1923) (highway construction); Searl v. School Dist. No. 2, 133 U.S. 553 (1890) (school construction).

teenth amendment due process clause.[74] Federal development of the public-purpose doctrine need not be emphasized, however, as the role of the federal judiciary has been minimal in comparison with that of the state judiciary. According to the Supreme Court, local legislative and judicial authorities are best equipped to determine what is or is not a public use;[75] therefore, the judgment of a state's highest court will be accepted by the Court unless clearly unfounded.[76]

State public-purpose doctrines are drawn from one of four sources: explicit constitutional provisions,[77] general due process clauses,[78] organic laws,[79] or common law.[80] Regardless of its source and whether the doctrine is constitutionally rooted, it is a basic rule of constitutional construction and governs the constitutional validity of legislative actions.[81]

Yet, in applying the doctrine, courts usually have not revealed what factors determine whether a project serves a public purpose.[82] In a case involving state legislation to finance reclaimed land and to construct terminal port facilities, the Minnesota Supreme Court stated that

> [w]hat is a "public purpose" that will justify the expenditure of public money is not capable of a precise definition, but the courts generally

74. *E.g.*, Carmichael v. Southern Coal & Coke Co., 301 U.S. 495 (1937) (upholding as a public purpose a state unemployment compensation law); Jones v. City of Portland, 245 U.S. 217 (1917) (upholding municipal tax to enable a city to establish and maintain a permanent coal and fuel yard). *See also* Albritton v. City of Winona, 181 Miss. 75, 178 So. 799, *appeal dismissed for want of a substantial federal question*, 303 U.S. 627 (1938).

75. Green v. Frazier, 253 U.S. 233, 242 (1920) (legislation authorizing a commission to conduct and manage utilities and businesses on behalf of state).

76. *Id.*

77. *E.g.*, HAW. CONST. art. VI, § 2 (appropriations for private purposes prohibited); ILL. CONST. art. VIII, § 1(a) (public funds, property, or credit shall be used only for public purposes); MONT. CONST. art. VIII, § 1 (taxes shall be levied for public purposes); *see also* City of Phoenix v. Michael, 61 Ariz. 238, 148 P.2d 353 (1944) (public-purpose doctrine derived from constitutional credit clause); *accord*, State *ex rel* Beck v. City of York, 164 Neb. 223, 82 N.W.2d 269 (1957).

78. *E.g.*, ALA. CONST. art. I, § 6 (no deprivation of life, liberty, or property except by due process of law).

79. *E.g.*, State v. Town of N. Miami, 59 So. 2d 779, 785 (Fla. 1952) (state organic law prohibits the expenditure of public money for private purposes). In this instance, the term "organic law" probably refers to the fundamental values held by the citizens of the state.

80. *E.g.*, McConnell v. City of Lebanon, 203 Tenn. 498, 509-11, 314 S.W.2d 12, 17 (1958) (common law prohibits taxation for private purposes even when there is no express constitutional restriction).
constitutional restriction).

81. *See* note 57 & accompanying text *supra*.

82. *See generally* 70 YALE L.J., *supra* note 57, at 794-803.

> construe it to mean such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government.[83]

This admittedly imprecise statement is problematic on three counts. First, what sort of activity can be classified a "benefit to the community"? Attempts by state courts to equate beneficial activities with those which are of "use,"[84] "utility,"[85] or "advantage"[86] to a community are vague, at best. Second, what are the proper "functions of government" to which the benefit must relate? Third, assuming the purpose of an activity is to benefit a community, which community is to be benefited by the challenged activity brought before the court?[87] This limitation becomes a significant problem when the public-purpose doctrine is applied to state expenditures, including loans of credit, on behalf of political subdivisions incorporated by the state. Is the municipal expenditure really of benefit to the statewide public or is only the city helped?

The next section will examine the relationship between the public-purpose doctrine and one particular type of public corporation, the municipal corporation. This relationship, which creates the framework in which loans of state credit to cities may be analyzed, is complicated by the fact that in states such as New York the public-purpose doctrine is no longer the sole test of whether there has been a legal extension of state credit.[88] No matter how important or useful

83. Visina v. Freeman, 252 Minn. 177, 183, 89 N.W.2d 635, 643 (1958).

84. *See, e.g.*, Embury v. Conner, 3 N.Y. 511, 516 (1850). In the context of early eminent domain cases the "use" requirement was not as meaningless as it is today. *See* Comment, *What Constitutes a Public Use*, 23 ALB. L. REV. 386 (1959).

85. *See, e.g.*, Cleveland, Cin., Chi., & St. L. Ry. v. Polecat Drainage Dist., 213 Ill. 83, 85, 72 N.E. 684, 685 (1904) (public use equated with utility, usefulness, advantage, or benefit).

86. *See, e.g.*, Village of Deming v. Hosdreg Co., 62 N.M. 18, 35, 303 P.2d 920, 931 (1956) (advantage impliedly refers to the relief of unemployment, inspiration of new hope, and promotion of industry).

87. The question of which particular public will benefit from an expenditure has arisen in the economically related field of municipal taxation. Municipal taxes may, by virtue of the public-purpose doctrine, be levied for debt financing. Village of Oshkosh v. Nebraska, 20 F.2d 621 (8th Cir. 1927); People *ex rel.* McDonough v. Mills Novelty Co., 357 Ill. 285, 292, 192 N.E. 235, 240 (1934); People *ex rel.* Hicks v. New York, Chi. & St. L. R.R., 323 Ill. 493, 497, 154 N.E. 193, 194 (1926). They may not, however, be used to finance the obligations of another municipality. People *ex rel.* Nelson v. Trustees Cent. Mfg. Dist., 407 Ill. 291, 297, 95 N.E.2d 421, 424 (1950).

88. *See, e.g.*, People v. Westchester County Nat'l Bank, 231 N.Y. 465, 475, 132 N.E. 241, 244 (1921) (act providing for issuance of bonds to raise money for bonuses to veterans of World War I held invalid as grant of state credit to soldiers and sailors).

gifts and loans of money to individuals or corporations may be to the public, they may not be raised through resort to a state's credit.[89]

B. *Public Purpose and Municipal Corporations*

The public-purpose doctrine holds that state expenditures must be consistent with a legislatively and judicially declared public purpose. If the state can demonstrate that a challenged expenditure serves a valid public or state interest, the courts will uphold the state's action. The obvious weakness of the doctrine is that some perceptible public purpose can be found in almost any grant of state funds or credit. Certainly a public purpose was always present in the classic historical situation of gifts of cash and credit to railroads. A public purpose will also be present in loans of credit to cities, since urban populations are a definable public body. Thus, emphasis upon the doctrine as the rationale for upholding certain types of state appropriations may, without appropriate refinement, tend to circumvent constitutional provisions designed to limit the types of expenditures a state may authorize.

State constitutional prohibitions against lending state credit to municipal corporations must be analyzed in light of the public-purpose doctrine because the creation of debt, like any use or restriction upon the use of public funds, must be undertaken only for public purposes.[90] By definition, however, a municipal corporation is a public corporation, one which may exercise only those powers expressly or impliedly granted, or essential to its purpose.[91] An apparent dilemma therefore exists: state constitutional provisions prohibit loans of state credit to cities, while the doctrine from which such measures are derived appears to allow the loans because cities are incorporated and empowered by the state for public purposes. The question arises, therefore, whether a constitutional provision derived from a coexistent doctrine should limit the doctrine or whether the prior doctrine mandates that there be a more liberal and flexible interpretation of the constitutional proscription. In the context of a lawsuit, this question would be raised in the determination of which party is to assume the burden of proof. Of course, plaintiff always has the burden of proving

89. *Id.*
90. *See* notes 57-63, 77-81 & accompanying text *supra.*
91. *See* notes 1, 18 *supra.*

the unconstitutionality of any legislative enactment.[92] Yet, in meeting that burden, should a plaintiff challenging state aid as a prohibited loan of credit to municipalities be required to show that the aid is in fact a loan of credit or, alternatively, that such aid does not involve a benefit to the public? The former approach interprets the credit lending prohibitions as limitations upon the public-purpose doctrine; the latter approach assumes that the doctrine liberalizes the constitutional proscription.

However a state court may resolve these questions, common sense dictates that the public-purpose doctrine should not serve as a blanket justification for any state grant of credit to a municipal corporation. Prudence alone would demand that a legal doctrine not automatically allow states to offer their credit to financially troubled cities. Limitless grants of credit would probably result in the overextension of state credit and the state spending power, both undesirable occurrences which the prohibitions were originally designed to curb.

Loans of state credit thus must face a more rigorous test than the public-purpose doctrine now affords. Several factors should be taken into consideration in designing the test. Can the city solve its economic problems through reasonable self-help measures such as revised progressive taxation schedules, curtailment of nonessential services, limited reduction of essential services, and renegotiation of union contracts and pension plans? If so, the state will have difficulty justifying an extension of its credit when other forms of assistance less hazardous to the state fisc are available. How important to the state is the city's continued survival? The municipality's contribution to state commerce, employment, production, taxation, and general quality of life are critical factors to be considered in determining whether a city's economic viability is of sufficient statewide concern to justify an advance of state credit. Might the city face a diminution of its credit rating by the municipal bond rating agencies without the backing of state credit? If so, this diminution might result in a lowered state bond rating that would raise the interest rate at which the state could borrow money. In that situation, a loan of state credit may be justified on the theory that an ounce of prevention is worth a pound of cure.

A more specific test suggests the need for a new public-purpose doctrine which would generally govern state assistance to municipal

92. Lehnhausen v. Lake Shore Auto Parts Co., 410 U.S. 356 (1973), *rehearing denied,* 411 U.S. 910 (1973) (burden is on party attacking legislative arrangement to negate every conceivable basis which might support it) (quoting Madden v. Kentucky, 309 U.S. 83, 88 (1940)).

and other public corporations, because the old test is best suited only for assessing aid to private entities. The new approach represents the attempted resolution of the dilemma created by the conflict of two competing, yet related, rules of constitutional construction.

C. *Toward a New Public-Purpose Doctrine*

1. *A suggested analysis*

It is evident from the preceding discussion that constitutional provisions against loans of state credit to municipalities serve to frustrate complex state plans to aid cities with loans of cash and credit. In order to remedy this defect the revised public-purpose doctrine proposed by this comment suggests that state aid to cities will be found to comport with state constitutions, notwithstanding the fact that it weakens state credit, if the state can sustain an affirmative defense that: 1) the city requires external financial assistance; 2) a unique municipal problem requires action by the state as opposed to another governmental entity for its solution; and 3) a loan of credit, due to the shortage of available state funds, is necessary to resolve the municipal fiscal crisis. This test differs from the present public-purpose doctrine in that under certain conditions of extreme municipal financial hardship, states constitutionally would be permitted to grant credit to their cities.

Certainly, this new public-purpose doctrine is most directly applicable to states with both a public-purpose doctrine and a constitutional prohibition against loaning state credit to municipalities. If the state has no such prohibition, then no problem exists and the constitutional dilemma to which this analysis is addressed is solely of academic interest. If, however, there is a constitutional prohibition but no state public-purpose doctrine, the state then must look to a comparable principle such as state benefit in order to establish its claim. In the lower court hearing of *Wein v. State*,[93] for example, the State of New York, whose legislation is governed by considerations other than the public-purpose doctrine,[94] argued that no loan of credit was involved in its aid to New York City. The state asserted that "[t]he Constitution sought to forbid the loan of the State's credit for the benefit of another *without benefit to the State*."[95] The language

93. 84 Misc. 2d 453, 375 N.Y.S.2d 509 (Sup. Ct. 1975), *aff'd*, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

94. *See* notes 88-89 & accompanying text *supra*.

95. Brief for Defendant at 16, Wein v. State, 84 Misc. 2d 453, 375 N.Y.S.2d 509 (Sup. Ct. 1975), *aff'd*, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).

met with apparent court approval,[96] thus establishing a public-purpose basis for the state's action.

The new test can be applied only on a case-by-case basis[97] because the elements of every plan for state aid to municipalities are unique. As in cases involving competing constitutional rights of privacy[98] and freedom of expression,[99] the courts would probably employ an ad hoc balancing test using a shifting burden of proof. Plaintiff would have the initial burden of defeating the presumption of constitutionality of the legislative action[100] and would make the affirmative argument that the legislature undertook a constitutionally prohibited loan of credit. Defendant state would then have the burden of showing that its action was not a loan of credit or, in the alternative, was within the purview of the public-purpose doctrine or its equivalent.[101] The burden would

96. Judge Helman of the New York State Supreme Court, ruling in *Wein v. State*, stated: "The amelioration of a State financial crisis arising from the City's financial difficulties is a *proper State purpose* . . . in borrowing money . . . ." 84 Misc. 2d at 459, 375 N.Y.S.2d at 514.

97. *See generally* Green v. Frazier, 253 U.S. 233 (1920) (public purpose determined by peculiar circumstances of case before court).

98. *E.g.*, Griswold v. Connecticut, 381 U.S. 479 (1965) (right of privacy is a fundamental right implicit in the penumbras of certain amendments to the Constitution).

99. *E.g.*, New York Times Co. v. Sullivan, 376 U.S. 254 (1964) (tort concept of privacy balanced against first amendment guarantees of free speech and free press).

100. *See* note 92 & accompanying text *supra*.

101. Several state courts have in fact upheld what were arguably unconstitutional loans of state credit on the basis of significant public purpose. *See, e.g.*, City of Los Angeles v. Post War Pub. Works Rev. Bd., 26 Cal. 2d 101, 156 P.2d 746 (1945) (act providing aid to municipal agencies to enable them to furnish post-war employment not an unconstitutional loan of state credit to municipal corporation where separate public purpose achieved); State v. Inter-American Center Auth., 143 So. 2d 1 (Fla. 1962) (enabling act of a public authority not violative of credit clause since a public purpose was served thereby); Nelson v. Marshall, 94 Idaho 726, 497 P.2d 47 (1972) (statute permitting water resource board to make loans from its revolving development fund held not violative of constitutional prohibition against lending state credit to individuals); Grout v. Kendall, 195 Iowa 467, 192 N.W. 529 (1923) (issuance of bonds for purposes of paying bonuses to soldiers held constitutional because they were credits to be met by immediate tax levies); Johns Hopkins Univ. v. Williams, 199 Md. 392, 86 A.2d 892 (1951) (loans issued by state and given to private university upheld as a gift of cash, not credit); State *ex rel.* Hawkins v. State Bd. of Examiners, 97 Mont. 441, 35 P.2d 116 (1934) (upholding emergency legislation authorizing construction of state tuberculosis sanitarium and providing for issuance of bonds payable only out of special fund); Tosto v. Pennsylvania Nursing Home Loan Agency, 460 Pa. 1, 331 A.2d 198 (1975) (Commonwealth Nursing Home Loan Agency Law was reasonably designed to effectuate its public purpose and was not a pledge of commonwealth credit); State *ex rel.* Roddey v. Byrnes, 219 S.C. 485, 66 S.E.2d 33 (1951) (upholding general appropriation act providing for construction of school facilities and for financing of program by authorizing issuance of general obligation bonds to be retired from revenue obtained from general sales and use tax); State v. City of Austin, 160 Tex. 348, 331 S.W.2d 737 (1960) (statutory provision that relocation of util-

then rest upon plaintiff to prove that a loan of credit had taken place or, alternatively, that the legislative action was inimical to the public purpose.

State constitutional prohibitions against lending state credit were designed traditionally to prevent state involvement in high-risk projects that were not truly statewide in concern.[102] Although historically and conceptually derived from the public-purpose doctrine, the prohibitions did not allow states to respond to the economic crises of public corporations, particularly cities, in a flexible manner.[103] Instead, they were interpreted as absolute bars against lending credit to public corporations because they had originated as inflexible barriers to lending credit to private corporations.[104]

Municipal governments, like all governments, bear the ultimate "police power" responsibility of assuring their political and economic survival under the limited authority granted them by the state. The probability that other cities will find themselves facing economic problems similar to those of New York[105] therefore indicates that state courts and legislatures[106] must act in the future to preserve the economic viability of their local governments and the security of their people by easing municipal access to state credit.

The suggested criteria of the new public-purpose doctrine offer a more flexible approach to the application of state constitutional prohibitions against lending state credit to municipal corporations. Moreover, in contrast with most judicial analyses, the suggested analysis recognizes that municipal problems may at times be of statewide concern and legitimately within the ambit of a modified public-purpose doctrine.

ity facilities shall be made at expense of state, as long as such relocation is eligible for federal participation, does not violate credit lending clause); Almond v. Day, 197 Va. 782, 91 S.E.2d 660 (1956) (purchase by state of corporate securities did not constitute lending of its credit where purchase not made with purpose of aiding construction and maintenance of works of corporation). *But see, e.g.*, Village of Moyie Springs v. Aurora Mfg. Co., 82 Idaho 337, 353 P.2d 767 (1960) (statute authorizing municipality to issue revenue bonds on behalf of private corporation held unconstitutional notwithstanding incidental public benefit); State *ex rel.* Beck v. City of York, 164 Neb. 223, 82 N.W.2d 269 (1957) (proposed municipal bond issue for purpose of purchasing building which private firm would construct and then lease from city which would use lease revenues strictly for bond payments held unconstitutional as not serving public purpose); State *ex rel.* City of Charleston v. Sims, 132 W. Va. 826, 54 S.E.2d 729 (1949) (invalidating statute which authorized payments to municipalities out of funds derived from profits of liquor control commission).

102. *See* notes 25-56 & accompanying text *supra* (Section I).

103. J. FORDHAM, LOCAL GOVERNMENT LAW 61 (1975).

104. *See* note 38 & accompanying text *supra*.

105. In Detroit, for example, estimates of budget deficits increasing from $40 million in 1977 to $170 million by 1980 have led city budget officials to warn of bankruptcy in the absence of greater state and federal aid. Wash. Post, Jan. 6, 1977, § A, at 5, col. 6.

106. *See* notes 127-28 & accompanying text *infra*.

2. *Wein v. State*

i. *Under the strict interpretation of the credit lending prohibition*

During the New York City fiscal crisis, the state advanced to the Municipal Assistance Corporation and New York City a total of $750 million from a local assistance fund.[107] Pursuant to the balanced budget provision of the state constitution,[108] the legislature during its regular legislative session had accounted for all cash flows. Therefore, the funds necessary for aid to the city were not available. In order to raise money, the state issued $755 million in short-term notes secured by mortgages issued and held by the city and by expected future revenues to be collected during the subsequent fiscal year.[109] These revenues were to be derived from the eventual sale by the state of an equivalent amount of city and MAC securities which the state had purchased from the issuing public corporations, as well as from the prospective interest on these notes.[110] This appropriation was challenged in *Wein v. State*,[111] where a taxpayer sought a declaratory judgment that there had been a violation of the state constitutional proscription against lending state credit to municipal and other public corporations.[112] Plaintiff contended that short-term borrowing by the state, secured by securities whose very lack of liquidity resulted in the immediate crisis New York City and MAC faced,[113] represented an unconstitutional extension of state credit to the city, and that the state in reality had created a guaranty for the city.[114]

State appropriations are usually given as grants of cash. *Wein*, however, poses the difficult question of whether a grant of cash raised

107. *See* note 12 & accompanying text *supra*.

108. N.Y. CONST. art. VII, § 2. The provision requires that the state budget contain a complete plan of expenditures proposed to be made before the close of the ensuing fiscal year and all money available for those expenditures.

109. *See* notes 13, 14 & accompanying text *supra*.

110. *Id.*

111. 84 Misc. 2d 453, 375 N.Y.S.2d 509 (Sup. Ct. 1975), *aff'd*, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976), N.Y.S.2d 225 (1976).

112. *See* note 20 & accompanying text *supra*.

113. *See* notes 2, 3 *supra*.

114. Plaintiff's action challenged only the $250 million state appropriation to the city. However, the fate of the $500 million appropriation to MAC was clearly also at issue.

through a local assistance fund guaranteed by the state is a constitutional loan of state funds or an unconstitutional loan of its credit. Under the strict judicial interpretation of the state credit lending proscriptions, the cash-credit distinction is the critical issue addressed by the courts. In what is perhaps the leading case which differentiates the lending of credit from the lending of cash, the Maryland Court of Appeals noted that "[c]ash is not credit. Credit is sometimes a means of procuring cash, but the word is never used to describe a gift of cash."[115] The court thus upheld under the state's credit clause the issuance of state bonds whose proceeds were to be given as a cash grant to a private university. In so doing it negated any distinction between this mode of raising revenue and a direct subsidization by the state:

> If the State should have a balance of a million and a half in its treasury from annual receipts, there could be no constitutional objection to its giving this amount to the Johns Hopkins University for the purpose of constructing an engineering building. If the State does not have this amount available, but borrows it and then gives the cash to the University, which it is attempting to do, it is not giving or loaning its credit to, or in aid of, the University—it is using its credit with banking institutions to borrow the money, and it is giving the University its cash.[116]

In accord with this analytical approach, the State of New York responded to the taxpayer's challenge in *Wein* by focusing upon the cash loan-credit loan distinction. It argued that the issuance of short-term bonds to raise money for a municipal corporation is not an advance of credit to a public corporation but an advance of cash.[117]

Arguably, the positions of both the state and the taxpayer are overly simplistic. The state did not provide an outright grant of its credit to the city, as plaintiff claims. New York City received money as an appropriation which was to be used for municipal purposes.[118] Nor is the state completely accurate in its assertion that the appropriation merely involved the disposition of state monies and revenues,[119] for it is obvious that these funds were at one point raised through resort to the state's credit in order to supply the "paper value" of the municipal and MAC securities with "real value."[120]

115. Johns Hopkins Univ. v. Williams, 199 Md. 382, 401, 86 A.2d 892, 901 (1951).
116. *Id. See also* Engelking v. Investment Bd., 93 Idaho 217, 458 P.2d 213 (1969) (loaning of state credit, not funds, is prohibited).
117. Brief for Defendant-Respondent at 15, Wein v. State, 39 N.Y.2d 136, 347 N.E.2d 586, 383 N.Y.S.2d 225 (1976).
118. Financial Emergency Act, *supra* note 4, ch. 868, § 22.
119. Brief for Defendant-Respondent, *supra* note 117, at 12.
120. *See* notes 13-15 & accompanying text *supra*.

