Selected Documents from the Collection of Mayor Edward Koch

Photograph by Shmuel Thaler

Volume II Part A: FISCAL CRISIS
Introduction
by Mayor Edward I. Koch
October 30, 2008

When I was elected Mayor in 1978, many New Yorkers believed the City would be forced into bankruptcy because of the continuing fiscal crisis. I knew that was not an option. That would have commenced the destruction of the City of New York. The wealthy would move immediately on the filing of the bankruptcy petition which the Beame administration allegedly had prepared in 1975, the middle class would stay somewhat longer hoping for the best, but leave when city-provided services—education, police, fire and sanitation at the top of the list, more to follow—began to seriously deteriorate, and those staying would overwhelmingly be the poor in need of services, but with a very limited tax base, insufficient to enable the City to provide minimally adequate services.

I assembled the best team I could to help me deal with the crisis. There were many who were there at the very beginning and others who came to join us in the second and third terms. To list them inevitably leads to bruised feelings, yet I feel obligated to remind City residents who did the yeoman’s work in bringing the City back to fiscal stability. They include Allen Schwartz, Corporation Counsel; Jim Brigham, OMB director; Abe Biderman, Mayor’s Staff; Bobby Wagner, Deputy Mayor for Planning; Nat Leventhal, Deputy Mayor for Operations, Peter Solomon, Deputy Mayor of Economic Policy and Development, Ronay Menschel, Deputy Mayor, Herman Badillo, Deputy Mayor, Diane Coffey, Chief of Staff, John LoCicero, Mayor’s Staff, Maureen Connelly, Mayor’s Press Secretary. The replacements for some who departed before we all left City Hall at the end of 12 years included Paul Dickstein and Alair Townsend, Budget Directors, she also Deputy Mayor for Finance and Economic Development; and Ken Lipper, Deputy Mayor for Finance and Economic Development; Fritz Schwarz and Peter Zimroth, Corporation Counsels, and Stan Brezenoff as First Deputy Mayor for more than half of the three terms of our administration.

I have mentioned some of those around me on whom I depended as we steered 12 City budgets through preparation and adoption by the City Council. Many more contributed mightily to the City’s success in different areas, but this volume covers the Fiscal Crisis as the first volume covered the City’s response to HIV/AIDS. There will be more books covering other aspects of government, and credit given to those who made major contributions to the City’s efforts in those areas.

The single most important budgetary decision we made in the 12 years was to adopt a balanced budget a year ahead of schedule in 1981. That made it possible to achieve a balanced budget required by State law by 1982, but even more critical, to once again to receive a rating from the credit agencies, ultimately allowing us to sell the City’s general obligation bonds used primarily to fund a capital budget needed by a city if it is to replace and build new infrastructure, e.g., roads, ancient sewers, buildings, etc., without which a city will perish. That decision was made when the Wall Street Journal’s then bureau chief, Dan Hertzberg, asked Nat Leventhal what additional pain caused by reductions in city services—
would be involved if we took such a course of action. We examined that issue and decided we could do it and we did.

The restoration of the City required the assistance of the State of New York and most especially the support of then Governor of New York Hugh Carey (1975-1982), who I believe was one of New York State’s greatest governors with whom I worked cooperatively with success. His appointee, Felix Rohatyn, provided the financial plan – known as the federal loan guarantees – ultimately authorized by the Congress and President Jimmy Carter in 1978. The program was extended by President Ronald Reagan in 1981, which made it possible for the municipal labor unions to buy $1.65 billion of municipal bonds which had no credit rating at the time. The federal loan guarantee act and the City’s four-year financial plan to balance the budget provided the foundation that enabled the City to restart its capital construction program and ultimately reenter the public credit markets.