The New York State Court of Appeals upheld the state action, but barely. Noting that "[t]he line [between a loan of cash and one of credit] is a narrow one, but one drawn by the Constitution,"[121] the court went on to declare that "[f]or the reasons to be stated it is concluded that there has been no constitutional violation, but it is also apparent that the state in avoiding violation has been driven to the brink of valid practice."[122]

Due to the enormous significance of the multimillion dollar state appropriation involved, *Wein v. State* should have represented the death-knell of the traditional judicial interpretation of the constitutional prohibitions against the lending of state credit to municipal corporations. It should also have marked the end of the illogical cash-credit distinction which is the cornerstone of the strict interpretation of state lending proscriptions. Instead, the constitutionality of the aid to New York City was upheld by the court on the thinnest of grounds, based on "narrow" lines of distinction which drove the state "to the brink of valid practice." Logically, of course, there is no difference between an outright grant of cash and a grant given from a fund raised by a bond issue.[123] The strict interpretation not only assures that the unreasonable distinction remains, but uses that distinction as the focal point of its analysis. Although the court should have been concerned with the state public purpose to be served in assisting New York City in its struggle to survive, judicial scrutiny was directed at the means by which the state's money was raised and not the ends for which it was to be used. Yet, the latter was of far greater statewide concern than the former. Certainly, the continuing fiscal crisis confronted by cities across the country[124] demands that future state aid plans to municipalities be guided by a judicial doctrine more logical, predictable, and realistic than the strict interpretation of the state credit lending provision used in *Wein*.

ii. Under the suggested analysis

The suggested public-purpose doctrine[125] differs from the strict interpretation of the credit lending prohibitions chiefly in its resolution of the constitutional dilemma discussed earlier.[126] Rather than construing the constitutional proscription as a limitation upon general

121. 39 N.Y.2d 136, 137, 347 N.E.2d 586, 587, 383 N.Y.S.2d 225, 226 (1976).
122. *Id.* at 136, 347 N.E.2d at 588, 383 N.Y.S.2d at 227.
123. *See* notes 115-16 & accompanying text *supra*.
124. *See* note 22 & accompanying text *supra*.
125. *See* text accompanying notes 93-106 *supra* (Section II-C-1).
126. *See* text following note 91 *supra*.

doctrine, as is usually done, the modified approach views the public-purpose doctrine as a liberalization of the constitutional proscription. Thus, under the suggested analysis, the state's argument in *Wein v. State* would have ignored the credit-cash distinction and focused instead upon the broad public purpose effectuated by a loan of cash which indirectly might have relied on the credit of the state.

The State of New York thus would have defended its appropriation by affirmatively showing that 1) New York City needed external financial assistance to avoid insolvency; 2) the state was in the best position to provide that assistance; and 3) there was no way to raise the money for the assistance other than through the issuance of bonds backed by state credit. Such proof would have successfully overcome the challenge that the state loaned its credit to the city because it would have given plaintiff a double burden: proving a legislative action unconstitutional and proving, on policy grounds, that New York City did not need state aid. The state's arguments as posited above thus would shift the major issue considered by the court away from the credit lending prohibition and to the public-purpose doctrine suggested earlier. As a litigation strategy, this makes the constitutional proscription a much less significant restraint upon municipal aid plans involving possible loans of state credit during times of financial hardship for cities and states.

D. *Legislative Repeal of the Constitutional Prohibitions*

As the prospect of fiscal crisis continues to plague American cities,[127] state legislative bodies will seek greater independence from judicial and constitutional restrictions upon the types of aid packages they can devise. Foremost among these constraints, of course, are those constitutional provisions which limit legislative ability to incur indebtedness by extending credit to municipalities. The political and economic exigencies faced by a city requesting state aid are unique; therefore, state legislatures must be sufficiently free of judicial and constitutional constraint to respond adequately to these complex and varied demands.

The suggested public-purpose test, as the preceding analysis of *Wein v. State* indicates, offers states greater economic flexibility in creating municipal assistance plans which might of necessity include loans of credit. Under the credit lending prohibitions, however, the judiciary has the power to rule finally on the legality of a loan of state

127. *See* note 22 & accompanying text *supra*.

credit, thus making the outcome of the legislative action uncertain. Faced with the inherent uncertainty of two conflicting standards by which their actions could be judged, a constitutional provision which limits their powers and a judicial public-purpose doctrine which expands them, legislatures may simply decide to foreclose judicial interference by a comprehensive repeal of the constitutional credit lending prohibitions. This tactic would appeal particularly to states that are not governed by a public-purpose doctrine through which the inflexibility of the constitutional credit lending proscriptions could be liberalized. Alternatively, formulation of a constitutional amendment either excluding all municipal corporations from the province of the credit lending provisions or excluding only specified cities would also identify municipal fiscal solvency as a fundamental state interest completely compatible with either the old public-purpose doctrine or its suggested revision.[128]

III. Conclusion

Three distinct analytical approaches to the problem of state constitutional prohibitions against the loaning of state credit to municipal corporations are discernible. The first, a judicial approach, is the strictest. It disregards the economic needs of near-bankrupt cities and supports the retention of existing credit lending proscriptions and their interpretation as absolute bars to the lending of state credit. The rationale of this strict approach is to contain the effects of municipal economic problems and to prevent their statewide spread. Thus, it is akin to the popular desire to limit legislatively created indebtedness which underlay the original prohibitions against the lending of state credit for internal improvements.[129] Corollary to this reasoning is the notion that those states without credit lending prohibitions should adopt them in order to assure state fiscal solvency against the financial misfortunes of cities. If city officials know that their access to state credit is restricted, they will be encouraged to be more fiscally responsible. Countervailing notions of the public purpose that may be served by granting cities state credit to enhance their sagging resources are therefore immaterial under this approach.

128. Analogous to this proposal, some states have explicitly excluded from their constitutional credit lending clauses certain activities deemed of special public importance to the state. *E.g.*, IDAHO CONST. art. VIII, § 2 (water power); N.Y. CONST. art. VII, § 8(1) (education, mental health, or mental retardation purposes); ORE. CONST. art. XI, § 7 (preparation for war, repelling invasion, suppressing insurrection, building and maintaining permanent roads).

129. *See* notes 25-56 & accompanying text *supra* (Section I).

A second judicial approach retains the democratic concern that public debts be created only to finance public corporations, works, or endeavors. It differs from the first approach, however, in that its principal focus is on the nature of the public purpose to be served by a loan of state credit. This approach assumes that state credit must be viewed as an integral element of the larger state financial structure, a structure which of necessity includes municipal as well as state fiscal solvency.[130] Municipal economic requirements may thus be decisive countervailing factors to the inflexibility of the first approach to the constitutional proscriptions.

The third approach involves state legislatures rather than courts. It urges repeal of the constitutional provisions, general exclusion of municipal corporations from their scope, or specific exclusion of only certain municipal corporations.[131] This approach offers the greatest degree of legislative flexibility to the states, but accomplishes this goal at the expense of removing judicial oversight of certain state appropriations to cities. Repeal removes the uncertainty as to whether final judicial approval will be accorded complex municipal financial assistance plans but also removes an important check upon legislatively created indebtedness. Constitutional prohibitions force legislators to extend state credit as part of a municipal aid scheme only as a last resort. Without the prohibitions, it is possible that efforts by states to maintain viable credit ratings by limiting their assistance to financially troubled cities will not succeed. Unrestricted aid to cities may further jeopardize state credit by linking state and municipal interests too closely, consequently antagonizing the states' suburban, rural, and business communities.

Although the judicial and legislative approaches discussed herein each offer possible disadvantages as well as advantages to states seeking a means of providing effective assistance to cities facing economic hardship, three overriding realities remain nonetheless. First, the reductions in municipal services inherent in a fiscal crisis result in more people dying in fires, police making fewer arrests, streets be-

130. The interrelationship has been stated as follows:

[T]he credit and financial reputation of the State and of all of its units of local government are judged by the events that take place within the state.

A financial emergency occurring in even one unit of local government can cause serious damage to the credit of governments throughout the State.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, CITY FINANCIAL EMERGENCIES: THE INTERGOVERNMENTAL DIMENSION 7 (1973).

131. See text accompanying note 128 *supra*.

coming filthier, and road and transportation systems deteriorating.[132] Second, unless the states give greater economic priority to cities, these problems will get worse rather than improve.[133] And third, as the economies of the more populous cities deteriorate, so will the economic fortunes of their respective states.[134] Clearly, any judicial or legislative approach to the state constitutional credit lending prohibitions that does not take these realities into consideration is doomed to failure.

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132. See, e.g., NEW YORK MAYOR'S MANAGEMENT REPORT, THE CITY RECORD, at 1 (Feb. 22, 1977) (report details each city agency's performance through the fiscal crisis, sets city's priorities for the next fiscal year, and criticizes the state and federal governments for not assuming costs of programs such as higher education, hospitals, and courts).

133. See, e.g., THE AMERICAN ASSEMBLY, COLUMBIA UNIVERSITY, THE STATES AND THE URBAN CRISIS (1970).

134. The New York State Legislature has taken cognizance of this point:

The status of [New York City] as the financial capital of the nation and of the world and as the headquarters of American and international commerce would be severely shaken [by its formal declaration of bankruptcy]. Just as significantly, the exodus from the city of corporate and individual taxpayers would increase, thereby having the effect of imposing a greater burden on the remaining taxpayers.

. . . In addition to being the state's largest city, the city is the commercial, financial, cultural, communications and transportation center of the state. If the city were unable, because of the lack of funds, to function in its normal manner, the economy of the state would, therefore, be drastically harmed.

Financial Emergency Act, *supra* note 4, ch. 868, § 1.

APPENDIX

Financing for the City of New York, May-December 1975
($ Millions)

Month	Action	Amount	Monthly Total
May-June	State aid advances to City	800	800
June-July	"Bridge" loans from commercial banks of $275 million		
July	Sales of MAC bonds		
	to public	550	
	to commercial banks [*see* note 3 & accompanying text *supra*]	450	1,000
August	Sales of MAC bonds		
	to public	213	
	to banks, City and State pension funds [id.]	627	840
September	State agreement to purchase debt of City ($250) and MAC ($500) [*see* notes 12-15 & accompanying text *supra*]	750	
	Sales of MAC bonds to banks, City pension and sinking funds, State Insurance Fund, and certain institutions [*see* note 9 & accompanying text *supra*]	557	1,307
October	Sales of MAC bonds to City pension and sinking funds, and State Insurance Fund	281	281
November	Sales of MAC bonds to City pension and sinking funds, State Insurance Fund, and certain institutions	200	
	State legislation establishing moratorium on publicly held City notes [*see* notes 10-11 & accompanying text *supra*]	1,600	
	Agreement of November 26, 1975		
	Stretchout of City Notes	819	
	Exchange of City notes for City bonds	200	
	Agreement to purchase City bonds	2,530	
	Further agreement to reinvest City bond proceeds	579	
	State tax increase package	500	6,428
December	Federal Seasonal Credit Agreement [*see* note 5 & accompanying text *supra*]	2,300	2,300
Grand Total		**12,956**	**12,956**

SOURCE: MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK, ANNUAL REPORT 16 (1976).

uana in open view. They proceeded to the location of the dresser, as described by the informer, and found the bricks of marijuana the informer had said were there. We held the warrantless search to be valid. We noted that the police might have sealed off the defendants' apartment while a warrant was obtained. However, this would have involved an intrusion of greater magnitude than that engendered by an immediate search. We concluded that "a fair or sensible balancing of the competing private and public interests" did not demand that "the greater intrusion be preferred over the lesser." (37 NY2d, at p 681.)

In my view, *Clements* is fully applicable to this case. The police had probable cause to arrest Gonzalez and his wife and to search their apartment for drugs. The arrest had to be made quickly for Gonzalez had become nervous about the identity of the undercover agent. Once having arrested Gonzalez, there was a grave danger that the drugs would be disposed of before a warrant could be obtained. Indeed, the defendant's wife, immediately upon the arrest of her husband, flushed the previously observed cocaine down the toilet. Her grandfather was found waiting outside the door when the police concluded their search. "In sum the situation was sufficient to create, and evidently did create, a perceived likelihood" that the narcotics which the police knew to be in the apartment "might be destroyed". *(People v Clements, supra,* at p 680.)

I would reverse the orders of the Appellate Division, sustain the validity of the search, and reinstate the judgments of conviction.

Judges GABRIELLI, JONES, WACHTLER, FUCHSBERG and COOKE concur with Chief Judge BREITEL; Judge JASEN dissents and votes to reverse in a separate opinion.

Orders affirmed.

LEON E. WEIN, Appellant, v STATE OF NEW YORK et al., Respondents.

Argued January 13, 1976; decided March 23, 1976

State — loan of credit — revenue anticipation notes issued to fund appropriations for reimbursable advances to City of New York and Municipal Assistance Corporation do not violate constitutional proscription against giving or lending of credit of State to public corporations, since cash in hand may be

given or loaned, and, where appropriation therefor has been made under balanced budget, funds may be obtained through short-term notes secured by committed revenues authentically anticipated within one year.

The issuance of revenue anticipation notes to fund appropriations of $250 million and $500 million for reimbursable advances to the City of New York and the Municipal Assistance Corporation for the City of New York respectively, while reaching the limits of valid constitutional practice, does not violate the proscription against the giving or lending of the credit of the State to public corporations (NY Const, art VII, § 8, subd 1). The Constitution does not prohibit the giving or lending of money to a municipal or other public corporation, such that cash in hand may be given or loaned, and, where the appropriation for a gift or loan has been made under a balanced budget, the transaction involves cash in hand, regardless of whether the funds are temporarily financed by borrowings. The required funds may be obtained through short-term notes, which are secured by committed tax, Federal grant and bond revenues authentically anticipated within one year and which may not be rolled over into long-term obligations or a new short-term issue. Such temporary obligations, properly administered, will not burden future taxpayers by the direct or indirect creation of a deficit in the year of repayment, in contrast to the constitutionally prohibited use of long-term borrowing to finance State gifts. Historically, the constitutional prohibition against gifts or loans of the State's credit was intended to protect posterity from the consequences of future contingent liabilities profligately incurred. The instant transactions present no such abuse, so long as the fiscal prospects are tenable.

Wein v State of New York, 84 Misc 2d 453, affirmed.

APPEAL, on constitutional grounds, from a judgment of the Supreme Court at Special Term (NATHANIEL T. HELMAN, J.), entered October 21, 1975 in New York County in an action for a declaratory judgment, which granted summary judgment to defendants declaring sections 22 and 23 of the State Financial Emergency Act for the City of New York (L 1975, ch 868, as amd by L 1975, ch 870) constitutional and valid.

Leon Edward Wein, pro se, and *William J. Quirk* for Leon E. Wein, appellant. I. The $250 million characterized by Special Term as an appropriation of money involves an unconstitutional loan of the State's credit to or in aid of the City of New York. II. Chapters 868 and 870 of the Laws of 1975 violate section 8 of article VII of the Constitution of the State of New York in that they provide for a gift or loan of the State's credit in aid of a public corporation. *(People v Westchester County Nat. Bank,* 231 NY 465; *Bank of Rome v Village of Rome,* 18 NY 38; *Starin v Town of Genoa,* 23 NY 439; *Gould v Town of Sterling,* 23 NY 456; *People v Mead,* 24 NY 114; *Clarke v City of Rochester,* 28 NY 605; *People v Mitchell,* 35 NY 550; *People ex rel. Haines v Smith,* 45 NY 772; *People ex rel. Freeman v Hulbert,* 46 NY 110; *People ex rel. Allen v Knowles,* 47 NY 415; *People ex rel. Dunkirk, W &*

v Batchellor, 53 NY 128.) III. Section 8 of article Constitution prohibits the gift or loan of State ny form. IV. Short-term borrowing involves the e State.

Lefkowitz, Attorney-General (Shirley Adelson Sie- muel A. Hirshowitz of counsel), for Arthur Levitt, . I. The $750 million appropriation is a constitu- ance of money to public corporations. *(Union Free t. v Town of Rye,* 280 NY 469; *Comereski v City of* 3 NY 248; *Wein v City of New York,* 36 NY2d 610.) stitution expressly permits short-term borrowing to priations. No exception is made for appropriations ocal Assistance Fund. III. The constitutional prohi- nst loan of the State's credit does not apply. *(Cour- wich Shop v Port of N. Y. Auth.,* 12 NY2d 379; *Van Berkel v Power,* 16 NY2d 37; *I. L. F. Y. Co. v State Housing Rent Comm.,* 10 NY2d 263, 369 US *er of Roosevelt Raceway v Monaghan,* 9 NY2d 293, ; *Wiggins v Town of Somers,* 4 NY2d 215; *People v er County Nat. Bank,* 231 NY 465; *Union Free t. v Town of Rye,* 280 NY 469; *Salzman v Impellit-* Misc 486, 281 App Div 1023, 305 NY 414; *Murphy v ty,* 28 NY2d 80.)

Kleinbard, Max Gitter and *Dean B. Allison* for the Assistance Corporation for the City of New York, *riae.* I. The challenged legislation does not entail a n of the State's credit. *(Union Free School Dist. v Rye,* 280 NY 469; *Matter of City of New York [U. N. ent Corp.],* 72 Misc 2d 535.) II. Section 9 of article e Constitution expressly authorizes the State to ort-term revenue anticipation borrowings to satisfy ropriations to a public corporation. III. The gift or edit clause does not apply to the appropriations and n borrowings involved here. IV. The short-term State s here do not entail a gift or loan of credit because e undertaken to fulfill the legal obligations of the lf. *(Union Free School Dist. v Town of Rye,* 280 NY *ty of Oneida v City of Utica,* 285 NY 788; *Comereski Elmira,* 308 NY 248; *Wein v City of New York,* 47 , 36 NY2d 610; *Salzman v Impellitteri,* 203 Misc 486, Div 1023, 305 NY 414.) V. The appropriations pro- in the Emergency Act and the State's subsequent

short-term borrowing do not violate section 8 of article VII of the Constitution because they were undertaken "in aid of" the State itself. *(Salzman v Impellitteri,* 203 Misc 486, 281 App Div 1023, 305 NY 414; *Union Free School Dist. v Town of Rye,* 280 NY 469; *Wein v City of New York,* 47 AD2d 367, 36 NY2d 610; *Matter of Froslid v Hults,* 20 AD2d 498, 14 NY2d 722; *East N. Y. Sav. Bank v Hahn,* 293 NY 622.)

Haliburton Fales, 2d, Willis McDonald, IV, Marion Jay Epley, III, Thomas J. O'Sullivan, Robert L. Clare, III, and *John E. Osnato* for Certain New York Financial Institutions, *amicus curiae.* I. The instant case does not involve a loan or gift of "credit" within the meaning of section 8 of article VII of the New York Constitution. *(People v Westchester County Nat. Bank,* 231 NY 465; *Sun Print. & Pub. Assn. v Mayor of City of N. Y.,* 152 NY 257; *Union Free School Dist. v Town of Rye,* 280 NY 469.) II. The State's appropriation of funds for the city is not unconstitutional since such State expenditure is primarily for State purposes. *(Union Free School Dist. v Town of Rye,* 280 NY 469; *Salzman v Impellitteri,* 203 Misc 486, 281 App Div 1023, 305 NY 414; *Comereski v City of Elmira,* 308 NY 248; *Wein v City of New York,* 47 AD2d 367, 36 NY2d 610; *Matter of Froslid v Hults,* 20 AD2d 498, 14 NY2d 722; *People v Westchester County Nat. Bank,* 231 NY 465; *East N. Y. Sav. Bank v Hahn,* 293 NY 622, 326 US 230.) III. Investors have acted in reasonable reliance on the realistic approach taken in this area by the New York courts in the past. It would not be in the interests of justice, nor in the interests of the people of the State and City of New York, to now change the ground rules and adopt a rigid approach. *(Wein v City of New York,* 36 NY2d 610; *People ex rel. De Forest v Denniston,* 23 NY 247; *Bank for Sav. in City of N. Y. v Grace,* 102 NY 313; *Sun Print. & Pub. Assn. v Mayor of City of N. Y.* 152 NY 257; *Union Free School Dist. v Town of Rye,* 280 NY 469; *County of Oneida v City of Utica,* 260 App Div 363, 285 NY 788; *Salzman v Impellitteri,* 203 Misc 486, 281 App Div 1023, 305 NY 414; *Comereski v City of Elmira,* 308 NY 248.)

Chief Judge BREITEL. In a taxpayer's action Supreme Court summarily on motion declared constitutional sections 22 and 23 of the State Financial Emergency Act for the City of New York (L 1975, ch 868, as amd by L 1975, ch 870). Plaintiff taxpayer appeals directly to this court urging the statute's nstitutionality (NY Const, art VI, § 3, subd b, par [2]; R 5601, subd [b], par 2).

a desperate fiscal crisis the Nation's largest city faces cruptcy and the State lacks cash resources to tide the city its immediate problems by outright grant of funds. The e is whether appropriations, at an Extraordinary Session he Legislature in mid-fiscal year, of $250 million to the of New York and $500 million to the Municipal Assist- e Corporation for the City of New York (MAC), to be led by short-term State borrowing in the form of revenue ax anticipation notes, constitute a gift or loan of the credit he State to public corporations, in violation of constitu- al limitations (NY Const, art VII, § 8, subd 1).

here should be an affirmance. The Constitution does not hibit the State for a public purpose from giving or lending money to assist a municipal or other public corporation. r does the Constitution prohibit the State from short-term rowing in advance of anticipated taxes and revenues to d appropriations previously made. Indeed, short-term bor- ving for this purpose is expressly and unconditionally au- rized by the literal terms of section 9 of article VII. Hence, the State chooses to use the proceeds of otherwise constitu- nally valid short-term borrowing, payable out of anticipated venues, in disbursement of an appropriation of money to sist for a public purpose a municipal or other public corpo- tion, the State's "credit" is not extended to the municipality other public corporation in violation of constitutional limi- tions. The device is that the State gives cash in hand to the blic corporation, albeit obtained by its own borrowing. Such rrowing is permitted in limited fashion by the Constitution, short-term paper in advance of authentically anticipated venues from taxes, Federal grants or long-term bonds autho- zed but not yet issued. The line is a narrow one, but one rawn by the Constitution.

On September 5, 1975, because of the desperate fiscal crisis n New York City, the Legislature convened in Extraordinary ession. On September 9, it passed, and the Governor ap- roved, the New York State Financial Emergency Act for the City of New York, an intricate fiscal plan to meet the city's mmediate financial paralysis (L 1975, ch 868, as amd by L 1975, ch 870).

The Legislature declared "that a financial emergency and an emergency period exists in the city of New York. The city is unable to obtain the funds needed by the city to continue to provide essential services to its inhabitants or to meet its obligations to the holders of outstanding securities" (§ 1). To meet the emergency, $250 million and $500 million were appropriated "in the first instance" as advances to the city and to MAC, respectively (§§ 22, 23). The appropriations were purportedly made from the Local Assistance Fund, an account, and not an actual fund, into which appropriations and disbursements of State aid to local governments are charged and credited (State Finance Law, § 70, subd 3, par [a]). As a precondition to receiving the funds, the city and MAC were required to enter into repayment agreements with the State Budget Director, and to issue notes and bonds payable to the State in the principal amounts of the advances.

No provision was made in the particular statute for the source from which the State expected to obtain the funds to pay the appropriations. This is not unusual in appropriations made by the Legislature. On September 15, 1975, however, the State sold short-term revenue anticipation notes (RANs) in the amount of $250 million, for the purpose of crediting the proceeds to the Local Assistance "Fund" and offsetting a portion of the MAC appropriation. (In October and November, 1975, after Special Term had declared the appropriations sections constitutional, an additional $500 million in short-term notes were sold to fund the remainder of the appropriations.) By general statute, sufficient revenues to pay the particular RANs are available by impounding of the revenues to be received by the State (State Finance Law, § 55; 1934 Opns Atty Gen 190, 191).

Critical to understanding State finances is that the Constitution mandates a balanced budget (art VII, § 2). At the annual regular session of the Legislature, usually not later than February 1, the Governor must present a balanced budget, namely, a plan of expenditures and revenues which balance, with permissible contingencies which do not merit consideration in the present context. Temporary borrowing, discussed later, is permitted to anticipate planned committed revenues and, in certain limited situations, not now relevant, unanticipated needs. There is no express treatment in the Constitution governing appropriations made after the regular session and during the fiscal year at extraordinary sessions, but the implication is, and an essential one, that additional appropriations must be covered by matching revenues, or else the balanced get of the regular session would be a device easily evaded a later extraordinary session. A control on such evasion, vever, and reinforcing the implication are the constitu- ıal limitations on short-term borrowing.

'here is flexibility in the Constitution, as there must be, ause estimates of expenditures will never be fulfilled ex- ly and estimates of revenues will even less likely be ful- ed exactly. And this lack of capacity to prophesy expendi- es and revenues in relatively ordinary times is minor when npared to changes of magnitude due to disasters, economic heavals, war, the coming of peace after war, and the like. e Constitution is designed to permit survival, but it is also signed to prevent the repetition of fiscal abuse the evils of ich history taught painfully to the people of this State.

The issues raised in this case involve the principles of the nstitutional plan, manipulation of its provisions, and the kelihood of the very abuses the Constitution was intended to event. The issues are not easily resolved, and the answers e not categorical. If the city and the State had enormous ggregate temporary debt, without immediate provision for its quidation or valid refunding in the aggregate, it would be emonstrative that either the constitutional plan is not exact nough to prevent what has happened or that the plan has een violated.

For the reasons to be stated it is concluded that there has een no constitutional violation, but it is also apparent that he State in avoiding violation has been driven to the brink of alid practice.

Plaintiff contends that the appropriations to the city and IAC, funded by short-term State borrowing, constitute a gift r loan of the credit of the State in violation of constitutional imitations. In short, he contends that the State has attempted o do indirectly what it may not do directly.

Section 8 of article VII of the Constitution provides: "The money of the state shall not be given or loaned to or in aid of any private corporation or association, or private undertaking; nor shall the credit of the state be given or loaned to or in aid of any individual, or public or private corporation or associa- tion, or private undertaking".

The prohibition against lending or giving the State's credit was prompted largely by the extensive and highly speculative subsidizing in the first half of the nineteenth century of

private railroad and canal companies by the State's long-term debt obligations (see *People v Westchester County Nat. Bank,* 231 NY 465, 471-472; Report of the Debates and Proceedings of the Convention for the Revision of the Constitution of the State of New York [1846], at pp 884-894; New York State Constitutional Convention Comm, Problems Relating to Taxa- tion and Finance [1938], vol 10, ch V; New York Temporary State Comm on the Constitutional Convention, State Finance [1967], p 108; Sowers, Financial History of New york State, pp 82-85; Bidwell, Taxation in New York State, pp 32-33; 2 Lincoln, Constitutional History of New York, pp 91-101, 179- 180; see, also, *Johns Hopkins Univ. v Williams,* 199 Md 382, 388-390). For example, to aid the construction of railroads, the State would issue or "loan" to the railroad "State stock", a form of long-term debt instrument backed by the State's full faith and credit. The public would then purchase the State stock from the railroad at auction, and the proceeds would be applied to the private corporation's capital improvements (e.g., L 1836, ch 170, §§ 1, 4, 7).

It was not anticipated that the State would ever have to pay the debt to the purchasers of the State stock from its own tax- raised funds (see Problems Relating to Taxation and Finance [1938], *op. cit.,* at p 109; Debates and Proceedings [1846], *op. cit.,* at pp 856, 1085; Proceedings and Debates of the Constitu- tional Convention of 1867, vol 3, at p 1844). This was because, in return for the stock, the railroads promised to pay the annual interest and to redeem the principal before it became due, thus exonerating the State of its liability (e.g., L 1836, ch 170, § 9). In the words of Mr. Hoffman, Chairman of the 1846 Convention Committee on Finances, "The people stand in this case as security for those debts" (Debates and Proceedings [1846], *op. cit.,* at p 852). Mortgages of railroad real property were given to secure the promises.

In the halcyon days of economic boom, stimulated by the improvements which presaged the eventual industrial and commercial development of the State, the practice of subsidiz- ing internal transportation improvements foretold no fiscal difficulties, and seemed very much in the public interest. With the onset of the depression of 1837-1842, however, the rail- roads, too rapidly and profligately built, were unable to pay their debts. The State paid. Foreclosure of the railroad mort- gages was futile, as they covered only real property, practi- cally worthless apart from the rolling stock. Public funds thus ursed were never reimbursed and the people became lusioned with the policy of subsidizing private internal rovements, however seemingly desirable. As a consence, section 9 of article VII of the Constitution of 1846 was pted to prohibit the lending or giving of the State's credit corporations (see *People v Westchester County Nat. Bank,* NY 465, 471-472, *supra;* Debates and Proceedings [1846], *cit.,* at pp 853-856; Revised Record of the New York State stitutional Convention of 1915, vol 2, at pp 1255-1256; blems Relating to Taxation and Finance [1938], *op. cit.,* at 109-112; Lincoln, *op. cit.,* at pp 98-101, 179-180).

n 1938, following the Great Depression with memories then sh of the financial stringencies of municipal corporations, prohibition against lending or giving the State's credit was the first time made applicable to public corporations (NY nst, art VII, § 8). The 1938 Convention Committee on State nances and Revenues reported: "If corporations were defined only private corporations, by immediate implication the te credit could be given or loaned to every municipal or er public corporation. If cities found themselves in difficul-s, or if an authority were unable to sell its securities, they uld rush to the State for assistance. One or two such stances might do no harm, but a general use of the State edit in this manner would dissipate the State's credit and molish the strongest foundation of our State's financial ucture. The committee feels strongly that the State's credit ould be reserved for the use of the State only, with only ch exceptions as may be specifically set forth in the Constition" (Journal and Documents of the New York State Contutional Convention [1938], Appendix 3, Doc No. 3, at p 6).

The foregoing historical summary indicates that the prohibin was intended to protect the State from the uncertain and ssibly disastrous consequences of incurring future continnt liabilities, liabilities easy for a current generation to oject but a burden on future generations.

The State Comptroller, Arthur Levitt, in his 1975 Annual eport, quoted the eighteenth century philosopher, David ume, to pertinent effect: "It is very tempting to a minister to nploy such an expedient, as enables him to make a great gure during his administration, without overburthening the eople with taxes, or exciting any immediate clamors against imself. The practice therefore of contracting debt will almost nfallibly be abused, in every government. It would scarcely be

more imprudent to give a prodigal son a credit in every banker's shop in London, than to empower a statesman to draw bills, in this manner, upon posterity."

The prohibition against extending the State's credit is not, however, limited solely to instances where the State acts as a surety or guarantor of the debt of others, or to situations where the debt is noncontigent, as had been the case in the early days (see *People v Westchester County Nat. Bank,* 231 NY 465, 476, *supra;* Temporary State Comm., State Finance [1967], *op. cit.,* at pp 113-114, n 41; compare Proposed NY Const of 1967, art X, § 18, which would have expressly prohibited the State only from guaranteeing the obligations of municipal or other public corporations). In *People v Westchester County Nat. Bank* (231 NY 465, 483, *supra),* the court interpreted section 8 of article VII to apply not only where the State has guaranteed the debt of others, but also where the State has issued its own long-term bonds and made a gift of the proceeds. As the court stated (p 476): "[T]he mere form of the transaction is immaterial. If the gift of the bonds of the state to a railroad corporation would be such a gift—and it undoubtedly would be—then so would be an issue of bonds by the state with the express condition that their proceeds should be given to the same corporation. The evasion of the constitutional provision would be palpable and it could not and should not be permitted" (see 81 CJS, States, §§ 136-137, p 1167, n 50).

Of course, the *Westchester Bank* case was an application of the familiar rule of statutory construction that, when the main purpose of a statute, or a part of a statute, is to evade the Constitution by "effecting indirectly that which cannot be done directly, the act is to that extend void, because it violates the spirit of the fundamental law" *(People ex rel. Burby v Howland,* 155 NY 270, 280). On the other hand, there is an exceedingly strong presumption that a statute is constitutional (see, e.g., *Montgomery v Daniels,* 38 NY2d 41, 54; *People v Broadie,* 37 NY2d 100, 117). And, as stated in *Comereski v City of Elmira* (308 NY 248, 254): "We should not strain ourselves to find illegality in such [statutory financing] programs" (see *Wein v City of New York,* 36 NY2d 610, 619).

It is undisputed that the State may give or lend money, as distinguished from its credit, to assist a municipal or other public corporation in a public purpose *(People v Westchester County Nat. Bank,* 231 NY 465, 472-474, *supra;* Journal of the

Constitutional Convention [1938], *op. cit.*, Appendix 3, Doc No. 3, at p 5; Temporary State Comm, State Finance [1967], *op. cit.*, at p 114; see, also, *Wein v City of New York,* 36 NY2d 610, 619, *supra; Comereski v City of Elmira,* 308 NY 248, 252, *supra; Union Free School Dist. v Town of Rye,* 280 NY 469, 474; *Salzman v Impellitteri,* 203 Misc 486, 495, affd 281 App Div 1023, mod and affd 305 NY 414; 1938 Opns Atty Gen 256, 257). Under the Constitution, any such monetary assistance must, of course, be made pursuant to an appropriation, which must distinctly specify the sum appropriated and the object or purpose to which it is to be applied (art VII, § 7). These requirements were met in the instant case (see L 1975, ch 868, §§ 22, 23, as amd by L 1975, ch 870).

It is also undisputed that the State may validly contract debts in authentic anticipation of the receipt of taxes and revenues, for the purpose and within the amounts of appropriations previously made (NY Const, art VII, § 9). Notes issued in exchange for the moneys so borrowed must, however, under the Constitution and by implementing statute, be paid from such taxes and revenues within one year from the date of issue (art VII, § 9; see State Finance Law, § 55). This is the key device in the Constitution with respect to temporary financing. If properly observed, temporary obligations may not become long term and a burden on future taxpayers who undoubtedly will have their own fiscal problems to solve.

The concern expressed in the *Westchester Bank* case (*supra*), namely, that the State's credit would be impaired and posterity burdened by the improvident use of long-term borrowing to finance gifts of the State's money, is obviated by using constitutionally valid short-term borrowing to finance appropriations of money to assist municipal or other public corporations (see Revised Record [1915], *op. cit.*, at pp 1269-1271; Problems Relating to Taxation and Finance [1938], *op. cit.*, at p 69, n 8). Unlike long-term borrowing, which is limited in term to a period of "the probable life of the work or purpose for which the debt is to be contracted", constitutionally valid short-term borrowing, which must be repaid within one year, imposes no "burden upon our children" (NY Const, art VII, § 12; *People v Westchester County Nat. Bank,* 231 NY 465, 474, *supra).* Indeed, the constitutional limitations on short-term borrowing were carefully designed to avoid this problem (see discussion below). Moreover, the proceeds of constitutionally valid short-term borrowing once raised are

cash in hand. Temporary notes validly issued in authentic anticipation of taxes and revenues to be received within one year, are therefore functionally equivalent to the commitment of incoming taxes and revenues. Hence, the use of short-term borrowing to finance an appropriation of money to a municipal or other public corporation does not violate the prohibition against giving or lending the State's credit, provided the short-term borrowing is authentically in anticipation of actually committed taxes or other revenues.

On the face of it, then, the appropriations of money to assist the city and MAC, ultimately financed in part by the RANs, would appear to be a constitutionally valid reimbursable grant of the State's money for a public purpose to municipal and public corporations. Section 9 of article VII requires, however, that short-term debt must be contracted "in anticipation of the receipt of taxes and revenues". The resolution of the issues in this case thus revolves entirely on the validity and use of anticipation notes to fund the emergency appropriations under attack.

In the Constitution of 1846, under an exception to the referendum requirement applicable to long-term bonds, the State was authorized to incur up to $1 million of debt "to meet casual deficits or failures in revenues, or for expenses not provided for" (art VII, § 10). The $1 million limit on such debt was not, however, considered applicable to temporary borrowing in anticipation of revenues or to cover unanticipated budgetary deficiencies. Thus, large debts were incurred by means of issuing tax anticipation notes (see 1915 Opns Atty Gen 161, 162-164; Problems Relating to Taxation and Finance [1938], *op. cit.*, at pp 67-68; Temporary State Comm, State Finance [1967], *op. cit.*, at p 75). This practice had been termed a violation of the "spirit" of the Constitution (Problems Relating to Taxation and Finance [1938], *op. cit.*, at p 68).

To remedy the situation, the provision was revised in 1920 expressly to permit the State to contract short-term debt in anticipation of taxes and revenues. Instead of a $1 million limit, which had become anomalously small, the short-term debt was limited to the amount of appropriations previously made and presumably in accordance with a balanced budget plan. For reasons that history makes clear, obligations issued for the money borrowed were required to be paid from taxes and revenues within one year of the date of issue (NY Const of 1894, art VII, § 2, as amd; see Revised Record [1915], *op.*

:t., at pp 1270-1271). It was believed that the revised provi-on would suffice to cover customary tax anticipation loans as ell as budget deficit loans (Problems Relating to Taxation nd Finance [1938], *op. cit.*, at p 70).

With the onset of the Great Depression and the resulting ırge annual budgetary deficits, however, it became evident hat tax and revenue anticipation loans, which had to be epaid within one year, were inadequate to close large fiscal aps. The State was forced to "rollover", that is, replicate hat was supposed to be a one-instance temporary debt until was finally retired. In 1938, a proposal was made to give the tate the authority to contract five-year loans to finance udgetary deficits, but this proposal was never adopted. In-tead, a bifurcated provision was made for bond anticipation otes, that is, notes in anticipation of proceeds from bonds uthorized by referendum and limited by term to the probable isefulness of the project for which the bonds were authorized, ayable within two years from the date of issue of the bond nticipation notes. The one-year limitation for "customary" ax and revenue anticipation notes was retained (NY Const, rt VII, § 9; see Problems Relating to Taxation and Finance 1938], *op. cit.*, at pp 71-72; Journal of the Constitutional Convention [1938], *op. cit.*, Appendix 3, Doc No. 3, at p 6).

Thus, the device of issuing tax and revenue anticipation otes was designed to permit the State to borrow temporarily o meet expenses for which appropriations under a balanced udget have been made, but for which revenues, both commit-ed and anticipated, have not yet come in, thus adjusting the ash flow of taxes and revenues to expenditures. Put another vay, these short-term obligations may be used to raise funds o offset temporary deficits in the fiscal year of issuance and ayable not later than in some early portion of the next fiscal ear (see 1932 Opns Atty Gen 119). According to the Constitu-ion, however, and this is of critical significance, tax and revenue anticipation notes must be issued "in anticipation of the receipt of taxes and revenues"; they may not be issued in anticipation of a budgetary deficit (see Temporary State Comm, State Finance [1967], *op. cit.*, at p 86).

Consequently, if it cannot reasonably be anticipated at the ime the notes are issued that the State will have sufficient committed taxes and revenues, based on authentic estimates, to pay the obligations within one year of the date of issue, such borrowing is constitutionally impermissible. For example, if repayment of tax and revenue anticipation notes may only be made by creating, directly or indirectly, a budgetary deficit in the year of repayment, such borrowing is not an anticipation of the receipt of taxes and revenues and thus violates constitutional limitations (see Governor's Budget Message 1976-1977, at p M10, recognizing and endeavoring to meet the problem). As was stated by the 1938 Subcommittee on Taxation and Finance of the Constitutional Convention Committee: "The spirit of the clause implied that the State must not have two or more budgetary deficits in succession. Unless the State intended that it would have sufficient revenue to retire the deficit loans, it really had no power to contract them" (Problems Relating to Taxation and Finance [1938], *op. cit.*, at p 71). (For an example of an intractable deficit carry-over, see State Comptroller's 1975 Report, vol 1, at p 8, with reference to fiscal years 1972-1973, 1973-1974.)

Of course, such a violation of the "spirit" of this provision would be compounded by another tax or revenue anticipation note issue to offset a budgetary deficit in the second year, thus in effect "rolling over" the initial issue. In short, "rollovers" of revenue and tax anticipation notes are not consonant with constitutional limitations or their spirit. Of course, it would be naive not to recognize that the ingenuity of man can devise at least a verbalistic escape from limitations and perhaps even an escape through the inevitable loopholes in man's language to accomplish his purpose. But there must be a point, a determinable point, at which an otherwise plausible manipulation may and will be recognized and declared to be the doing indirectly of that which is forbidden to be done directly (see *People v Westchester County Nat. Bank*, 231 NY 465, 476, *supra; People ex rel. Burby v Howland*, 155 NY 270, 280, *supra).*

The $250 million of RANs in the instant case, the only notes before Special Term, were validly issued in authentic anticipation of revenues to be received within one year of their date. The Governor has estimated that the 1975-1976 budget is currently in deficit in the amount of $449 million. To meet the deficit and balance the budget the Governor has proposed drawing upon an estimated $67 million in liquid assets of tax stabilization funds, and issuing $382 million in additional tax notes in anticipation of committed taxes and revenues (Budget Message, at p M10).