The whole story of New York’s recovery from the brink of oblivion has been and will in the future be examined in detail by historians. Those of us who played a role in restoring the City’s good financial health will always remember those days as the most interesting and exciting of times, and for many the most enjoyable and best part of their professional careers.
Edward I. Koch Administration Oral History Project

The Reminiscences

of James Brigham

Oral History Research Office
Columbia University

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PREFACE

The following oral history is the result of one tape-recorded interview with James Brigham, Director of the Office of Management and Budget, conducted by Owen Gutfreund on May 14, 1992 in New York City, New York. This interview is part of the Edward I. Koch Administration Oral History Project.

The reader is asked to bear in mind that he or she is reading a verbatim transcript of the spoken word, rather than written prose.
Brigham: By the time the Beame administration came to an end, I had become totally absorbed by the city's financial problems and had been working on restructuring the city's debt. As you might recall, there was about six billion dollars of short term debt that had to be re-financed in the early part of the fiscal crisis, and when the Koch team came on board, I actually had taken a consulting assignment with the Municipal Assistance Corporation, working with Gene Keilin and Felix Rohatyn. The Koch team had twenty days, from January 1st to January 20th, to present a four-year financial plan to the secretary of the Treasury, Mike [Michael W.] Blumenthal.

Q: So, if I understand this correctly, you're on the Morgan Guaranty payroll and you're working for the Beame administration. You end up -- when you got to MAC, you're kind of working for the Koch administration, but you go to MAC. Are you now on the MAC payroll?

Brigham: I'm on the MAC payroll, right, as a consultant. So I was a consultant to MAC and being paid as a consultant, and through that relationship was working with Phil Toia and Ed Koch and Maureen Connelly and the team that was putting together the four-year financial plan.

Q: Was this when you first met Ed Koch?

Brigham: Yes, I first met him -- well, I had first met him at the 86 Street subway stop because he was my congressman, but in terms of actually meeting him and getting to know him, that was the first time. It was after he was inaugurated.
Q: I mean, that's a very interesting memory that you have of having met him on the street first. Knowing how well you know him now, can you describe something for me of, if you have any memory, what you thought of him that day you met him on the street, and then the first time you actually met him after he was inaugurated.

Brigham: My impression of him and he would -- in fact he said the same thing, but my impression of him was that he was a liberal congressman, a good one. He was very active and in my view, he had a large presence as a congressman. But I'm a relatively conservative guy. In fact, I'm a conservative Republican, and my impression of him was that he was rather liberal and rather much of a big spender. And Ed has said the same thing, that in fact, he was, and that was the way Congress worked in those days. You try to get more money for programs for your constituency and so on. The transition from that to being a chief executive of a very large economic entity, the City of New York, I think turned him into at least a financial conservative very quickly. And in fact, his top priority when he became mayor was to enable City Hall to get control of the city's finances. The city was really being run by the state and the Financial Control Board, and to do that the city had to regain its own credibility in the public eye in terms of city finances and budgets and budget estimates, and it had to be credible.

Q: Did that mean, because this is something I thought we'd get to later, but we might as well talk about it now, the notion of the EFSB and MAC as -- the city didn't have control of its own budget, and in many of these cases these were not elected people, or certainly not directly responsible to New York City voters. Did you come into it with you and them as they're the adversary to get them off our back kind of thing?
Brigham: Well, I sort of came in as one of those non-elected people and it was clear that the elected representatives had done a terrible job. We don't need to go into all reasons why but I think the city benefited for a period of time from getting input and direction from people who had a financial and economic point of many view. The city had been run primarily as a social institution for many, many years, and the city finances and the effect of city policies on its economy had been pretty much ignored. So there was a whole change in viewpoint that was brought in by MAC and some of the people who came from the business community that was necessary. But it was necessary only, I think, in a transitional period, and I think it was critical that the city get political leadership that could create an environment where the elected officials were in control once again. So it was -- I guess the involvement of non-elected people was necessary but it had to be ended, and you needed a strong leader to do that.