At the time the RANs were offered by prospectus, on ptember 10, 1975, the State had $3,385 million of tax and venue anticipation notes outstanding, in some large measure undoubtedly a product of previous short-term financing ee State Prospectus of September 10, 1975 for the instant otes, at p 5, n 1, projecting a refinancing of part of temporary otes maturing in September by tax anticipation notes, coneivably a "rollover" of notes, but notes not involved in this ase). Nevertheless, on August 31, 1975, 10 days before the suance of the RANs, for the then current fiscal year 1975-976 there were taxes and revenues anticipated but not reeived of $6,422.1 million. The total recommended expendiures for fiscal year 1976-1977 are $10,764 million, including overage of anticipation notes already issued and to be issued; he total anticipated revenues are $10,764 million (Budget Message, at pp A50-A51, A75). If there are insufficient funds o repay the RANs when they fall due, the Comptroller will ssue refunding notes and begin to impound taxes and revenues to repay the refunding notes. Thus, it does not appear hat at the time of the issuance of the RANs, the State could not reasonably have anticipated that there would be sufficient axes and revenues to pay the particular RANs within one year of the date of issue, or at least at this stage of the matter the court cannot say so. The $250 million of RANs were, therefore, validly issued within the meaning of constitutional limitations.

The point then is that these RANs are not identifiable, at this initial stage, as part of a "rollover", but are a new financing to meet a new emergency appropriation. There is, of course, more to the problem.

To balance the budget for the new fiscal year (1976-1977), it is anticipated that the ultimate funds for the payment of the RANs will come from the anticipated proceeds of MAC notes issued to the State in September, 1975 and which will mature in September, 1976 (see L 1975, ch 868, § 23). If so, the situation is fine. If not, when these RANs become due they would be payable, on default, out of first impounded revenues. Of course, were the fiscal paralysis of the city to renew, the temptation for temporary refinancing in the nature of a "rollover" might occur, but such a pessimistic prophesy is the privilege of the financial soothsayer and not of a court applying the rules of law. It is interesting that with respect to city notes issued to the State as part of the October, 1975 transaction, they are further secured by the power of the State to

withhold State aid due to the city (§ 22). With respect to MAC there is no similar provision but, instead the hope that MAC will be able to sell its bonds to reimburse the State on the temporary notes.

One may not leave the subject without observing that the device under scrutiny, even if it is not identifiable at this stage as a violation of constitutional limitations in control of the State's temporary debt, may in the course of time prove violative if it becomes the starting point for temporary refinancing in the nature of a "rollover". The device is not justified because of the extreme fiscal emergency but only because the particular appropriations and the particular RANs are in fact not violative of constitutional limitations. Their validity depends upon the prospect that the particular RANs will be paid as contemplated and there is nothing now at hand to suggest that they will not. Indeed, if the constitutional mandate for a balanced budget is obeyed, they must be paid.

In sum, there is no unconstitutional granting of the State's credit to MAC or the city, and there is no unconstitutional abuse of the temporary borrowing power of the State. The first is true because the State may grant or lend its funds in hand for a public purpose to a public corporation. The second is true because the State's temporary debt as a part of the device must be exonerated in the ensuing fiscal year. The legalities of the device are present so long as the fiscal prospects are tenable.

Accordingly, the judgment of Supreme Court should be affirmed, without costs.

JASEN, J. (dissenting). I dissent and would hold that the appropriations contained in sections 22 and 23 of the New York State Financial Emergency Act for the City of New York and the notes issued to finance these appropriations are in violation of the State Constitution.

In September, 1975, the Legislature, in an Extraordinary Session called to consider the financial plight of New York City, appropriated the sum of $250 million to the city and another $500 million to the Municipal Assistance Corporation (MAC) created for the benefit of the city. (L 1975, ch 868, §§ 22, 23.) In return for these advances, the State took back equivalent amounts of city and MAC notes. The State's taxes and revenues having been otherwise accounted for to finance appropriations, the State issued short-term tax and revenue anticipation notes. In my view, these transactions were an isguised effort to evade the limitations imposed by the ple of this State, in their Constitution, on the power of e government to arrange its finances. By these arrangets, the State lent its credit to other public corporations this, under the explicit strictures of our Constitution, it not do. Since the appropriation and the notes issued to nce it are in derogation of both the spirit and the letter of paramount law of this State, our court should strike them n.

ur State Constitution, like the Constitutions of the other tes, places restrictions on the power of the State to tax its zens and to spend public resources. These limitations do derive from any abstract considerations of how State fiscal irs should or should not be managed. The constitutional scriptions, instead, flow from the hard and bitter experies of the people of this State when, on prior occasions in r history, hard times caught up with optimistic fiscal ght-of-hand. In the formative years in the industrial development of New York, the State, through a variety of financial emes, issued bonds and stocks to finance railroads, banks, npikes, hospitals, and other private enterprises then emed essential for society. Contrary to expectations, these sinesses defaulted on their obligations and the State, or ther its taxpayers, were required to make good on the curities. Moreover, the State was required to invest still ore public money lest the value of its earlier investments be st. As the extent of the State's obligations became fully own, a storm of opposition arose to the policy of advancing ate money or State credit to private enterprise. (2 Lincoln, onstitutional History of New York, pp 93-101; see, also, roblems Relating to Taxation and Finance, Documents of the ew York State Constitutional Convention Committee [1938], ol X, pp 108-112.) This opposition developed because taxpays "were finally incensed at the thought that they would ave to shoulder the burdens of the bad investments of the tate" (at p 110). In 1843, the State Comptroller noted that, in ost cases, loans of State credit had not resulted in benefits to he State, but, rather, had "inflicted lasting evils on all who abor and pay taxes." (New York State Assembly Documents 1843], No. 10, p 33.) Thus, in 1846, the Constitutional Convention of that year adopted, without much discussion or debate,

a provision prohibiting loans of State credit: "The credit of the state shall not, in any manner, be given or loaned to, or in aid of any individual, association, or corporation." (NY Const of 1846, art VII, § 9.)

Doubts later arose as to whether the constitutional prohibition applied to public corporations. In one case, this court held that it did not. *(Board of Supervisors of County of Cayuga v State of New York,* 153 NY 279, 293-294.) After the Great Depression had displayed, with great force, the weakness of the financial foundation underlying many local governments, the members of the 1938 Constitutional Convention deemed it advisable to extend the constitutional prohibition to public corporations. The Committee on State Finances and Revenues reported that were the prohibition not extended, "the State credit could be given or loaned to every municipal or other public corporation. If cities found themselves in difficulties, or if an authority were unable to sell its securities, they could rush to the State for assistance. One or two instances might do no harm, but a general use of the State credit in this manner would dissipate the State's credit and demolish the strongest foundation of our State's financial structure. The committee feels strongly that the State's credit should be reserved for the use of the State only, with only such exceptions as may be specifically set forth in the Constitution." (Journal and Documents of the New York State Constitutional Convention [1938], Appendix 3, Doc No. 3, p 6.) Contrary to the assertion of the majority that the prohibition was intended only to guard against the easy imposition of burdens upon future generations by present leaders (p 144), it is unmistakably clear that the prohibition was primarily designed to insure that the credit of the State would be reserved for the sole use of the State government. Nowhere was it even suggested that short-term loans of credit ought to be permitted. The framers sought to guard against the dissipation and abuse of the State's hard-won credit. In the absence of express constitutional sanction, no other entity, corporate or governmental, was to be given access to it, whether access was for a year, or 2, or 20. What was feared was that cities, unable to borrow on their own credit or unable or unwilling to raise taxes, might induce and secure the loan of sound State credit to bolster up their own sagging credit, thereby threatening the financial structure of the State. The "declared intention" of the draftsmen was to prohibit "the use of the credit of one unit to supplement the credit of another unit." *(Union Free School Dist. v Town of Rye,* 280 NY 469, 478.)

As it has come down to us, the Constitution of our State provides that State money "shall not be given or loaned to or in aid of any private corporation or association, or private undertaking; nor shall the credit of the state be given or loaned to or in aid of any individual, or public or private corporation or association, or private undertaking" (NY Const, art VII, § 8, subd 1). The 1967 Constitutional Convention proposed a new section that would have weakened the force of this prohibition.[1] That section, along with the rest of that proposed Constitution, was rejected by the people.

It should be recognized that the Constitution does not prohibit the State from loaning or giving money to other public corporations. However, such an explicit prohibition was unnecessary since the power to give or loan is necessarily controlled by the resources available to make the gifts or loans. There is no difficulty with the State giving or loaning money to a locality for a public purpose, provided that the State has, legitimately, adequate funds available to do so. (See *Union Free School Dist. v Town of Rye,* 280 NY 469, 474, *supra.)*

I believe that the legislation involved in this case and notes issued in pursuance of the legislative scheme are in violation of the constitutional prohibition. This case does not involve a mere gift or loan of State money, for it is clear that the State had no money to give. The arrangement provided for in sections 22 and 23 of the New York State Financial Emergency Act for the City of New York can, most appropriately, be classified as an exchange. The city and its Municipal Assistance Corporation were unable to find purchasers for their own securities in the public marketplace. (See L 1975, ch 868, § 1; Public Authorities Law, § 3031.) The State still could. The State took from the city and MAC $750 million in securities and then, anticipating the revenue to be derived from the eventual sale of the State-held MAC bonds and from the interest accruing on the MAC and city notes,[2] issued its own notes. (See L 1975, ch 868, §§ 22, 23.)

1. The 1967 revision would not have prevented the State from "loaning" its credit to public corporations. It would have prohibited only the issuance of guarantees of the obligations of local governments. (Proposed 1967 Const, art X, § 18, subd a, par [2].)

2. The proposed 1976-1977 State budget makes it clear that the principal on the $250 million in State tax anticipation notes is to be repaid from the proceeds of the eventual sale of the State-held MAC bonds. On the other hand, no specific appropria-

In September, 1975, the State issued $250 million in revenue anticipation notes. These were absorbed by the general investing public. In October, the State issued another $250 million of revenue anticipation notes. These were purchased by the State Comptroller, acting on behalf of the State Common Retirement Fund. In November, $250 million in tax anticipation notes were sold to the Commissioner of Taxation and Finance, the State Thruway Authority and the State Teachers' Retirement System. The State was serving as the mere conduit for a flow-through of securities from the city and MAC to other purchasers. The State was placing its credit behind that of the city and MAC. In effect, the State was merely laundering city and MAC notes and bonds, taking such notes and bonds in with its left hand, and selling its notes with its right.

The revenues generated by the sale of the State notes were never intended to be applied for the benefit of the State coffers generally. The prospectus distributed with the September offering stated that the proceeds would be used solely to pay the special appropriation made to the city by the Legislature. (State Prospectus of September 10, 1975, p 3.) The evident purpose of the Financial Emergency Act was to get vitally needed funds to the city at a time when the city could not borrow the funds and the State could. That the purpose was achieved by a resort to the State's credit is obvious and indisputable. The money advanced to the city was produced solely by resort to the State's credit. No amount of words can disguise that essential fact. Even if the technical letter of the scheme is considered obscure, its substance is plain. It is also plain that, despite the majority's effort to gloss over the invasion of credit with an articulate veneer of words, the credit of the State was loaned in direct violation of the command of our State Constitution.

A more difficult question would be presented had the State made the appropriation as part of the normal budgeting process and did not earmark the proceeds of the notes for the particular purpose of assisting public corporations. Yet, in this case, the State issued anticipation notes with the express condition that their proceeds should be given to two specific

tion of revenue is made for the repayment of the revenue anticipation notes. A total of $61.8 million is set aside for the payment of interest on all three sets of State-issued securities. (1976-1977 Executive Budget, at pp 644-645.)

:blic corporations, New York City and MAC. "The evasion of :e constitutional prohibition [is] palpable and * * * should :t be permitted." *(People v Westchester County Nat. Bank,* :1 NY 465, 476.)

The invasion made in this case on the State's credit is :actly the sort of invasion that the draftsmen feared. It does :t require an extensive economic analysis to realize that the :ort-term notes issued by the State in aid of the city might :e-empt the market. The danger is that when the time comes :r the State to issue short-term notes in order to carry on the :gitimate purposes of State government, it might well find :at the securities market could not, or would not, handle any :rther short-term notes issued by New York State. By reserv- :ng the State's credit for the sole use of the State government, :he draftsmen were not being needlessly parsimonious or :iggardly. Rather, the provision was designed to make sure :hat the State's credit would be there when the State needed :t. The action of the Legislature and the court's decision today :ustaining it weakens the force of that protection.

The majority takes the position that there is no constitu- :ional violation since the State is given express constitutional :sanction to issue short-term notes in anticipation of taxes and :revenues. (NY Const, art VII, § 9.) However, this argument is :not persuasive for two reasons. First, the Constitution prohib- :its all loans of credit, whether financed by short-term notes or long-term notes. If an exception should be made to permit short-term loans of credit, the exception should be made by the people, for it is their Constitution and its protection is for their benefit. "The courts did not make the Constitution; the courts may not unmake the Constitution." *(Sgaglione v Levitt,* 37 NY2d 507, 514.) Secondly, short-term anticipation notes can only be issued "within the amounts of appropriations theretofore made." (NY Const, art VII, § 9.) Although appropriations were made, the appropriations were not made previous to the issuance of the notes, but, rather, virtually simultaneously with their issuance. Section 9 recognizes that receipts do not arrive necessarily at the same time expenditures are to be made. Thus, if appropriations are made in the budget, and the allocated revenue is not collectible until a few months later, the Constitution permits a temporary borrowing. In my opinion, it is a distortion of the limited borrowing permitted by section 9 to authorize the Legislature to add new and

massive appropriations after the budget has been adopted and cover them with anticipation notes.

The majority is able to salvage the validity of the legislation and the notes only through the benefit of some rather attenuated reasoning. Although a court, as the majority again cautions, should not " 'strain * * * to find illegality' "in statutory financing programs (p 145; *Comereski v City of Elmira,* 308 NY 248, 254), it also should not strain to place a cloak of legitimacy around a constitutionally defective practice. The majority, in an apparent effort to dissuade the Legislature from ever doing this again, states that the State "in avoiding violation has been driven to the brink of valid practice" (p 142). However, what is valid once can be valid twice. Rather than having been taken to the brink once, I submit that the State has been pushed over the precipice, and it might happen again and again. I believe this court should refuse to sanction, even on a one-time basis, actions which are clearly taken in violation of the State Constitution.

The State Constitution is the fundamental and paramount law of this State. The courts cannot close their eyes to the Constitution and see only the acts and doings of the Legislature. (See *Marbury v Madison,* 1 Cranch [5 US] 137, 178.) Otherwise, the Constitution would offer but a frail protection and citizens would "be at the mercy of ingenious efforts to circumvent its object and to defeat its commands." *(People ex rel. Burby v Howland,* 155 NY 270, 281.)

I do not doubt that efforts to assist New York City at the time of severe and almost overwhelming economic difficulty are acts undertaken in the public interest, acts designed to effectuate a legitimate State purpose. The city has found itself in a fiscal crisis of unprecendented magnitude. The consequences of a final bankruptcy would be devasting, not only to the people of the city, but to the people of the State and to the Country as a whole. It has taken the combined effort of both the State and Federal Governments to restore a measure of fiscal stability to that financially troubled city. The State's continued participation in the efforts to restore the city to fiscal health is essential. However, in assisting the city, the State should act within its own resources, lest it too be swept away by a rising tide of indebtedness. It is for this very reason that people of our State imposed limitations on the power of the State government to utilize its credit and to contract debt. The State is bound to act within these limitations, "for nothing is more certain than that beneficent aims, however great or well directed, can never serve in lieu of constitutional power." *(Carter v Carter Coal Co.,* 298 US 238, 291; *Matter of Fink v Cole,* 302 NY 216, 225.) "However important, however useful the objects designed by the legislature, they may not be accomplished by * * * a loan of credit * * * to a [public] corporation." *(People v Westchester County Nat. Bank,* 231 NY 465, 475, *supra.)* Expediency is no substitute for constitutional authority.

It should be pointed out that there are valid, constitutionally permissible means of assisting New York City. To obtain the necessary wherewithal to aid New York City, the State could have raised taxes or could have reduced expenditures in other areas. Such decisions are, of course, often politically and socially painful. That they are does not mean that they should be avoided. To be sure, the people of our State already bear the burden of a staggering amount of taxation. Understandably, the Legislature is extremely reluctant to add to that burden. On the other hand, a reduction in expenditures would necessitate the elimination of programs and cause a diminution in the level of services provided to the people, a result equally bitter to contemplate. However, as becomes clearer with each passing day, we do not live in a world of infinite resources. The State must, as all must, set a level of priority and apply whatever resources are available to meeting the needs that are the most vital. This is the essence of the budgetary process. The answer is not to make loans of credit in the brittle hope that in a year's time the situation will improve. That approach is not only unconstitutional, it is shortsighted. By loaning its credit to New York City, the State might jeopardize its own financial security. A crisis in the securities marketplace, a marketplace already unreceptive to securities issued by the State of New York, might not only topple New York City, but New York State as well. The consequences of a State bankruptcy or even a temporary inability on the part of State government to finance its own operations, the true purpose for which anticipation notes may be issued, will permanently scar the people of this State. If the State must reduce expenditures or increase taxes in order to obtain the funds to aid New York City, the cost is still less than the price to be paid by a State-wide financial catastrophe. If the people are aroused by these temporary measures, it

is not difficult to image their anger when, as in the past, they discover that as a result of gimmickry designed to deceive them, the State has been shorn of its financial foundation. The constitutional provision here under consideration was designed in part to ensure that the difficult decisions would be made, that the legislative and executive leadership would not take the easy way out. To sustain the sort of financial legerdemain involved here is to encourage the type of practice that, in part, has created the financial crisis before us.

I am well aware that the amount of money at issue is enormous and that the implications of a declaration of unconstitutionality are of grave significance. However, the duty of the court in a constitutional democracy is also clear. When confronted with a legislative enactment in clear violation of the State Constitution, I believe that the court has no choice but to strike it down, notwithstanding the political, social or economic ramifications of the decision. To do otherwise is to challenge the rule of law by which all, legislators as well as individual citizens, must abide. The very magnitude of the illegality cannot serve as its shield. If the rule were otherwise, the larger violations, the ones most to be feared, would be immune from judicial scrutiny. Moreover, the holding of our court today does nothing that will discourage or deter the Legislature from developing and using ingenious methods to evade the constitutional limitations, secure in knowledge that our court will not strike them down. The court's decision today, while salvaging the financial scheme immediately before us, will, I fear, ultimately do a greater injury by depriving the people of a measure of their protection against State fiscal mismanagement.

For the reasons stated, I dissent.

Judges GABRIELLI, JONES, WACHTLER, FUCHSBERG and COOKE concur with Chief Judge BREITEL; Judge JASEN dissents and votes to reverse in a separate opinion.

Judgment affirmed.

In the Matter of DONALD J. SIWEK, Respondent, v EDWARD J. MAHONEY et al., as Commissioners of Election in the County of Erie, Appellants, and NEW YORK STATE BOARD OF ELECTIONS, Intervenor-Appellant.

Argued March 22, 1976; decided April 1, 1976

Elections — voter registration by mail — constitutional law — provision under section 153 of Election Law for applications for voter registration to be

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

March 9, 1978

Paul Hallingby, Jr.
Chairman
White, Weld & Co., Inc.
One Liberty Plaza
91 Liberty Street
New York, NY 10006

Dear Mr. Hallingby:

Thank you for your letter of March 7 flushing out your original suggestion. I have referred it to Deputy Mayor of Finance Philip Toia for his consideration.

All the best.

Sincerely,

Ed Koch

Edward I. Koch
MAYOR

mg
cc: Philip Toia

WHITE, WELD & CO. To - Mr Rohatyn

INCORPORATED

ONE LIBERTY PLAZA

91 LIBERTY STREET, NEW YORK, N.Y. 10006

PAUL HALLINGBY, JR.
CHAIRMAN
212/285-2296

March 7, 1978

CABLE ADDRESS "WHITEWELD"

Dear Kevin
What do you think?
F.

The Honorable Edward I. Koch
Mayor of New York
City Hall, New York

Dear Mr. Mayor:

You will recall my visiting you recently along with Wally Popolizio of Gifford, Woody, Carter & Hays and Benjamin Weiss of Stuart Brothers. The purpose of our visit was to recommend that New York City seek authorization and establish procedures to issue Note obligations which would be acceptable at par for payment of City real estate taxes. This is a technique which has been used successfully by certain other cities, most notably Boston.

The use of Notes acceptable at par for payment of City taxes should have two advantages to the City. First, this feature should enable New York City to float a modest-sized Note issue at a time such as the present when the City appears to be unable to issue its Notes otherwise. Secondly, at times when the City is able to issue Notes in the normal fashion, addition of this feature should reduce the interest cost of the financing to the City, owing to the added security that the recommended feature would provide.

A possible drawback of the recommended feature is that it would add a degree of uncertainty to the City's cash flow planning owing to the flexibility afforded the investor as to disposition of his Notes. The degree of such effect on cash flow may be kept within reasonable limits through prudent selection of size and maturities (preferably short) of Note issues incorporating the recommended feature.

We note that enabling legislation would be required by the State of New York in order to authorize the City to issue notes useful for payment of City taxes, and that relevant amendments to the City's Administrative Code also would be required. On these matters we have received counsel from Willkie, Farr & Gallagher, whose letter on this subject, dated March 6, 1978, is enclosed.

In conclusion, we urge the City to consider seeking necessary State and City authorizations to permit use of the tax-payment feature in future issues of Notes at the option of the City. As both citizens of New York and specialists in municipal bonds, we believe that the City should avail itself of the right to issue Notes useable at par for payment of City taxes.

Very best wishes.

Sincerely,

CC: Mr. Philip L. Toia

Bcc:
Mr. Benjamin Weiss
Emanuel P. Popolozio, Esq.

WILLKIE FARR & GALLAGHER
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March 6, 1978

Mr. Paul Hallingby
White Weld & Co. Incorporated
One Liberty Plaza
New York, New York

Dear Mr. Hallingby:

You have requested our comments on a proposal that the City of New York be authorized to provide procedures by which holders of certain obligations issued by the City could present the same for payment of City real estate taxes. Following our various discussions with you, we have examined a number of applicable legal provisions and are satisfied that such procedures could be established assuming enactment of appropriate legislation. That is to say there is no Constitutional obstacle in the first instance.

State legislation would be required to obtain this authorization in view of certain limitations in existing law which relate to tax collection procedures and the payment of municipal obligations. Needless to say, the City's Administrative Code would require relevant amendments. This could all be handled in a single bill enacted by the State Legislature which in any event would probably require a so-called Home Rule Request from the City.

In considering the possibilities for such legislation, one must recognize a number of alternative procedures and, before discussing any specifics, it seems to us that the actual mechanics to be followed must first be resolved, after which we could be more specific in terms of the particular laws to be amended and the nature of such amendments. We look forward to hearing from you at any time and will be happy to discuss the alternatives.

With best wishes,

Very truly yours,

Willkie Farr & Gallagher

Robert W. Marshlow

RWM:ds

STW

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
March 2, 1978

STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC STABILIZATION
MARCH 2, 1978, 9:30 A.M.

Mr. Chairman and members of this distinguished Subcommittee:

I appear before you to present the Administration's recommendations on the future federal relationship to the financing of New York City. My testimony will cover three major areas: first, the events of the past two and a half years which underlie our discussions here today; second, New York City's budget and financing plans covering the 1979-1982 period; and third, the Administration's recommendations on financing assistance for the City during that period.

Mr. Chairman, four important principles underlie the conclusions which I will present today.

-- Preserving New York City's Solvency: This Administration believes that the effects of a bankruptcy on the residents of the City and State, and elsewhere, would be very serious. A concerted effort must be made to prevent bankruptcy.

-- Maximum Budget and Financing Efforts by the Local Parties: Primary responsibility for New York City's financing rests with the local elected officials and the relevant private parties at the City level. Beyond that, the City is the responsibility of New York State. Any federal financing role should be provided only under extraordinary circumstances and should be limited to a residual and temporary one.

B-743

-- A truly balanced City budget is a prerequisite to ending this crisis: New York City lost access to conventional borrowing sources because it incurred large budget deficits and otherwise lost control of its finances. These deficits have been reduced, but not eliminated, and they remain the primary obstacle to restoring the City's access to the credit markets. Any post-June 1978 financing plan, therefore, must be conditioned upon achievement over the plan period of a budget which is balanced in accordance with generally accepted accounting principles.

-- The New York City financing crisis should be resolved once and for all: The only acceptable plan for future financing of the City is one which will restore New York's ability to finance itself.

Mr. Chairman, let me now begin a detailed discussion of the past and present situation and our legislative recommendations for the future.

I. Review of the 1975-1978 Period

During the early 1970's, New York City's fiscal condition was weakened by the migration of jobs and related tax revenue from the City, the 1974-1975 national recession as well as unsound budget and borrowing practices.

The consequences of these became clear in early 1975, when the municipal bond market closed to New York City, and the City teetered on the edge of bankruptcy. The City's then budget of approximately $13 billion -- by far the largest municipal budget in this country -- was estimated to be $1.8 billion in deficit, and its accounting and financial control systems were archaic and unreliable.

Not only did the public markets close to New York City, but even massive efforts in 1975 by the State of New York were insufficient to solve the entire City financing problem. The State created a Municipal Assistance Corporation (MAC), with authority to issue its own bonds, and to use the proceeds for making direct loans to the City and refinancing its notes. The State also advanced $800 million of additional funds directly to the City. Yet, MAC was unable to borrow sufficient amounts in relation to the City's needs. Indeed, in the fall of 1975, the municipal bond market also closed to MAC, and the State was forced to take further action. It installed an Emergency Financial Control Board (EFCB) to exercise substantial control over the City's finances.

These drastic steps were still insufficent, however, and imminent bankruptcy threatened. In that context the Congress passed the 1975 New York City Seasonal Financing Act. This legislation authorized the U.S. Treasury to provide short-term loans to the City to meet cash flow imbalances occurring within the City's fiscal year. These loans were purely seasonal --they were extended and matured within the City's fiscal year -- and were limited to $2.3 billion in any one year. This federal lending program, which expires in less than four months, has supplied New York City's short-term borrowing requirements since late 1975.

From 1975 through June 30, 1978, the City's employee pension funds will have purchased $2.65 billion of long-term City and MAC bonds, bringing their total holdings of such debt to 35 percent of their total assets. Such purchases have satisfied New York's long-term borrowing needs during this emergency period.

The 1976-1978 Period

Mr. Chairman, both the 1975 emergency State legislation and the Seasonal Financing Act required New York City to adhere to the three-year financial plan developed in 1975 and to take a series of other steps to improve its fiscal condition. These were designed to restore the City's access to conventional borrowing sources.

A crucial aspect of today's discussion, then, concerns these steps -- whether they have been taken and whether they were sufficient. As to the first point, Mr. Chairman, it is clear that New York City has done what it pledged to do in 1975. Let me quickly review the major steps taken, particularly because many here in Washington and elsewhere may be under the misapprehension that the New York City fiscal condition has not improved since 1975.

-- The City's real budget deficit has been reduced from approximately $1.8 billion in fiscal 1975 to approximately $760 million in 1978.

-- Its work force was reduced substantially. The current level of City employment, at approximately 300,000, involves 60,000 fewer jobs than in early 1975.

-- More than $3 billion of short-term City notes, which were outstanding in mid-1975, were converted into long term MAC bonds.

-- For the first time, tuition payments covering all students were initiated at City College.

-- A $16 million management information and expense control system (IFMS) has been installed and is working.

-- The City has engaged a consortium of certified public accountants -- led by Peat, Marwick, Mitchell & Co. -- to conduct an independent audit of its current year's results. Most municipalities are not audited by independent, private accountants.

Table 1 provides more detailed information on City budget trends during the past three years.

New York State also has taken major steps to help. As I mentioned earlier, it now advances $800 million annually, to finance a cash shortfall. It now funds 75% of the costs of the City University senior colleges and is assuming funding responsibility for the City's court system. Through the Emergency Financial Control Board, it oversees the City's budgets and borrowings. Moreover, Governor Carey provided invaluable personal leadership during the height of the 1975 crisis and has continued to do so.

<u>City Seasonal Borrowings From the Treasury</u>

The City has complied with all key provisions of the Federal seasonal loan program. Furthermore, the program has not cost the U.S. taxpayer anything. Table 2 provides a schedule of our total loans under the program.

During fiscal year 1976, New York borrowed $1.26 billion and repaid it with interest, either on time or ahead of schedule. In fiscal 1977, $2.1 billion was borrowed and again repaid punctually. During this current year, the City has borrowed $1.875 billion, and I anticipate timely repayment of the full amount.

Under the law, Treasury is required to charge the City one percent more than the rate on outstanding U.S. Government obligations of comparable maturity. As a result, this year's seasonal loan program will yield a net surplus of approximately

$13 million. This amount will be returned, of course, to Treasury's general fund. The aggregate amount of interest received by the Treasury during the three-year period, over and above our borrowing costs, is $30 million.

II. New York City's Continuing Lack of Access to Conventional Lending Sources

Although New York City has taken the important steps I have outlined, the municipal credit markets have not re-opened to the City. At the moment, its notes and bonds remain unsaleable in the public markets. A primary purpose of the Seasonal Financing Act -- to restore New York's access to conventional lending sources -- has not been achieved.

I am satisfied that New York has made every effort to test the public markets for its notes, as required by its Credit Agreement with the Treasury. Thus in November, 1977, after three months of preparation, New York attempted a $200-$300 million public note offering. Unfortunately, the notes received a discouragingly low credit rating, and buyers could not be found for them.

There are at least two reasons for this lack of market access. The first concerns continuing budget deficits. To the extent that budget deficits originally caused the City's loss of market access, New York's smaller but continuing deficits remain a primary obstacle to regaining it.

The second reason for New York's continuing lack of market access might be described as traditional investor skepticism. Once a major borrower - municipal or corporate - loses his credit standing and is nearly insolvent, the rating agencies and the public markets require a period of years before they are convinced that corrective steps have worked and that creditworthiness has been restored. This is a natural lag, and there are numerous examples of it in modern finance. The public financing difficulties of our airline industry, after its loss years of the early 1970's, are a representative example.

It is not altogether surprising, therefore, that the credit markets did not re-open this year to New York. It is only two and a half years since the height of its fiscal crisis and its near bankruptcy. Market access generally isn't regained that fast. The traditional skepticism of public markets is such that New York needs more time before it can rely on those markets for the full amounts of its borrowing needs.

III. The City's Four-Year Budget Outlook

Most informed observers believe -- and I concur in their conclusion -- that if the obstacle of budget deficits could be eliminated, then investor caution would tend to dissipate. Accordingly, I asked City officials in November to prepare a four-year financial plan, covering budgets and financing, and aimed at achieving balance in accordance with generally accepted accounting principles at the end of the plan period.

Treasury received this financial plan on January 20, and has been reviewing it since then, together with our consultants - Arthur Andersen & Co. I will now discuss the City's current budget condition, this budget plan and our our assessment of it.

Parameters of The City's Budget

New York does not have a conventional budget and cannot eliminate these deficits in one year. Let me explain why.

New York City's budget is virtually unique in terms of its size and composition. At approximately $14 billion today, it is by far the largest municipal budget in the United States. Indeed, New York has the third largest overall government budget in this country -- behind the Federal governmment and the State of California, but considerably larger than that of New York State. This enormous City budget reflects New York's huge population (7.5 million) and the large number of services for which the City, instead of a larger county or state, pays for.

Specifically, the City administers a wide range of State and national welfare programs, for which it must pay a large share of the costs. The City pays for 25 percent of the welfare and medicaid benefits provided to its residents. These alone involve $1.2 billion each year. New York is the only major U.S. city responsible for paying this high a share of welfare and medicaid. Indeed, only 12 states require their localities to share any substantial amount of the costs of federal welfare programs.

In addition, the City funds a series of other services which, in other cities, are paid for by larger governmental units -- a county or the state. This is partially because New York is so large, both in territory and population. It also reflects an historical division of financial responsibility whereby the City pays most of the costs of the municipal courts, hospitals, and public schools.

Lastly, New York's budget is unusually vulnerable to economic fluctuations. A higher proportion of its revenues are derived from economically sensitive taxes, e.g., sales and income taxes, than almost any other large U.S. city.

New York City -- A Reflection of America's Urban Problems

Apart from these special problems, of course, New York suffers from a series of ills which afflict many other urban centers. The City's economy has declined sharply during the past decade, as have those of numerous other Northeast and Midwest cities. New York has lost approximately 510,000 jobs from 1969 through 1975, an amount which alone exceeds more than the total public and private employment of all but a handful of other cities. Moreover, the City faces a serious revenue/expenditure gap with revenues growing more slowly than inflation-driven expenditures.

These problems are not unique to New York. They are common to a number of our larger American cities. The underlying cause is largely one of secular economic decline. Current trends include population loss, declining private sector employment and slower per capita income growth.

Hence, the ability of the City to balance its budget over the four-year period is substantially impacted by the local and national economies. A declining local economy yields the equally unattractive choices of either raising taxes or cutting services. Each of these steps accelerates the deterioration of its economy. The only way to break the downward spiral is to rebuild the private sector base.

Cognizant of these problems, the Administration already has taken steps and plans further ones to assist declining cities. Upon taking office, we proposed the 1977 Economic Stimulus Package, which supported CETA and Countercyclical Revenue Sharing. These programs provide major fiscal assistance to cities. Through the proposed 1979 budget, the Administration plans to do more.

The Administration is committed to developing a comprehensive urban policy which will address the short-term and long-term needs of our cities. Toward this end, all Cabinet agencies have been involved in a wide-ranging analysis of existing urban programs and new initiatives. For instance, Treasury has focused on possible financing tools to improve the private sector investment base in stagnant and declining economies. Shortly, the President will announce his urban policy package, which will specifically address these problems.

In short, although New York City is unique, it does share some similar economic and fiscal problems with other major American cities. The Administration is working with the Congress, state and local governments and the private sector to respond to them.

The City's Four-Year Budget Plan

The City's four-year budget plan is summarized in Table 3. Please note that this is a "plan", not a four-year budget. No City or governmental unit, be it New York City or the U.S. Government, can today formulate a detailed budget for 1980, let alone 1981 or 1982.

You will note that City officials began by extrapolating current trends in revenues and expenditures, and assuming no actions to change them. This beginning forecast also assumed, at my request, that those operating expenses remaining in the capital budget be phased into the operating budget over the plan period. In effect, this halves the remaining period permitted under State law for eliminating this practice.

The New York City plan projects a budget deficit of $457 million next year. This deficit grows to just under $1 billion in the fourth year. The primary reason for this growth is the phasing out of $640 million of expenses from the capital budget, into the operating budget. Looking at it based on generally accepted accounting principles, which require that these operating expenses be shown in the operating budget immediately, the projected annual deficit in 1979 would be about $1 billion.

Essentially, the City projects that natural trends in revenues and expenditures over the next four years will neither improve nor worsen its budget condition. The projected 1979 deficit approximates $1 billion, and, if no new deficit-reduction actions were taken, would be only slightly lower in 1982.

The plan makes no provision for wage increases. Yet, most labor contracts involving the City expire between March 31 and June 30 of this year. City officials decided that it was inappropriate, on the eve of collective bargaining, to assume any particular settlement. Yet, New York forecasts must be evaluated in light of this treatment of future wage costs.

City-Projected Deficit Reduction Actions

Having forecasted these deficits, the City's plan describes in detail a set of City, State and Federal actions which would eliminate the deficit.

Concerning City actions, the plan outlines six steps to save $174 million next year and cumulatively save $544 million by 1982. Half of this expense reduction would result from a 10% attrition-related cut in the City work force over the four years. Table 4 provides detail on each of the City actions and the related savings.

Regarding State actions, the plan lists 20 different steps which could be taken to help eliminate the City's deficit. Together, they would yield $430 million of budget relief for the City next year -- and grow to $760 million by 1982. The plan does not call on the State to take all 20 steps, but rather provides a list from which to work with State officials. Table 5 lists these State actions.

Consistent with this aproach, Governor Carey and the State legislative leaders recently agreed to support $200 million of increased budget relief next year. City officials believe that this amount will be sufficient, together with the City's own steps and federal actions, to achieve 1979 budget balance.

Finally, the plan lists 18 possible Federal actions which increase Federal aid during the next four years, resulting in potential budget savings to the City of $224 million in 1979, growing to $452 million by 1982. The plan does not call on the Federal Government to take all 18 actions, but rather provides a list of potential actions, some portion of which together with City and State actions, would be adequate to balance the City's budget. Table 6 sets forth these City-proposed federal actions.

IV. Treasury's Assessment of the City's Budget Plan

We have studied this budget plan carefully, together with Arthur Andersen & Co. We believe that the probable City budget deficits over the next four years will be somewhat larger than those projected by the City, unless further actions are taken to offset the cost of recently approved Board of Education wage increments, necessary increases in contributions to the Fireman's Pension Fund and projected deficits of the Health and Hospital Corporation. These potential increased costs could, in our view, range from $40 to $120 million annually over the next four years. We asked the City to provide specific actions to offset these potential additional costs, and expect to receive them shortly.

Concerning revenue estimates, we have concluded that New York's forecast is conservative. It calls for no growth at all during the next two years, and then modest increases in 1981 and 1982. The City's revenue forecasts during the past two years have been quite accurate.

Our overall assessment of the revenue and expenditure estimates in the Plan are that they are realistic if adjusted as I have discussed. The City has undertaken to outline specific deficit reduction steps to accommodate the adjustments.

City, State, and Federal Deficit Reduction Actions

To eliminate the projected deficits, the City has proposed six basic deficit reduction steps at the City level. More than half of the budget relief would result from a 10% attrition-related cut in the City's work force. Our judgment is that the savings projected from this action is attainable.

The three smaller items -- tightened welfare eligibility, tightened use of medical services covered by medicaid and cost containment steps in the home services program -- also appear realistic.

Completion of the remaining two steps, which involve major savings, is less clear. The City projects savings, ranging from $23 million in 1979 to $94 million in 1982, from improved cost control in its procurement program. The size of its procurement expenditures -- $1.8 billion in 1979 -- suggests that these savings are attainable, but we have not yet received details on the specific steps involved. Similarly, the plan envisions savings of $62 million in 1979, growing to $100 million in 1982, from unspecified "management improvements." We do not have full details on these specific steps and cannot yet judge the likelihood of the related savings.

In short, Mr. Chairman, we are largely, but not fully, satisfied with projections of expense savings from actions at the City level. We are awaiting more details about proposed changes in procurement and planned management improvements before arriving at a final conclusion.

State Actions

Turning to State actions, we have concluded that the recently announced agreement between the Mayor and Governor on a $200 million of increased 1979 State aid -- if approved by the State legislature -- should provide sufficient fiscal assistance to meet the requirements of the City's plan for State aid. I have discussed the situation with the leaders of the State legislature and am encouraged that favorable legislative actions will be forthcoming.

The second crucial question concerning State aid, however, concerns the 1980, 1981 and 1982 City budgets. The City probably cannot attain balance in those years unless the $200 million increase in 1979 State aid is both recurring and increased.

I have met with Governor Carey and the State legislative leaders and emphasized the need for increased recurring aid to the City. The Governor has provided estimates of increased aid in the 1980-1982 period. Generally, these amounts should be sufficient to help balance the City budget in those years.

I recognize that the State legislature cannot commit in advance to specific amounts in future budgets. Yet, it is also clear that increased State aid beyond 1979 is a prerequisite to achieving true budget balance for the City. Our position is that amounts of at least this magnitude must be provided.

Federal Actions

The City's plan for closing the deficit assumes moderate additional federal fiscal assistance in 1979 and larger amounts in subsequent years. Our general view is that the City has primary responsibility for its budget, and beyond that, the State has the principal responsibility. Nevertheless, the City's needs are such that some federal residual budget assistance is clearly justified.

Table 7 summarizes the history of federal aid to the City in recent years and illustrates that New York has received growing amounts of federal aid in these years. I do not believe it is unreasonable to assume, that New York together with other cities will receive increases in federal aid over the 1979-1982 period as the President's urban initiatives are implemented.

City Wage Negotiations

One over-riding uncertainty in the City's budget plan involves the expiring City labor contracts. Most of these contracts expire between March 31 and June 30. The union leaders are seeking wage increases, while Mayor Koch is asserting the City cannot afford increases. The outcome may not be clear for several weeks or longer.

It would be difficult to overestimate the importance of these wage negotiations for the City budget plan. Each 1% increase in wages would increase overall City expenditures by $41 million, and this increase would be cumulative. Obviously, even a settlement involving small percentage increases could widen the projected budget deficits by 50% or more. The soundness of New York's budget plan, therefore, depends on the outcome of those negotiations.

While any wage settlement is a matter for negotiation between the City and its work force, our general position is clear, namely that any increases will have to be funded from productivity or related savings. We feel that is essential to a credible budget plan. As I stated earlier such a plan is an explicit condition to the Administration's legislative recommendations which I am presenting today. We do not favor the extension of any lending assistance to New York except on the basis of such a plan.

We will await the outcome of these negotiations, therefore, reserving final judgment on the City budget plan until they are completed. If there is any wage increase, the City must present a convincing, supplemental plan for offsetting its budget effects.

Let me note, Mr. Chairman, that I have discussed this on several occasions with the City labor leaders. They have provided real and responsible leadership during the past three years and recognize the need for wage restraint in 1979. I think that they and their members will exercise it.

V. New York City's Financing Outlook

Let me now discuss New York's borrowing needs.

Why New York Borrows Large Amounts Each Year

Each year New York borrows large amounts through the issuance of both short and long-term notes. During this current year, for example, it has borrowed $1.875 billion on a seasonal basis and will have borrowed $1 billion on a 15-year basis.

Seasonal needs arise because City expenditures are spread fairly evenly over the year while certain revenues, particularly State aid, are concentrated in the final months of the City's fiscal year. The City thus borrows during the first months of its fiscal year, in anticipation of revenues to be received during the final months of its fiscal year.

New York, like all other municipalities, also must finance its capital budget. The City's capital budget includes expenditures for long-term assets, e.g. schools, roads, etc., that are traditionally financed with long-term debt. During each of the past two years, the City has sold $1 billion of long-term bonds to cover both traditional capital spending and operating expenses carried in the capital budget.

Recent Financing History and Current Problems

Since 1975, substantially all of the City's new borrowing needs have been satisfied from two sources. Treasury has provided short-term loans under the Seasonal Financing Act, and the City employee pension funds will have lent $2.65 billion of long-term loans during the intervening two and a half years.