Q: Because this is the way you viewed things, was this one of the primary motivations behind getting the budget balanced a year early? Was that regaining control as --

Brigham: Absolutely. Because we knew that we could not get our long term financing access to the public credit markets without a balanced budget. We had to get an investment grade rating on the city bonds, and Moody's, in fact, had said that the city would have to have three consecutive balanced budgets to get an investment grade rating. So from that standpoint the sooner the better because it would take them three years of results before they would raise the city's rating to investment grade. Investment grade was important because that's where the market is.
Q: Standard & Poor's was more forthcoming?

Brigham: Since Moody's had taken that position and was very firm in it, Frieda Ackerman, was the head of the municipal bond rating group at Moody's and she was unwavering in that position. We went to Standard & Poor's and engaged in a six-month process of explaining to them city finances, city operations. They, over that six-month period attended -- they meaning Standard & Poor's -- twenty eight separate all-day meetings, looking at education, economic development, the structure of the police force and so. Every aspect of city operations. How we managed the budget, the city's capital programs.

Q: Aren't these things that rating agencies are supposed to already understand? Why do they need to get educated on it?

Brigham: They needed to get educated because they -- if they were to take an early position in upgrading the city's bond rating, they had to be absolutely confident that they knew what was going on in the city and I have to admire them for being willing to engage in that process. From our end, it was headed up by Lou [Louis] Friechich, who was our deputy budget director. The fact that we were able to get Standard and Poor's to engage in that process was itself a coup. Moody's wasn't willing to do it, but Standard and Poor's was. So they in effect scooped Moody's and upgraded our rating, I think it was in 1981, when we had just completed or were about to complete our first year with a surplus.

Q: This is kind of a two part question. One of the reasons why MAC was created was to
provide substitute access to the credit markets through a vehicle the credit markets trusted. And 1981 was an election year. How important was it for Ed Koch as mayor to get the city's credit access back before the election?

Brigham: It obviously was very helpful, but it wouldn't be fair to say that there was primarily a political motivation. But in terms of being helpful to him, I think he got seventy eight percent of the vote in both the Republican and Democratic -- he ran on both Republican and Democratic lines, so it was enormously helpful and he was one of the most powerful political figures at that time in the history of the city and very powerful on a national scale as well. So it was -- and he clearly had turned the city around. The city had had a surplus in its budget and he was in control and he wasn't taking any guff from anybody, including Felix.

Q: Was Felix giving him guff?

Brigham: He tried and at one point, and I think this was in -- we had some labor negotiations in the Spring, I believe, of '81 -- '80. Spring of '80.

Q: You had a transit strike in '80.

Brigham: Yes. Right. Maybe it was 1980. And we had a breakfast meeting at Gracie Mansion out on the front porch with Felix and he was going through one of his hand wringing exercises, that the city couldn't afford to pay wage increases, and at one point Ed cut him off and said, "Felix, that's bullshit and theatrics." And that was the end of that discussion. Felix is still there, you know, ten years later he's still a player on the stage of city finances: I
have a lot of admiration for him. He was extraordinarily effective in the early days of the fiscal crisis. But at this point the role of MAC is very inappropriate in my opinion, and it's a - there's a financial structure there that gives some people who are not elected an extraordinary say in city finances, and it's entirely inappropriate.

Q: I'm under the impression that it was unanticipated. People were more concerned with actually being able to issue debt. They didn't feel they'd be able to, on a regular basis, do advance fundings and realize present value benefits that would allow leverage in the budget. It wasn't something you anticipated at the time.

Brigham: No, but the bond covenants and the structure of MAC allowed that, and here we are I guess fifteen years -- seventeen years after MAC's creation, and it had surpluses in its reserve funds of several hundred million dollars, and it's a bargaining chip that strikes me as being very inappropriate for people who are not elected to have leverage on that much money.

That's a lot of money. The elected people ought to have control of advances, in my opinion. But as long as the bond covenants are there and the bonds are outstanding, we'll remain in that position. But the city now has had, I guess, twelve or thirteen consecutive balanced budgets, so it really ought to have control of all those aspects of its finance. MAC has served its purpose, but --

Q: Bond covenants can be defaced.