Both the Federal seasonal loan program and the union pension fund loan program expire on June 30, 1978. The City thus must develop new financing arrangements for both its short and long-term needs.

For this reason, I asked the City last November to develop an overall financing plan, to accompany its budget plan. This also was submitted to me on January 20, and Treasury has been evaluating it since then.

The City's Four-Year Financing Plan

Regarding long term financing, the City Plan projects $5.1 billion of financing, as set forth in Table 8.

The crux of New York's long term borrowing plan is a $2.025 billion program of Federal loan guarantees for City bonds sold to the City and State pension funds. The City anticipates that the guarantee protection would last for at least ten years, although the City bonds would carry 20 or 25 year maturities. Its proposed guarantee automatically would lapse, however, if the pension funds resold the bonds.

The City's Seasonal Financing Plan

The City projects seasonal borrowings of $1.8 billion next year, declining to $1.0 billion in 1982. This reduction would be accomplished by selling MAC bonds to fund the $800 million advance that the State extends annually to the City.

New York proposes an extended Federal seasonal loan program pursuant to which it would borrow $1.2 billion next year, $800 million in 1980, and $400 million in 1981. The remainder of its seasonal needs would be furnished by a $600 million line of credit from the New York Clearinghouse Banks.

Summary of City Financing Plan

City officials believe that these financing arrangements will permit New York both to meet its full borrowing needs over the 1979-1982 period and to regain full access to conventional markets at the end of that period. Indeed, it projects selling $1 billion of City bonds to the public in 1983, as compared to only $250 million during the final year of the plan period.

VI. The Administration's Financing Proposal

Background

Our evaluation of the City's financing plan is that it is well-conceived and would achieve its objective. We have however, two reservations: First, our analysis of the Plan leads us to conclude that the City can adequately provide for its capital requirements by selling somewhat less -- perhaps $4-1/2 billion -- than the $5.1 billion in long-term securities during the years 1979-1982, which the Plan projects. Second, we believe that this reduced level of long-term financing can be assured with more modest Federal assistance.

I want to emphasize, however, that we have concluded that the City's solvency would not be assured in the absence of any Federal lending assistance beyond June 30, 1978. In this regard, therefore, we disagree with the conclusions of the recently issued Senate Banking Committee Report on New York City. While it is conceivable that if every contingency is favorably resolved, no additional federal lending assistance to the City will be required, we do not believe it would be responsible to risk bankruptcy should events prove this judgment wrong. New York City in bankruptcy will prove far more expensive to this nation -- both in expense and personal sacrifice -- than any modest form of assistance.

Let me now outline the reasons why I believe there must be some federal long-term lending assistance. Any long-term financing plan for New York must rely on the sale to the public of large amounts of MAC bonds and City bonds. The City's own plan projects $1.85 billion of such public sales and the Senate Report forecasts only modestly lower amounts.

The receptivity of public markets to those sales, however, is far from assured. Today there is no market for City bonds at all. Moreover, the market for MAC offerings in recent months has been quite limited, and last December's $250 million MAC offering was barely completed. It is entirely possible, therefore, that the public markets will not supply the amounts of long-term capital which New York needs to meet its minimal capital needs. Unless there is a federal backstop, to assure that these amounts can be obtained, the City's solvency simply cannot be assured.

It is logical to ask whether local private parties primarily the City pension funds and the local financial institutions, can supply these long-term needs of the City. Our conclusion is that they can and should supply a large portion of those needs, but we cannot be certain that they will be able to supply all of such needs.

It also is logical to ask whether insolvency necessarily would result from the unavailability of those public markets. The Administration's view is that insolvency could well result.

It also has been proposed that Congress simply extend the seasonal loan program, on a reduced and self-liquidating basis. We do not think that this is the best approach. It does not assure that New York's long-term needs are met and that the financing crisis thus will finally end.

Specific Proposal

We propose that Congress (i) authorize the Secretary of the Treasury in the four years ending June 30, 1982, to guarantee up to $2 billion in aggregate principal amount of taxable NYC or MAC securities having maturities of up to 15 years, with a minimum annual guarantee fee of 1/2% per annum payable on any outstanding guaranteed securities; and (ii) amend PL 94-236 to permit the City and State employee pension funds to purchase City or MAC securities during the 1979-1982 period.

Guarantees authorized by the Congress would be issued only under the following conditions, among others:

-- For fiscal year 1979, the City will adopt a four-year budget plan that by 1982 produces a budget balanced in accordance with Generally Accepted Accounting Principles (GAAP), and will continue to adopt and adhere to rolling four-year budget plans that for 1982 and thereafter are balanced in accordance with GAAP. The City periodically will submit to the Secretary financial statements as required.

-- New York State will enact legislation to ensure the existence of a fiscal control and monitoring entity with powers no less extensive than the current Emergency Financial Control Board (EFCB). This entity would be in existence for at least the life of the Federal guarantees.

-- New York State will enact appropriate legislation to facilitate the public sale of MAC and New York City long-term securities, in particular, to provide appropriate security and legal authority for such securities.

-- Federal guarantees will be appropriately secured first by federal transfer payments to New York City and secondarily by New York State in a form such as a State-funded debt reserve account and/or the pledge of an appropriate amount of certain federal transfer payments to New York State.

A long-term financing plan for New York cannot work without the cooperation of the relevant local parties -- the City and State pension funds, the Clearinghouse banks and other local financial institutions, and others. The exact division of lending commitments among these parties is a matter for detailed negotiation over the near term future in light of the prevailing conditions. It is clear, however, that each of these key parties must make a major lending contribution.

In general, I think that up to $2 billion of MAC and City bonds can and should be sold to the public during the next four years on an unguaranteed basis and additional amounts to private lenders. Federal guarantees will be issued only to the extent that the public markets and private lenders do not provide the necessary funds on an unguaranteed basis. However, it would not be my intention to issue Federal guarantees unless other lenders to New York City make long-term lending commitments on an unguaranteed basis. The timing of the issuance of Federal guarantees and the size of purchases of non-guaranteed MAC or NYC long-term obligations by lenders will have to be worked out as part of an overall financing solution.

The precise form and coverage of this guarantee would be negotiated before June 30, 1978. Among other things, however, the guarantee would lapse if the guaranteed securities were sold by the original purchasers.

While we are asking for authority to issue guarantees of up to 15 years, I intend and expect that it will not be necessary to issue any guarantees with a length of as long as 15 years. It will be my intention, in the negotiations that will take place with potential lenders, to keep the length of Federal guarantees as short as feasible. Similarly, since we require that a "best efforts test" be met before any guarantees would be issued, we hope to avoid full use of the guarantee power.

Seasonal Financing

My judgment is that New York can satisfy its own short-term borrowing needs, provided that Federal guarantee authority as outlined above is available concerning its long-term financing. Before Congress enacts guarantee legislation, however, New York should prepare a seasonal financing plan satisfactory to the Treasury. I have asked Mayor Koch to do so.

If my judgment changes over the near term future on New York's ability to meet its own short-term needs, I will report accordingly to Congress.

Conclusion

We look forward to working with Subcommittee staff on the details of our proposed legislation. I also will be happy to answer now any questions you might have.

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TABLE 1

SUMMARY OF THE NEW YORK CITY BUDGET 1/
FY 1975 THROUGH FY 1978 (ESTIMATED)
($ In Millions)

	FY 1975	FY 1976	FY 1977	FY 1978
REVENUES				
General Sources				
Sales Tax	$ 791	$ 828	$ 867	$ 901
Personal Income Tax	466	615	742	756
General Corporation Tax	268	443	519	504
Water & Sewer Charges	238	218	206	231
Stock Transfer Tax	185	270	279	250
Financial Corporation Tax	114	202	149	168
Other	1,555	1,128	1,205	1,242
TOTAL GENERAL SOURCES	$ 3,617	$ 3,704	$ 3,967	$ 4,052
Real Estate Tax	2,896	2,966	3,236	3,168
Federal & State Aid	5,452	5,339	5,435	6,083
TOTAL REVENUES	$11,965	$12,009	$12,638	$13,303
EXPENSES				
Social Services	3,482	$ 3,746	$ 3,774	$ 3,906
Education	2,345	3,010	2,481	2,564
Health & Sanitation	1,187	1,377	1,325	1,346
Police	654	652	669	661
Fire	282	285	292	297
Debt Service (2)	1,827	1,847	1,747	1,607
MAC Debt service	---	462	597	402
Pensions (2)	987	1,137	1,209	1,188
Other	1,269	461	873	1,332
TOTAL EXPENSES	$12,033	$12,977	$12,967	$13,303
DEFICIT	$ 68 $ 1,107 2/	$ 968	$ 329	$ ---
Operating Expenditures in capital budget	$ 724	$ 654	$ 615	$ 640
ESTIMATED ADJUSTED DEFICIT	$ 1,831	$ 1,622	$ 944	$ 640

1/ Does not include operating expenditures included in the Capital Budget.
2/ The 1975 deficit of $1,107 million was calculated by adjusting certain revenue categories to reflect the revised accounting & reporting procedures that would be used in FY 1976 & thereafter.
Source: Annual Report of the Comptroller, Part 2-A, Statement 5 and Summary 1.

TABLE 2

NEW YORK CITY SEASONAL LOAN PROGRAM
BORROWING AND REPAYMENT SCHEDULE
CITY FISCAL YEARS 1976 - 1978

1976

Borrowing Date	Maturity Date	Amount (Millions)	Interest Rate (%)	Interest Due (Millions)
12/18/75	4/20/76 1/	$ 130	6.92	2.958
12/31/75	5/20/76 2/	240	6.68	6.105
1/15/76	4/20/76 1/	140	6.13	2.163
2/11/76	6/20/76 2/	250	6.29	5.514
2/17/76	6/25/76	80	6.26	1.770
2/17/76	6/30/76	100	6.26	2.298
3/01/76	6/30/76 2/	250	6.39	5.077
3/15/76	6/30/76 2/	70	6.33	1.238
		$1,260	6.43	27.122

1977

Borrowing Date	Maturity Date	Amount (Millions)	Interest Rate (%)	Interest Due (Millions)
7/01/76	4/20/77 3/	$ 500	7.37	29.076
7/16/76	4/20/77 3/	150	7.02	7.876
7/16/76	5/20/77 1/	200	7.10	11.827
8/04/76	5/20/77 1/	225	7.04	12.368
12/01/76	6/20/77 1/	200	5.85	6.315
12/08/76	6/20/77 1/	200	5.83	6.070
12/22/76	6/20/77 1/	200	5.73	5.526
12/30/76	6/30/77 4/	170	5.75	4.874
3/14/77	6/30/77 4/	255	5.92	4.466
		$2,100	6.53	88.398

1978

Borrowing Date	Maturity Date	Amount (Millions)	Interest Rate (%)	Interest Due (Millions)
7/05/77	4/20/78	$ 300	6.65	15.796
7/18/77	4/20/78	100	6.80	5.142
7/18/77	5/20/78	150	6.85	8.670
7/29/77	4/20/78	200	6.93	10.063
8/16/77	4/20/78	50	7.36	2.490
8/16/77	5/05/78	100	7.38	5.297
9/19/77	5/20/78	250	7.46	12.518
10/04/77	5/20/78	50	7.54	2.376
10/04/77	6/20/78	275	7.58	14.791
12/05/77	6/20/78	150	7.75	6.274
12/28/77	6/20/78	50	7.73	1.842
12/28/77	6/30/78	200	7.75	7.814
		$ 1,875	7.26	93.075

1) Repaid four days early.
2) Repaid two days early.
3) Repaid five days early.
4) Repaid one day early.

TABLE 3

SUMMARY OF REVENUES AND EXPENSES
FY 1978 - FY 1982
($ In Millions)

	FY 1978P/	FY 1979	FY 1980	FY 1981	FY 1982
VENUES					
General Sources					
Sales Tax	$ 901	$ 959	$ 1,012	$ 1,065	$ 1,137
Personal Income Tax	756	811	859	907	958
General Corporation Tax	504	526	555	606	671
Water & Sewer Charges	231	232	232	234	234
Stock Transfer Tax	250	197	140	121	83
Financial Tax	168	151	158	169	205
NY State Revenue Sharing	533	526	591	615	677
Federal Revenue Sharing	305	306	303	311	312
Federal Counter-cyclical	140	84	57	---	---
Other	1,242	1,066	995	995	1,001
TOTAL GENERAL SOURCES	$ 5,030	$ 4,858	$ 4,902	$ 5,023	$ 5,278
Real Estate Taxes	3,168	3,155	3,117	3,105	3,127
Federal & State Categorical Aid	5,230	5,232	5,489	5,659	5,870
Sub Total	$13,428	$13,295	$13,508	$13,787	$14,275
Less: Reserve for Disallowances	125	100	100	100	100
TOTAL REVENUES	$13,303	$13,195	$13,408	$13,687	$14,175
PENSES					
Personal Service					
Salaries & Wages	$ 3,866	$ 3,877	$ 3,877	$ 3,877	$ 3,877
Fringe Benefits	446	526	575	631	691
Pensions	1,188	1,247	1,306	1,375	1,405
TOTAL PERSONAL SERVICE	$ 5,500	$ 5,650	$ 5,758	$ 5,883	$ 5,973
Other Than Personal Service					
Supplies, Equipment & Contractual Services	1,695	1,792	1,904	2,040	2,169
Public Assistance	1,454	1,498	1,538	1,576	1,615
Medical Assistance	1,413	1,603	1,753	1,868	1,989
Health & Hospital Corp.:					
General Support	242	242	242	242	242
Medicaid	480	503	528	554	582
Other	1,029	788	758	740	745
TOTAL OTPS	$ 6,313	$ 6,426	$ 6,723	$ 7,020	$ 7,342
Debt Service	1,627	1,535	1,436	1,341	1,268
Mac Debt Service	440	466	474	497	555
General Reserve	141	100	100	100	100
Accrued Pension Liability	120	115	100	10	---
Expense items properly chargeable to the Capital Budget	(75)	(75)	(79)	(101)	(109)
TOTAL EXPENSES	$14,066	$14,217	$14,512	$14,750	$15,129
DGET GAP	$ 763	$ 1,022	$ 1,104	$ 1,063	$ 954
justments permitted by emergency financial legislation & MAC Act:					
Accrued Pension Liability	$ (120)	$ (115)	$ (100)	$ (10)	$ ---
Expense items chargeable to the Capital Budget	(643)	(450)	(300)	(150)	---
ADJUSTED BUDGET GAP	$ ---	$ 457	$ 704	$ 903	$ 954

Preliminary
rce: City Plan

TABLE 3 (continued)

SUMMARY OF THE CITY'S PROJECTED BUDGET GAPS AND CORRECTIVE ACTIONS FY 1978-FY 1982 ($ In Millions)

	Fiscal Year			
	1979	1980	1981	1982
Budget Gap	$1,022	$1,104	$1,063	$ 954
Adjustments Permitted Under State Law				
Accrued Pension Liability	(115)	(100)	(10)	---
Expense Items Included In Capital Budget	(450)	(300)	(150)	---
GAP TO BE CLOSED	$ 457	$ 704	$ 903	$ 954
Corrective Actions				
Proposed City Actions	174	337	452	544
Remaining Gap	$ 283	$ 367	$ 451	$ 410
Proposed State Actions	$ 433	$ 487	$ 484	$ 757
Proposed Federal Actions	224	379	484	452
TOTAL	$ 657	$ 866	$1,068	$1,209

Source: City Plan 1/20/78 (to be amended as new data available)

TABLE 3 (continued)

MAJOR ASSUMPTIONS IN CITY FOUR-YEAR PLAN

Overall Assumptions

1. National economic activity will be maintained at about its current pace.

2. Certain existing State and Federal programs will be continued.

3. No legal settlements, social or political events will alter significantly particular revenue or expenditure items.

Revenue Assumptions

1. General source revenue growth at 1.2 percent per annum on average (includes State and Federal revenue sharing over period and Federal counter-cyclical through 1980).

2. Real estate tax collections are virtually flat.

3. Federal and State aid growth at 3 percent per annum on average.

4. Complete phaseout of expense items financed in the capital budget by 1981.

Expenditure Assumptions

1. A welfare case load in the 1979-1982 period little changed from current level.

2. No increase in subsidies to the Health and Hospital Corporation and the Transit Authority.

3. No increase in the level of salaries and wages, although fringes and pension contributions will rise.

TABLE 4

SUMMARY OF THE CITY'S PROPOSED PROGRAM ACTIONS
TO ELIMINATE BUDGET GAP
FOUR YEAR FINANCIAL PLAN
FY 1979-FY 1980
($ In Millions)

	FY 1979	FY 1980	FY 1981	FY 1982
CITY ACTIONS				
WELFARE				
Reduction in Error Rates and Improved Job Placement	$ 14	$ 22	$ 23	$ 23
HEALTH				
Medicaid Utilization Control Through Health Maintenance Organizations	-	31	34	36
Home Care Services Improvements	10	11	11	11
PERSONNEL & MANAGEMENT				
Reduction of Staff by 10% through Attrition over 4 years (4% in 1979, 3% in 1980, 2% in 1981, 1% in 1982)	65	147	222	280
OTPS Cost Containment to 3% Growth	23	45	69	94
Management Improvements	62	81	93	100
TOTAL CITY ACTIONS	$174	$337	$452	$544

TABLE 5

SUMMARY OF THE CITY'S PROPOSED STATE PROGRAM ACTIONS
TO ELIMINATE BUDGET GAP
FOUR YEAR FINANCIAL PLAN
FY 1979-FY1980
($ In Millions)

	FY 1979	FY 1980	FY 1981	FY 1982
STATE ACTIONS				
WELFARE				
Local Share-Excess Supplementary Security Payments	$ 11	$ 11	$ 11	$ 11
Reduction of Welfare Fraud-Wage Reporting System	6	19	38	59
Increase in State Share of Home Relief	25	26	26	27
State Assumption of Local Share of AFDC	56	113	173	297
Payment for State Mental Hygiene Discharges	2	2	3	5
Day Care Reimbursement Policy	2	2	2	2
HEALTH				
Voluntary Hospital Improvement	1	2	2	2
Mandatory Second Opinion for Elective Surgery	9	9	10	11
Payment of Fringe Benefits Cost for State Supported Employees	8	8	8	8
REVENUE SHARING AND OTHER UNRESTRICTED AID				
Insurance Corporation Indemnification	15	15	15	15
Municipal Overburden	58	58	58	58
Railroad Tax Exemption	16	16	16	16
Revenue Sharing Formula	88	98	102	113
CITY UNIVERSITY				
Increase of State Subsidy for CUNY, Including CUCF Payments	$ 35	$ 47	$ 59	$ 72
CRIMINAL JUSTICE				
Temporary Housing of State Prisoners	6	6	6	6
Full Payment of State Share of Probation Formula Cost	1	1	1	1
HIGHWAYS				
Highway Maintenance Reimbursement	25	25	25	25
HOUSING				
Reimbursement for Police Protection in Public Housing	11	11	11	11
MENTAL HEALTH				
Reduction of Local Share	18	18	18	18
ONE TIME REVENUES				
Mental Health Disallowances	20	-	-	-
Two Party Check Disallowances	20	-	-	-
TOTAL STATE ACTIONS	$ 433	$ 487	$ 584	$ 757

TABLE 6

SUMMARY OF THE CITY'S PROPOSED FEDERAL PROGRAM ACTIONS
TO ELIMINATE BUDGET GAP
FOUR YEAR FINANCIAL PLAN
FY 1979-FY 1982
($ In Millions)

	FY 1979	FY 1980	FY 1981	FY 1982
EDERAL ACTIONS				
ELFARE				
Moynihan Welfare Relief	$ 28	$ 25	$ 6	$ -
Welfare Reform	-	-	54	16
Acceleration of the Transfer of Children to SSI	5	5	5	5
Expansion of the SSI Definition of Disability	5	5	5	5
Revised Income Eligibility Standards for Foster Care	3	3	4	4
EALTH				
Medicare Funding of Skilled Nursing Facilities (SNF)	-	117	125	132
Impartial Inpatient Hospital Reviews	-	12	13	14
EVENUE SHARING AND OTHER UNRESTRICTED AID				
United Nations Tax Contribution	8	8	8	8
United Nations Diplomatic Security Costs	3	3	3	3
Elimination of the 145% Ceiling on Revenue Sharing	6	8	8	9
Revenue Sharing-Population Estimates	20	20	20	20
Revenue Sharing-Stock Transfer Tax	7	7	6	4
Extension of Countercyclical Aid with a Hold Harmless Provision	56	83	140	140
RIMINAL JUSTICE				
Improved Living Conditions in Correctional Facilities as mandated by Federal Courts	$ 5	$ 5	$ 5	$ 5
Drug Law Enforcement	34	34	34	34
OUSING				
Increased Reimbursement for Police Protection in Public Housing	17	17	17	17
Federal Conversion of City/State Aided Public Housing	26	26	30	35
ARKS & RECREATION				
Gateway National Park	1	1	1	1
OTAL FEDERAL ACTIONS	$224	$379	$434	$452

TABLE 7

FEDERAL AID TO NEW YORK CITY

CITY FISCAL YEARS 1973 - 1978

($ Millions)

TYPE OF AID	1973	1974	1975	1976	1977	1978
Categorical Aid	$1,790	$1,783	$2,217	$2,262	$2,421	$2,808
Revenue Sharing (including ARFA)	259	267	257	263	290	479
Total	$2,049	$2,050	$2,474	$2,525	$2,711	$3,287

Source: Temporary Commission on City Finances and City Comptroller Reports

M E M O R A N D U M

February 27, 1978

TO: D. J. Robinson

FROM: R. Thornton Lurie

RE: Wisconsin Financial Aid to Its Cities

QUESTION:

The general question is what could Wisconsin do if one of its cities were in need of financial assistance; for example, could Wisconsin do as much for Milwaukee as New York has done for New York City?