Brigham: Yes. I don't think MAC wants that to happen. It's an unusual legacy, I guess, of the early part of the fiscal crisis. MAC, of course, had a very extraordinary and important
role in refinancing the city's short term debt, but we're now, I think, suffering from the legacy of the structure that was created at that time.

Q: Let's go back to this time, that would be when you first came in. There was this twenty days to put together the four-year plan. Then after that there's the meat and potatoes of running the budget of a big city. What was the day to day?

Brigham: Well, the first six months of the Koch administration was an extraordinary challenging time. The first twenty days it was --I think everybody in the senior levels of the administration were working eighteen hour days seven days a week putting that financial plan together. There was a lot of energy and a lot of vigor and a lot of hard work that went into it. Once that was presented, I was actually appointed budget director in early February.

Ed first talked to me right after the press conference on the twentieth, in which the financial plan was presented and I took about a week and half or so to work through all the details, but the day to day task then became taking the broad principles and the broad strategy that was developed in that financial plan and bringing it down to the agency level, and that was also a very intense process, and I was helped enormously by Norman Stiesel, who at that time was deputy budget director. And Norman really taught me the ropes in terms of what city budgeting was all about. Because I'd been involved prior to that, really, in the financing side of the city, not in the budget itself, but rather restructuring the city's long term and short term debt. So I had a learning curve to go up and Norman helped me through that. We spent a very, I guess, intense three to four month period of analyzing all of the agencies and their operations and coming up with a budget plan that was line with the financial plan, and also trying to prepare for wage negotiations which were -- all the city's labor contracts were
due to expire June thirtieth that year, June thirtieth of 1978.

Q: Were these all contracts that had basically been in one way or another put off during the crisis?

Brigham: Yes. There'd been in effect a wage freeze for about four years, and there was a lot pent up demand. It was a period of very high inflation, which you probably recall, and the city had to complete its labor negotiations and it also had to get in line with the financial plan we had presented to the Treasury on January twentieth. We were seeking federal loan guarantees, and both committees of Congress were placing as a stipulation that the city have labor contracts in place before they would consider loan guarantee legislation. So we had to get that behind us. So that was a very critical part of the first months.

Q: This is presumably because they didn't want to be paying for -- they wanted you to be bargaining with your money, not theirs?

Brigham: Yes, exactly, and they wanted to know that the city could in fact negotiate responsible settlements and accommodate those settlements within the parameters of the financial plan that had been presented.

Q: How involved -- again, a two-part question. How involved was the mayor in the formulation of the agency budgets and then also, how did they get brought to and negotiated with the agencies? Above and below you, what was the involvement?
Brigham: There's an institutional tension within government between the budget office and agencies. At any level of government you go through that tension exists. Our analysts -- the city budget office at that time was about 400 people -- I imagine it's still about the same size, so it's quite a large agency -- got very involved in evaluating the operations of the agencies.

We probably didn't do it as effectively as we could have in terms of working with the agencies and developing budget and financial plans with the agencies that the agency heads and management level really bought into. The tension that exists is that the agency heads really want to run their own show and think that the budget office at best meddling and at worst trying to run the agencies themselves. So, our analysts worked with the agencies and would develop plans for cutting their budgets and restructuring operations and so on, hopefully with cooperation of the agencies, and often with some of the agencies in which there wasn't direct control like the Board of Education, Health and Hospitals. It was very difficult to get a buy in to the financial direction that the city wanted to take.

Q: This is because of the tenure of the appointed directors?

Brigham: Yes. Exactly. And the fact that those were organizations covered within the city's budget, that the city didn't have direct control. The mayor didn't have direct control.

Q: When you say "direct control," that comes down to the ability to fire the person running the show.

Brigham: Right. Exactly.
Q: Does that mean that all the agencies that you had that kind of direct control over were cooperative?