More specifically, the question becomes:

1. Whether Wisconsin could guarantee any loans extended to or debt obligations issued by a municipal corporation; and

2. Whether Wisconsin could agree to give money to a municipal corporation to insure that any debts it contracts through the issuance of debt obligations would be paid when due.

CONCLUSION:

1. By virtue of Article VIII section 3 of the Constitution of Wisconsin, the state would not be able to guarantee any loans extended to or any debt obigations issued by a municipal corporation. The state could not make money available to a municipal corporation in a manner such as to be in the nature of a guarantee. State ex rel. American Legion 1941 Conv. Corp. v. Smith, 235 Wis. 443 (1940).

2. Payment of money to a financially troubled municipal corporation would most probably be prohibited by the doctrine requiring appropriations being for a state wide public purpose. Such payment would be seen to be for a public purpose, but would have, primarily, only local effect; as such it would fail the required test. State ex rel. Wisconsin Development Authority v. Dammann, 228 Wis. 147 (1938).

DISCUSSION:

1. Article VIII section 3 of the Constitution of Wisconsin provides as follows:

> Except as provided in § 7(2)(a), the credit of the state shall never be given, or loaned, in aid of any individual, association or corporation. (As amended April 1, 1975).

Section 7(2)(a) provides for the contracting of public debt for the construction of various facilities not here pertinent.

The Supreme Court of Wisconsin has consistently interpreted this provision as prohibiting the giving or loaning of credit

> when such giving or loaning results in the creation by the state of a legally enforceable obligation on its part to pay to one party an obligation incurred or to be incurred in favor of that party by another party.
>
> State ex rel. Wisconsin Development Authority v. Dammann, 228 Wis. 147, 197 (1938).

State ex rel. Thomson v. Giessel, 271 Wis. 15, 29 (1955); State ex rel. Warren v. Nusbaum, 59 Wis. 2d 391, 431 (1972).

Assuming a municipal corporation is included in the constitution provision, the above quoted language, in conjunction with the provision, would prohibit Wisconsin from guaranteeing any loan to or debt obligation of a municipal corporation. No case has considered whether a municipal corporation is included within the language of Article VIII section 3. *

The question then arises as to whether the state could make available money such that it would be in the nature of a guarantee. This was attempted and struck down in State ex rel. American Legion 1941 Conv. Corp. v. Smith, 235 Wis. 443 (1940). In that case, the legislature appropriated an amount to be drawn upon by the relator to aid it in securing the American Legion convention in Milwaukee. The American Legion required a deposit of the relator "to insure payment of estimated expenses" to be paid in connection with the holding of the convention. The court held:

> As the giving or loaning of the state's credit is expressly prohibited and the authorization to use public funds of the state as security in aid of the relator . . . is obviously to accomplish the prohibited purpose, the authorization in question must likewise be considered beyond the legislative power.
>
> American Legion, 235 Wis., at 443.

2. The above situation dealt with a private corporation. Expending state funds for the above-noted purpose may also be prevented by the doctrine which prohibits expenditures unless there is a state-wide public purpose. This requirement must be considered when examining the question of giving state money to a financially troubled municipal corporation.

The public purpose doctrine is said to arise from the due process and equal protection clauses of the state and federal

---

* One comment writer claims the section does apply to municipal corporations. Paul K. Bardack, State Constitutional Prohibitions Against the Lending of State Credit to Municipal Corporations, 26 Am.Univ.L.Rev. 657, 677 (1977).

constitutions. Nusbaum, 59 Wis. 2d, at 413, fn. 8.

When courts have considered the public purpose question, they have said the following:

> While it is true that to sustain a public purpose the advantage to the public must be direct and not merely incidental, the fact that [an] Act may benefit certain individuals of one particular class more immediately than other individuals or classes does not necessarily deprive the Act of its public purpose.
>
> Nusbaum, 59 Wis. 2d, at 418.

The court in Dammann provided a two part test for determining the presence of a public purpose.

> First, the subject matter, or commodity, must be one 'of public necessity, convenience or welfare'. . . . The second test is the difficulty which individuals have in providing it for themselves.

Dammann, 228 Wis. at 182, quoting from Laughlin v. City of Portland, 90 Atl. 318, 320 (Maine).

Aid to a municipal corporation could be considered for a public purpose. However, when taxpayer's funds are spent, there is a requirement that the appropriation be spent at the level at which it is raised. An expenditure of state funds cannot be merely for a public purpose, but also must be for a state purpose, i.e., a public purpose that is state-wide.

The court in Dammann unanimously struck down a statutory provision authorizing the Wisconsin Development Authority

> to promote and encourage the acquisition, ownership, construction, operation or management of any [power] plant or any part thereof by any co-operative association, city, village, town, power district, etc.
>
> Dammann, 228 Wis., at 185.

The majority said:

> We are unable to ascribe to these sections any purpose to invest the corporation with general educational activities of the sort which are sustainable. We cannot avoid the conclusion that these subsections warrant the use of money appropriated to agitate for and actually assist the acquisition, construction, etc., of particular plants by particular organizations. It is apparent to us that this purpose cannot be sustained. We pass the question whether it is a public purpose. Certainly the acquisition of a plant by a municipality is a public purpose, viewed from the standpoint of a particular municipality, and if the state may authorize the acquisition of plants by municipalities its encouragement of such acquisition by general educational means might at least be argued to constitute a public purpose. But it is obvious that the [subsections under consideration authorize] the Wisconsin Development Authority to urge and assist a particular group or municipality to construct or acquire a particular plant and that this is a private local, and proprietary matter with which the state has no concern. The appropriation is not for a state purpose within the rule of the Froelich and New Richmond Cases [relating to the requirement of an appropriation being for a state purpose]. An appropriation cannot be sustained to enable the Wisconsin Development Authority to go into a municipality and to, promote, encourage, or agitate for the construction of a plant or the acquisition of an existing plant by that municipality or by any group of citizens therein, however organized. To appropriate funds to be so used is to devote funds of the taxpayers generally to the promotion of a matter that is not of state concern.
>
> Dammann, 228 Wis. at 185 and 186.

In contrast thereto, the majority upheld that portion of the section authorizing the use of funds to promote and encourage the organization and creation of power districts as being "promotion and encouragement of a purely educational character, state-wide in scope and available to all citizens." Dammann, 228 Wis., at 187.

The provisions which were struck down were found to provide a benefit for a specific locality. While admittedly for a public purpose, the provisions did not extend the benefit, as required, state-wide.

In the 4 to 3 decision of Wisconsin Solid Waste Recycling Authority v. Earl., 70 Wis. 2d 464, 481 (1975) , the majority found that the activities of the Authority would expand throughout the state as the Authority's program continued and thereby benefit the whole state, though initially only certain localities would benefit. The dissent, in a more coherent and well thought out opinion, suggests the statute was violative of the state purpose doctrine since it benefited only certain localities. Solid Waste Recycling, 70 Wis. 2d, at 503.

If Wisconsin were to appropriate funds to aid a financially troubled municipality would such appropriation be for a public purpose and a state-wide purpose? Such an appropriation would be for a public purpose as regards the specific municipality toward which the aid is directed, it is doubtful that such an appropriation under the present state of the law, would be for a state purpose.

An appropriation of the kind under consideration would benefit directly and immediately the people of the municipality aided just as the appropriation struck down in Dammann would have benefited the people of a particular municipality. The construction of power facilities discussed in Dammann could be seen to be for a state purpose in the long run, but the court chose to take a narrower, more immediate view of the appropriation. Financial assistance to a municipality would not have the long range effects, foreseen by the majority in Solid Waste Recycling, in that situation the local recycling operation would be expanded throughout the state for the general public health of the people of the state and preservation of the environment. Solid Waste Recycling, 70 Wis. 2d, at 480 and 481. Financial assistance to a troubled municipality cannot be reasonably seen to spread a similar beneficial effect to the whole state. In light of the above discussed cases such an appropriation could not legally be made.

TESTIMONY GIVEN BY

FELIX G. ROHATYN

CHAIRMAN, MUNICIPAL ASSISTANCE CORPORATION

BEFORE

CONGRESSIONAL SUB-COMMITTEE ON ECONOMIC STABILIZATION

ON

FEBRUARY 21, 1978

MR. CHAIRMAN:

COMPTROLLER GOLDIN AND I WILL ADDRESS OURSELVES TO SLIGHTLY DIFFERENT, ALTHOUGH COMPLEMENTARY AND UNDOUBTEDLY OVERLAPPING ASPECTS OF THE CURRENT DEBATE. IN MY TESTIMONY LAST DECEMBER, BOTH BEFORE THIS COMMITTEE AND BEFORE THE SENATE BANKING COMMITTEE, I TRIED TO MAKE THE FOLLOWING POINTS WITH RESPECT TO A NEW YORK CITY FINANCING PLAN:

A) THAT IT IS AS IMPORTANT TO A LENDER AS IT IS TO A BORROWER TO PROVIDE THE <u>APPROPRIATE AMOUNT AND TYPE OF FINANCING</u>, SINCE BOTH BORROWER AND LENDER ARE TIED TO THE SAME UMBILICAL CORD.

B) THAT THE LARGE AMOUNT OF FINANCING REQUIRED UNDER ANY NEW YORK CITY PLAN, FROM BANKS, UNIONS, PUBLIC MARKETS ETC. CAN ONLY BE OBTAINED AS PART OF A PLAN WHICH PROMISES TO PROVIDE A <u>PERMANENT</u> RESOLUTION TO THE CITY'S ENDLESS BUDGET AND FINANCING PROBLEMS. ABSENT SUCH PROMISE, NO PRUDENT MAN, TRUSTEE, BANK DIRECTOR, PUBLIC INVESTOR WOULD BE LIKELY TO COMMIT ANY SIGNIFICANT FUNDS.

C) THAT IN ORDER TO HAVE THE PROSPECT OF SUCH A SOLUTION, TRUE RECURRING BUDGET BALANCE MUST BE ACHIEVED WHILE THE CITY'S FINANCING NEEDS ARE REDUCED AND BROUGHT INTO BALANCE WITH THE MARKET'S ABILITY TO HANDLE THEM.

WE MUST ALWAYS BEAR IN MIND THAT A SOLUTION, IN ORDER TO BE LASTING, REQUIRES EASY, CONTINUED, UNFORCED ACCESS TO THE NATIONAL LONG AND

SHORT-TERM BOND MARKETS BY THE CITY. MARKETS CANNOT BE FORCE-FED.

WE HAD, CITY AND MAC, RECOMMENDED A PLAN INVOLVING TOTAL LONG-TERM FINANCING OF ABOUT $5 BILLION. AS A RESULT, 4 YEARS HENCE, THE CITY, WITH A THEN BALANCED BUDGET, WOULD HAVE TOTAL ANNUAL FINANCING REQUIREMENTS OF LESS THAN $2 BILLION FOR BOTH SEASONAL AND CAPITAL REQUIREMENTS. THESE WOULD BE WELL WITHIN THE MARKET'S ABILITY TO ABSORB. AN INTEGRAL PART OF THE PLAN CONSISTS OF LONG-TERM FEDERAL LOANS OR GUARANTEES IN THE AMOUNT OF $2.25 BILLION; THESE ARE REQUIRED DUE TO THE FACT THAT MAC, AT BEST, HAS $2.5 TO $3.0 BILLION OF ADDITIONAL BORROWING POWER AND THE CITY, CURRENTLY, HAS NO DIRECT ACCESS TO THE MARKET.

THE SENATE BANKING COMMITTEE HAS RECOMMENDED A SERIES OF CITY AND STATE ACTIONS DESIGNED TO ASSURE THE CITY'S CREDIT-WORTHINESS. THESE INCLUDE ESTABLISHMENT OF A LONG-TERM FISCAL MONITOR, INCREASING MAC'S BORROWING AUTHORITY, ACCELERATING THE PHASEOUT OF CAPITALIZED EXPENSE ITEMS, CITY-WIDE LABOR AGREEMENTS AND INCREASING STATE AID TO THE CITY. WE AT MAC TOTALLY AGREE THAT THESE STEPS ARE NECESSARY AND DESIRABLE TO MAKE THE CITY CREDIT-WORTHY. WE HAVE LONG SUPPORTED THESE POSITIONS WHICH, I BELIEVE, THE CITY HAS ALSO ENDORSED.

THE SENATE BANKING COMMITTEE ACKNOWLEDGES THAT THESE STEP WILL TAKE TIME; EVEN UNDER THE COMMITTEE'S SCHEDULE THE BUDGET WILL NOT BE TRULY BALANCED FOR FOUR YEARS. THE COMMITTEE ASSUMES, HOWEVER, THAT THE INITIATION OF THESE STEPS WILL SUFFICE TO MAKE THE CITY SELF-SUFFICIENT WITH RESPECT TO CREDIT. THIS IS WHERE WE DISAGREE.

THE SENATE BANKING COMMITTEE HAS RECOMMENDED A PLAN INVOLVING IN THE AGGREGATE $3.5 BILLION OF LONG-TERM FINANCING AND $1.8 BILLION OF SEASONAL FINANCING, WITH NO FURTHER FEDERAL PARTICIPATION. THE BRUNT OF THE LONG-TERM FINANCING WOULD BE BORNE BY THE CITY PENSION SYSTEMS; THE MAIN PART OF THE SEASONAL FINANCING BY THE STATE PENSION SYSTEMS AND THE BANKS.

WE BELIEVE THIS ASPECT OF THE PLAN TO BE UNWORKABLE. THE SENATE BANKING COMMITTEE PLAN HAS THE APPEARANCE OF PLAUSABILITY BY CUTTING BACK LONG-TERM FINANCING REQUIREMENTS BY $1.6 BILLION. INSTEAD OF STRENGTHENING THE PLAN, HOWEVER, THIS ONLY MAKES IT WEAKER AND LESS LIKELY TO SUCCEED. FAILURE TO BOND OUT THE STATE ADVANCE MAINTAINS HIGH LEVELS OF SEASONAL FINANCING AS WELL AS THE FICTION THAT ALL PAST DEFICITS HAVE BEEN FUNDED; FAILURE TO FINANCE MAC CAPITAL RESERVE FUNDS AND TO REFINANCE HIGH INTEREST/SHORT MATURITY MAC BONDS CREATE GREATER BUDGETARY DEFICITS AND THEREFORE POSTPONE THE CITY'S OWN REENTRY TO THE MARKET; FORCING THE MAINTENANCE OF EXCESSIVE LEVELS OF CITY-RELATED PAPER ON THE PENSION SYSTEMS IS POOR PUBLIC POLICY. THE FACT OF THE MATTER IS THAT THE CITY, AS OPPOSED TO MAC, WILL NOT BE REGARDED AS TRULY CREDIT-WORTHY, ON THE SCALE REQUIRED NATIONALLY, UNTIL IT HAS SHOWN CAPABILITY TO TRULY BALANCE ITS BUDGET RECURRINGLY, AS A RESULT OF ITS OWN WILL, COMBINED WITH THE DISCIPLINE OF THE LONG-TERM MONITOR. THIS WILL REQUIRE YEARS.

REGARDLESS OF AMOUNTS, HOWEVER, WE BELIEVE THAT NEITHER THE FINANCING INSTITUTIONS NOR THE UNION PENSION SYSTEMS WILL PARTICIPATE IN A PLAN DEVOID OF CONTINUED FEDERAL CREDIT ASSISTANCE. I DO NOT WISH TO BE A

PROPHET OF DOOM; PROPHETS OF DOOM, ESPECIALLY IF THEY TURN OUT TO BE CORRECT, ARE USUALLY BLAMED FOR THE DOOM AND HAVE A DIM FUTURE THEMSELVES. SUFFICE IT TO SAY THAT IT IS MY PERSONAL CONVICTION THAT THE SENATE BANKING COMMITTEE PLAN CARRIES WITH IT A VERY SERIOUS RISK, IF NOT TO SAY A LIKELIHOOD, OF CITY BANKRUPTCY.

WHY, ONE MIGHT ASK SHOULD NOT THE PENSION SYSTEMS AND THE BANKS BE, IN EFFECT, COMPELLED TO INVEST UNDER THE IMPLIED THREAT OF BANKRUPTCY? THE ANSWER, IN MY JUDGEMENT, WILL BE THAT THE FIDUCIARY AND THE LIABILITY FACETS OF THEIR DECISIONS WILL MORE THAN COUNTERBALANCE THE FEAR OF BANKRUPTCY. YOU MUST BEAR IN MIND THAT, SINCE THE CRISIS OF 1975, MAJOR LITIGATION HAS BEEN BROUGHT AGAINST THE BANKS AND PENSION SYSTEMS AND THE SEC HAS HARSHLY CRITICIZED THE FINANCIAL INSTITUTIONS, LAWYERS AND RATING AGENCIES INVOLVED WITH THE CITY. THE ABSENCE OF FEDERAL CREDIT ASSISTANCE WILL, IN MY OPINION, MAKE THE RISK TOO GREAT FOR FIDUCIARIES.

FOR ANY FIDUCIARY TO INVEST $2.25 BILLION IN UNGUARANTEED CITY PAPER SEEMS TO ME HIGHLY UNLIKELY. MAC, BY ITSELF, DOES NOT HAVE THE BORROWING POWER TO CARRY THE CITY FOR THE 3 OR 4 YEARS, EVEN IF IT HAD PERFECT ACCESS TO THE MARKET. THE EVENTS OF THE LAST FEW MONTHS CLEARLY LEAD TO THE CONCLUSION THAT A RECOGNIZED LONG-TERM SOLUTION TO THE CITY SITUATION IS NEEDED FOR MAC TO HAVE SATISFACTORY MARKET ACCESS. WITHOUT A CREDIT BRIDGE, PROVIDED BY THE FEDERAL GOVERNMENT, THE STRUCTURE OF ANY LONG-TERM SOLUTION IS TOO WEAK.

IN ADDITION, LET ME REMIND YOU THAT THE WORD "CREDIT" IS DERIVED FROM

THE LATIN "CREDERE" OR "TO BELIEVE". IT IS FAITH AS WELL AS FIGURES. THE PSYCHOLOGICAL IMPACT OF THE FEDERAL GOVERNMENT PERCEIVED AS ABANDONING NEW YORK CITY CANNOT BE OVERESTIMATED. IT COULD BE, IN SOME WAYS, MORE OF A FACTOR IN DOOMING THE PLAN IN THE VIEW OF THE OTHER PARTICIPANTS, THAN ANYTHING ELSE.

THE UNEQUIVICAL CONCLUSION I HAVE REACHED IS THAT WITHOUT CONTINUED FEDERAL CREDIT ASSISTANCE IT IS NOT POSSIBLE TO PUT TOGETHER A WORKABLE FINANCING PLAN. THE RISK OF BANKRUPTCY, IN THAT EVENT, IS OBVIOUSLY OF A VERY HIGH ORDER. AS I SAID EARLIER, THE WORLD OF CREDIT IS A WORLD OF FAITH AND PSYCHOLOGY, AS WELL AS PURE FIGURE WORK. FOR THAT REASON, I DO NOT WISH, AS CHAIRMAN OF MAC, TO SIT HERE AND PROPHECY THE CERTAINTY OF BANKRUPTCY. IT IS NOT A BANNER TO BE UNFURLED CARELESSLY. SUFFICE IT TO SAY THAT THE RISK IS THERE, AND IT IS MOST SERIOUS. THE QUESTION WE ASK OF OUR GOVERNMENT IS "WHY RUN IT?" WHAT IS TO BE GAINED BY SUCH A GAMBLE? IN THE NEXT FEW DAYS YOU WILL EXAMINE ITS POSSIBLE IMPACT. ON THE SOCIAL LIFE OF THE CITY, IN THE DELIVERY OF SERVICES. ON THE BANKING SYSTESM. ON THE STATE. ON THE FEDERAL GOVERNMENT. ON THE DOLLAR. ON ALL OF THESE YOU WILL NOT GET ABSOLUTE ANSWERS BUT AGAIN, SOMBER WARNINGS OF RISK. ON PERHAPS THE MOST IMPORTANT OF ALL PROBABLY NO ONE WILL SPEAK: OUR IMAGE IN THE WORLD. IN THE IDEOLOGICAL COMPETITION IN WHICH WE EXIST, WORLD WIDE, A BANKRUPTCY OF NEW YORK WILL BE VIEWED AS A BANKRUPTCY OF THE FREE-ENTERPRISE, CAPITALISTIC SYSTEM; AS PROOF OF THE IMPOTENCE OF OUR SYSTEM TO SOLVE DIFFICULT, BUT NONETHELESS FINITE, PROBLEMS. AND I THINK THAT WILL BE A CORRECT INTERPRETATION.