Brigham: No. But it was somewhat easier. And to get back to your question, the mayor was very involved in the budget discussions with the agencies, and generally we would have at least two or three meetings with the agency head, and OMB [Office of Management and Budget], the deputy mayors, and the mayor, in which we would resolve the marginal budget issues. And by the time we would get through that process we would have a consensus as to what was going to be done. And it was, I think, only because the mayor was willing to put his clout behind those discussions that we could get those issues resolved, because otherwise the agency heads would be going one way, and OMB would be going another. So he was very involved, and put the force of his office behind the decisions that were made. I think that's one reason that we got the budget under control and were able to balance it a year ahead of schedule.

Q: You had the unique experience of being involved in the last budget under the Beame administration and the first budget under the Koch administration, and they're two so very different people. There must have been a different style of --

Brigham: Very different. Abe Beame was an interesting guy. He wasn't really in charge of what was going on, but he was involved. John Zucotti, who was the first deputy mayor was really, you'd have to say, the chief operating officer in the city during the last two years of the Beame administration. Beame himself had been the city controller so he was a numbers oriented guy. But we would have meetings with him -- and my involvement was on city
finances, and there were lots of changes going on in the city's finances because of debt restructuring and they had some big and actually positive impact on the budget because the city was able through refinancing its debt to saving interest costs and restructure debt with longer payments, and so on. So the restructuring of finances was important to the budget. Beame would -- in I remember one of the meetings we had --

Q: I want to just come back to one thing. This was -- refinancing, was this MAC issuing bonds for the same higher cost city bonds?

Brigham: It was MAC reissuing bonds and it was also the terms that we were able to negotiate with the New York City pension funds, because the pension funds were buying the city long term debt in the last two years of the Beame administration. In that regard we were negotiating primarily with the heads of the municipal labor unions -- Jack Bigel and Bill [William] Scott and Victor Gotbaum, and so on, and if we were able to get them to take longer term debt, it had very significant impact on the city's debt payments and therefore its budget. Their interest was in getting and taking debt terms as short as possible. The city in its restructuring was trying to get the terms as long as would be permitted under the municipal finance law in the State of New York. So that was the kind of heart of the negotiation, was extending the terms on the debt that the New York City pension funds would take. But anyway, to get back to Abe Beame. In presenting the MAC and city debt service numbers. One day we had presented a change in the numbers and he pulled a piece of paper out of his pocket, a little slip of paper, just like a note. He must of had a couple of dozen such sheets of paper in his pocket and he said, "I thought you told me three months ago that our debt service is going to be X, and now you're telling me it's Y," and I thought, I
wonder what else is on those little pieces of paper. It struck me as being extraordinary that he kept this little pile of notes that could have had the whole city budget on it, for all I knew.

Ed was very different. First of all, he didn't come out of the financial background at all. So there was a learning curve that he had to go through in terms of just grasping the nuances of city finances and economics and budgets, and so on. And that created some tensions in the early days, especially when in the labor negotiations that took place in the Spring of '78, we were able to come up with some money for a settlement. The city had taken the position in the executive budget that there wasn't any money at all for a labor settlement, and we presented a budget with no increases. Between then and the adoption of the budget and the negotiation of the labor agreements we were able to come up with money for an increase.

And Ed thought his credibility was on the line, because he had said there is no money and now there was money. How did that happen? He thought we had squirreled it away somewhere and in a way we had, but it wasn't sort of intentionally done but it was just the process of conservative estimates -- revenue estimates and spending estimates and so on, and if you have a generally conservative bias in how you project revenues and expenses, generally things will work out somewhat better than you expect, and the fact that the city economy was starting to turn around and do better than people were expecting it to do, and so we were able to come up with, I think, a three or four percent increase. Ed was unhappy about that because he thought he had lost credibility. He was angry with me and he was angry with the whole budget office, and there were people in City Hall who were telling him that the OMB had really squirreled money away and he shouldn't trust us and so on. And I had to go through a very detailed reconciliation of the original estimates in the executive budget and where we were two months later, line by line, revenue by revenue, tax by tax, expenditure by expenditure, to show him what the changes were and how they changed and why they
changed and how we came up with the extra money. He finally began to realize that a budget is only an expectation. It's not what is actually going to happen. You can't predict the future with a hundred percent accuracy. His initial view -- and this was all related to his priority of regaining credibility, the city's fiscal credibility. His early view was if you put a number out, that's got to be it. That's the number you're going to live with. Obviously there are all kinds of dynamics, economic and financial and so on, that changes the numbers. And he finally learned that and learned to live with that.