THE TEST OF STATESMANSHIP IS TO PREEMPT CRISIS. TO AVOID RUNNING HUGE RISKS FOR SMALL STAKES. THAT IS THE PRINCIPLE ON WHICH THE INSURANCE INDUSTRY RESTS. WE HAVE PROPOSED A PLAN WHICH AVOIDS THIS RISK AT NO COST TO THE FEDERAL GOVERNMENT. NOT ONLY CAN THE SAFEGUARDS PRESENTLY EXISTING UNDER THE SEASONAL LOAN PLAN BE PRESERVED, THEY CAN BE EXTENDED. THE LONG-TERM MONITOR, SUCCESSOR TO THE CONTROL BOARD, CAN MAINTAIN THE FISCAL DISCIPLINE. THE FEDERAL CREDIT-RISK, IF ANY, CAN BE SECURED. THE FEDERAL ROLE CAN BE CONDITIONED ON AN ENHANCED STATE INVOLVEMENT AND ACCELERATED CITY REFORM. WE BELIEVE THE PROGRAM WE PROPOSE TO BE AN INSURANCE POLICY FOR THE BENEFIT OF THE FEDERAL GOVERNMENT AGAINST THE RISKS OF A CITY BANKRUPTCY WHILE PROVIDING THE BRIDGE TO BRING THE CITY BACK TO SOLVENCY. I DON'T EVER WANT TO FIND OUT, MR. CHAIRMAN, IF I AM RIGHT IN MY ASSESSMENT OF BANKRUPTCY. I AM SURE NO ONE ON THIS COMMITTEE WANTS TO FIND OUT. THERE IS, LUCKILY, NO NEED TO FIND OUT. LET US PROCEED WITH A PLAN THAT WILL NOT ONLY AVOID BANKRUPTCY BUT HELP THE CITY TO THE ONE OBJECTIVE THAT I AM SURE WE ALL SHARE: TO GET US OUT OF YOUR HAIR ONCE AND FOR ALL.

THANK YOU.

MUNICIPAL ASSISTANCE CORPORATION

DRAFT

SUMMARY OF FUNDING REQUIREMENTS

SUMMARY OF ALL FINANCING

(In $ Thousands)

	1979	1980	1981	1982
Base (1/10)	508,360	536,066	523,697	568,057
MAC Capital Reserve	7,000	16,667	21,500	25,920
MAC Re-funding	(17,142)	(46,634)	(55,963)	(61,499)
State Advance		10,934	38,706	71,787
Cap. Exp.	11,000	385	2,114	(2,641)
BAN Bond	(64,000)	(102,400)	(100,480)	(98,453)
	445,218	415,018	429,574	503,171

HAD/lsd
02/16/78

MUNICIPAL ASSISTANCE CORPORATION

SUMMARY OF FUNDING REQUIREMENTS

DRAFT

SUMMARY OF ALL FINANCING

(In $ Thousands)

	1979	1980	1981	1982
Base (1/10)	508,360	536,066	523,697	568,057
MAC Capital Reserve	7,000	16,667	21,500	25,920
MAC Re-funding	(17,142)	(46,634)	(55,963)	(61,499)
State Advance		10,934	38,706	71,787
Cap. Exp.	11,000	385	2,114	(2,641)
BAN Bond	(64,000)	(102,400)	(100,480)	(98,453)
	445,218	415,018	429,574	503,171

HAD/lsd
02/16/78

DRAFT

MUNICIPAL ASSISTANCE CORPORATION

SUMMARY OF FUNDING REQUIREMENTS

SUMMARY OF ALL FINANCING

(In $ Thousands)

	1979	1980	1981	1982
Base (1/10)	508,360	536,066	523,697	568,057
MAC Capital Reserve	7,000	16,667	21,500	25,920
MAC Re-funding	(17,142)	(46,634)	(55,963)	(61,499)
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BAN Bond	(64,000)	(102,400)	(100,480)	(98,453)
	445,218	415,018	429,574	503,171

HAD/lsd
02/16/78

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 13 February 1978

To : Gene Keilin

From: Andrew Decker

Re : November/May Payment Date Option on MAC Financings under City's Four-Year Plan

---

Attached as Exhibit I is a breakdown of the "net cost" impact of issuing all new Second General Bond Resolution debt with November/May payment dates.

Exhibit II details the impact of adjusting out the November/May option would have on the financings detailed in the City's Plan.

HAD/lsd

MUNICIPAL ASSISTANCE CORPORATION

EXHIBIT II

SUMMARY OF FUNDING REQUIREMENTS

SUMMARY OF ALL FINANCINGS

(In $ Thousands)

	1979	1980	1981	1982
Base 1/	$507,538	$536,065	$523,697	$568,056
MAC Capital Reserve 2/	7,000	16,666	21,500	25,920
MAC Refunding 2/	(15,401)	(55,354)	(58,533)	(61,684)
State Advance 2/		10,933	38,707	71,789
Cap. Ex. 2/	3,000	(1,500)	725	(1,926)
BAN Bond	(53,333)	(104,000)	(102,135)	(100,163)
	$448,804	$402,810	$423,961	$501,992
Adjustment for November/May	8,580	1,210	3,261	2,102
TOTAL without November/May	$457,384	$404,020	$427,222	$504,094

NOTES:

1/ Assumes periodic funding of Second General Resolution debt service.

2/ Issued with November/May payment dates.

HAD/lsd

EXHIBIT I

MUNICIPAL ASSISTANCE CORPORATION

Summary of Net Cost Impact of November-May
Option on Second Resolution Bonds Issued
In City's Four-Year Financial Plan

(In $ Thousands)

	1979	1980	1981	1982
Refunding	(580)	(3,310)	(3,316)	(746)
Capitalized Expenses	(6,000)	4,500	120	120
State Advance		(1,067)	(1,565)	(1,516)
Capital Reserve	(2,000)	(1,333)	1,500)	40
Total Net Cost Impact of November/ May Option	(8,580)	(1,210)	(3,261)	(2,102)

Total Funding Savings over Four Years 15,153

HAD/lsd
02/13/78

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-FIFTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

February 10, 1978

Mr. Felix G. Rohatyn
Chairman
Municipal Assistance Corporation
2 World Trade Center
New York, New York 10047

Dear Mr. Rohatyn:

The Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs has scheduled several days of hearings in February and March of this year on the fiscal and financial outlook for New York City after the expiration on June 30, 1978, of the New York City Seasonal Financing Act of 1975. I am pleased to invite you to testify before the Subcommittee on Monday, February 27, 1978, at 9:30 a.m. in Room 2128 of the Rayburn House Office Building.

The broad purposes of the hearings are fourfold: First, we want to assess New York City's financial needs, both seasonal and long term, following the expiration of the Federal seasonal loan program; second, we wish to determine to what extent the City's financial needs can be met by resources made available through City and State governmental actions and through participation in a financing program by various public and private entities; third, we wish to evaluate whether, and to what extent, additional Federal financial assistance for the City is required post-June 30, 1978; and fourth, if additional Federal assistance is required, we wish to determine how the program should be structured to insure that it will enable New York City to achieve fiscal and financial stability and regain access to the capital markets.

Your views and comments on these matters will be most helpful to the Subcomittee in its consideration of any legislative proposals for continued Federal financial assistance to New York City.

In the interest of dialogue and a greater opportunity for questioning by the Members of the Subcommittee, we ask that you limit any oral presentation you may wish to make to about ten minutes, although you may submit a statement of greater length if you so desire.

In accordance with Committee rules, please deliver 100 copies of your prepared remarks to Edwin W. Webber, Staff Director, Room 2220, Rayburn House Office Building, by noon, Saturday, February 25.

If you have need for further information, please have your staff call Ruth Wallick of the Subcommittee staff at (202) 225-7810.

With best regards,

Sincerely,

Bill

WILLIAM S. MOORHEAD
Chairman

Municipal Assistance Corporation
For The City of New York

MEMORANDUM

Date : 9 February 1978

To : E.J. Keilin

From: H.A. Decker HD

Re : MAC's capacity to fund short-term debt issues

Attached are two tables displaying the calculation of MAC's capacity to carry short-term debt (debt to be repaid within the same fiscal year) for fiscal years 1979 and 1980. The basic assumption is that present debt service funding requirements are continued in the future. If MAC were to undertake some or all of the financial activities outlined in the City's Four-Year Financial Plan, the amount available for short-term financing would change. (It should be noted that if MAC completes the program outlined in the Four-Year Plan, its capacity to support short-term debt will be decreased despite the reduction of its annual funding requirements.)

Another basic assumption is that any short-term financing is excluded from new issuance coverage tests. If this is not the case, MAC's short-term capacity would be limited to approximately $300 million in each year. Finally, sales tax revenue is forecast with no growth in either year and is reduced by 10% as a safety margin. Per Capita Aid is carried at the present level of money available to MAC free of any prior claims, that is $350 million.

HAD/lsd
attachments

cc: P.G. Giddings with/attachments

MUNICIPAL ASSISTANCE CORPORATION

Short-Term Capacity

(In $ Millions)

Fiscal Year 1979

Present Debt	October 12	January 12	April 12	June 25	June 30
Firsts	75.9	75.9	80.5		80.5
Seconds	49.1	49.1	49.1	48.4	
Operating Fund					5.5
Total Funding Requirements	125.0	125.0	129.6	48.4	86.0
Sales Tax Available	200.0	200.0	225.0		165.0
Per Capita Aid				350.0	
Available	75.0	75.0	95.4	301.6	79.0
Balance Available* (07/01 626)	551.0	476.0	380.0	79.0	-0-

NOTE:

* Balance available implies that from the City's perspective, some portion of the debt must be paid off by the date indicated through MAC's funding from sources otherwise payable to the City.

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02/09/78

MUNICIPAL ASSISTANCE CORPORATION

Short-Term Capacity

(In $ Millions)

Fiscal Year 1980

Present Debt	October 12	January 12	April 12	June 25	June 30
Firsts	80.5	80.5	76.9		76.9
Seconds	55.6	55.6	55.6	54.4	
Operating Fund					5.5
Total Funding Requirements	136.1	136.1	132.5	54.4	82.4
Sales Tax Available	200.0	200.0	225.0		165.0
Per Capita Aid				350.0	
Available	64.0	64.0	93.0	296.0	83.0
Balance Available (07/01 600)	536.0	472.0	379.0	83.0	-0-

HAD/lsd
02/09/78

down an average 50% from the old, fixed-fee schedule promulgated by the New York Stock Exchange.

Discount Averages 44%

At Mitchell Hutchins, the discount is averaging 44% currently, according to Mr. Marron, who added that the firm is planning to adjust its fee-negotiating posture to reduce the discount to 40%. Lopping off four percentage points would effectively equal a 9% fee increase.

Donaldson Lufkin, experiencing a 46% average discount, said it plans to institute a maximum limit of 40%, but added that in certain cases where it buys stock from institutions for its own account, there wouldn't be any reduction at all from the old Big Board fixed-fee schedule. When a house buys stock for its own account, it risks its own capital while performing a service for the institution, which sells to the firm because it couldn't find a ready buyer in the open market.

Mitchell Hutchins's corporate experience under competitive rates is typical of many firms that had relied heavily on institutional business when such dealings produced lucrative revenue. While some weaker houses dissolved outright, Mitchell Hutchins was among the firms that diversified into such areas as private-asset management and bond trading. However, the pressures of institutional discounts still helped propel the firm into a combination with a full-service firm; last May it was acquired by Paine Webber, which also operates the multibranch Paine, Webber, Jackson & Curtis Inc. general-purpose securities firm.

For those Wall Streeters who got to Wall Street through the snowstorm of the past two days, the chief topic of conversation, beyond snow-travel stories, has been the Donaldson Lufkin announcement.

May Reverse Trend

Speculation is rampant as to whether the projected rate rise will stick. The Mitchell Hutchins move is expected to encourage other houses to follow suit, thereby reinforcing the possibility that the industry might be able to reverse, at least to a limited degree, the downward trend in rates.

A senior executive at one of the Street's largest institutional firms predicted that "there will be a concerted force to raise commission rates" for institutions but added that "I don't yet see any return to the kind of profits the business had a few years ago."

Meantime, the industry's embryonic effort received a sympathetic view from one of the nation's largest institutions—Citicorp, which has about half its $26 billion or so of assets under management invested in equities.

Edward L. Palmer, chairman of the executive committee, said in an interview yesterday that "we've had here a long-time concern that the discount would reduce or destroy the viability of the marketplace by reducing the number of people in the (brokerage) business. Deep-discounting can go too far."

Mr. Palmer said that in its negotiations with brokers Citibank generally hasn't gone much deeper than 40% in obtaining discounts. "We aren't going to have any problem doing business with Donaldson Lufkin," he added.

Study of Plan to Sell Short-Term Notes Set By Chairman of MAC

2/8/78

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—The Municipal Assistance Corp. is studying the feasibility of publicly selling short-term notes for the first time, a move that would reduce New York City's need for continued federal seasonal loans.

The staff study was ordered by MAC's chairman, Felix Rohatyn, who said yesterday he is "reasonably optimistic" that the state agency is capable of issuing $250 million to $500 million in notes next year.

Mr. Rohatyn raised the possibility of MAC selling notes during a private meeting Monday with Treasury Secretary Michael Blumenthal and New York Governor Hugh L. Carey.

A note sale would be a departure for MAC, which up to now has issued only bonds to meet New York City's need for long-term credit. By selling notes, and for the first time meeting some of the city's short-term credit needs, MAC would reduce the city's need for continued short-term borrowing from the federal government.

The Treasury Department currently lends up to $2.3 billion annually to the city, which must repay the loans each year by June 30.

Coupled with other efforts to reduce the city's short-term borrowing, such as smoothing out the receipt of taxes, a MAC sale of notes raises the possibility of New York ending entirely its reliance on federal short-term borrowing.

The federal program of short-term loans expires June 30 and there is opposition in Congress to an extension of the program. The city wants the program to continue for another three years on a diminishing basis.

By reducing New York's need for further short-term loans, Mr. Rohatyn may improve the city's chances for winning congressional approval of the city's other major request, a program of federal guarantees for $2.25 billion in bonds which the city wants to sell to city and state pension funds.

Created in 1975, MAC has sold $5.6 billion of its bonds primarily to refinance New York City's mountain of short-term debt.

The city was excluded from the credit market in early 1975 and an attempt by the city to sell notes this fall failed.

At best, a program of MAC note sales would be only a temporary measure while the city regains access to the short-term credit market. MAC's ability to sell notes will decline progressively during the next few years as its sale of bonds approaches the limits of revenue available for debt service. New York state has earmarked city sales-tax revenue to pay principal and interest on MAC bonds.

Blumenthal's New York Trip

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—Treasury Secretary Michael Blumenthal said New York City will have to make changes in its new four-year financial and budget plan.

Ending a two-day fact-finding trip to New York, Mr. Blumenthal said: "It's clear the plans as they are drawn require further work."

House Votes to Add 145 U.S. Judgeships To Ease Backlog

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—The House, in an effort to relieve the heavy backlog of court cases, voted to create 145 additional federal judgeships.

The legislation, approved 319 to 80, would increase the number of U.S. district judges to 508 from 398 and the number of appellate judges to 132 from 97. The Congressional Budget Office estimates the new judgeships would cost about $38.5 million a year.

The Senate last year approved legislation that would establish 148 new judgeships—113 district judges and 35 appellate judges. A House-Senate conference committee will have to work out differences in the two measures.

The House-passed bill would require President Carter to establish procedures and guidelines for the selection for district judges on the basis of merit. In addition, the bill recommends that the President give "due consideration" to naming qualified women, blacks, Hispanics and other minority individuals to federal judgeships.

A federal district judge earns $54,500 a year and an appeals court judge earns $57,500.

Municipal Assistance Corporation
For The City of New York

CONFIDENTIAL

MEMORANDUM

Date : 6 February 1978

To : Eugene Keilin

From: Andrew Decker AD

Re : Breakdown of Debt Service Funding as a Result of Financings Outlined in New York City Four Year Financial Plan

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The following tables present the "net cost" funding impact of the various components of MAC's financings detailed in the New York City Four Year Financial Plan. The numbers are based upon structures and timing determined by PGG.

att.

EXHIBIT I

CONFIDENTIAL

SUMMARY OF FUNDING REQUIREMENTS

SUMMARY OF ALL FINANCINGS

($ Thousands)

	1979	1980	1981	1982
BASE	$ 507,538	$ 536,065	$ 523,697	$ 568,056
MAC Cap. Reserve	7,000	16,666	21,500	25,920
MAC Refunding	(15,401)	(55,354)	(58,533)	(61,684)
State Adv.		10,933	38,707	71,789
Cap. Exp.	3,000	(1,500)	725	(1,926)
BAN Bond	(53,333)	(104,000)	(102,135)	(100,163)
	$ 448,804	$ 402,810	$ 423,961	$ 501,992
Reconciliation to Four Year Plan	$ 466,000	$ 474,000	$ 497,000	$ 555,000
Improvement Over Plan	$ 17,196	$ 71,190	$ 73,039	$ 53,008

EXHIBIT II

CONFIDENTIAL

SUMMARY OF FUNDING REQUIREMENTS

IMPACT OF MAC CAPITAL RESERVE FINANCING

($ Thousands)

Issue	1979	1980	1981	1982
Jan. 1, 1979 ($150 million)	$ 7,000	$ 12,000	$ 13,500	$ 17,920
Jan. 1, 1980 ($100 million)	———	4,666	8,000	8,000
Net Cost	$ 7,000	$ 16,666	$ 21,500	$ 25,920

CONFIDENTIAL

NET CHANGE IN FUNDING REQUIREMENTS

REFUNDING

($ Thousands)

Series M (May 1, 1979)

	1979	1980	1981	1982
Old Funding	$ 23,162	$ 23,152	$ 10,231	$ 9,537
New Funding	7,761	6,960	6,960	6,960
Net Cost	(15,401)	(16,192)	(3,271)	(2,577)

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NET CHANGE IN FUNDING REQUIREMENTS

REFUNDING

($ Thousands)

Series G and 4 (January 1, 1980)

	1979	1980	1981	1982
Old Funding				
Series G	$ 8,902	$ 8,903	$ 8,905	$ 8,904
Series 4	14,229	14,228	14,227	14,228
	$ 23,131	$ 23,131	$ 23,132	$ 23,132
New Funding	23,131	3,042	9,360	9,360
Net Cost	0	(20,089)	(13,772)	(13,772)

CONFIDENTIAL

NET CHANGE IN FUNDING REQUIREMENTS

REFUNDING

($ Thousands)

Series BB (January 1, 1980)

	1979	1980	1981	1982
Old Funding	$ 17,867	$ 17,864	$ 17,860	$ 17,864
New Funding	17,867	(2,209)	6,400	6,400
Net Cost	0	(19,073)	(11,460)	(11,264)

CONFIDENTIAL

NET CHANGE IN FUNDING REQUIREMENTS

REFUNDING

($ Thousands)

Series 2 and 3 (January 1, 1981)

	1979	1980	1981	1982
Old Funding				
Series 2	$ 27,836	$ 27,837	$ 27,837	$ 27,837
Series 3	11,433	11,430	11,433	11,429
	39,269	39,267	39,270	39,266
New Funding	39,269	39,267	9,240	15,840
Net Cost	0	0	(30,030)	(23,426)

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NET CHANGE IN FUNDING REQUIREMENTS

REFUNDING

($ Thousands)

Series 1 (January 1, 1982)

	1979	1980	1981	1982
Old Funding	$ 13,064	$ 13,061	$ 13,064	$ 13,062
New Funding	13,064	13,061	13,064	2,613
Net Cost	0	0	0	(10,449)

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EXHIBIT IV

SUMMARY OF FUNDING REQUIREMENTS

IMPACT OF BONDING OUT STATE ADVANCE

($ Thousands)

Issue	1979	1980	1981	1982
Jan. 1, 1980		$ 10,933	$ 22,307	$ 21,929
Jan. 1, 1981			16,400	33,460
Jan. 1, 1982				16,400
Net Cost		$ 10,933	$ 38,707	$ 71,789

CONFIDENTIAL

EXHIBIT V

SUMMARY OF FUNDING REQUIREMENTS

IMPACT OF FINANCING CAPITALIZED EXPENSES

($ Thousands)

Issue	1979	1980	1981	1982
Jan. 1, 1979				
MAC	$ 21,000	$ 40,500	$ 53,760	$ 52,790
City Mirror	(18,000)	(54,000)	(53,040)	(52,041)
Net Cost	$ 3,000	$(13,500)	$ 720	$ 749
Feb. 1, 1980				
MAC		$ 12,000	$ 30,000	$ 35,680
City Mirror			(35,995)	(35,355)
Net Cost		$ 12,000	$ (5,995)	$ 325
Feb. 1, 1981				
MAC			$ 6,000	$ 15,000
City Mirror				(18,000)
Net Cost			$ 6,000	$ (3,000)
Total Net Cost	$ 3,000	$ (1,500)	$ 725	$ (1, 926)

EXHIBIT VI

CONFIDENTIAL

SUMMARY OF FUNDING REQUIREMENTS

IMPACT OF BAN BOND

($ Thousands)

	1979	1980	1981	1982
Net Cost	$ (53,333)	$ (104,000)	$ (102,135)	$ (100,163)