Q: I think his first instincts, though, might not be all wrong in that the Joe taxpayer and Joe union negotiator, probably had the general impression that since the numbers change every month, they can be whatever suits the purposes of the person writing the press release that month.

Brigham: Right. I think our mistake was to let him [tape recorder stops]

Q: Before the tape stopped there we were talking about -- you were talking about you allowed him to come out with a concrete statement.

Brigham: Right. That there was no money for a wage settlement. And I was saying that our mistake from a budget standpoint, was to allow him to make that concrete statement. Because when he said it he believed it. But we didn't allow for the possibility that things could change, and the reality that we had to have a labor settlement and we had to find some money somehow, and we probably weren't going to get away with another year of a wage freeze.
Q: This was in '78?

Brigham: '78.

Q: Which --

[END SIDE ONE, TAPE ONE; BEGIN SIDE TWO, TAPE ONE]

Q: We were talking about the 1978 budget and the labor negotiations which you had to get done that year, and the feeling that you -- you were saying that you couldn't get away with another year without them because of the federal guarantees that were necessary. Which agencies were more or less cooperative in the process of getting down to brass tacks?

Brigham: Well, I was saying that a lot of the smaller agencies were very cooperative, often to their disadvantage. I'm thinking of one, the Department of Probation, which I think the commissioner was Tom [Thomas] Jacobs, as I recall. The city had under funded probation for years and still does, and the case load per probation officer was huge and probably makes a joke of the very idea of probation. But Tom was a team player and was willing to take a very heavy hit in his budget. The bigger the agency, the tougher they were to deal with. Police Department was an example, and Bob [Robert] McGuire was commissioner, and he's a terrific guy. First of all, police was a very high priority of Ed Koch's. He wanted more cops on the street and so did McGuire. And in the budget office we felt there were ways to do that such as one man police cars, still an issue in the city. Was ten years before I was there and it
Koch Administration Oral History Project

The Reminiscences of

Allen G. Schwartz

Oral History Research Office
Columbia University
2000
PREFACE

The following oral history is the result of a tape-recorded interview with Allen G. Schwartz, Corporation Counsel for the City of New York, 1978-1981, conducted by Jonathan Soffer, December 23, 1992, at his office in New York City. This interview is part of the Edward I. Koch Administration Oral History Project.

The reader is asked to bear in mind that he or she is reading a verbatim transcript of the spoken word, rather than written prose.
candidate. He had an arms-length view of labor, and he also recognized that if the city was going to create a balanced budget, maybe it was going to have to incur further sacrifices.

At the time Ed Koch came to office, labor had already reduced the number of people on the city payroll, with their consent -- the city had reduced it, with labor's consent -- by about 50,000 people. So their view was that they had made their contribution. Ed Koch's view was "We're going to do whatever is necessary, including making further cuts if we have to, and we're going to. And we're going to hold the line on salaries, and we're going to eliminate perks and all that stuff. We're going to do it. We're going to do what we have to do."

Here I want to begin to say that when Ed Koch came to office in January of 1978, the city then had a $1 billion deficit in its operation budget, which meant -- here we had a budget of $14 billion, and the city had to close a gap of $1 billion. You can only close the gap by one of two ways.

You could either reduce the operating expenses, or you increase revenues. Now, Ed Koch, recognizing that increasing revenues depended on increased taxes, which meant that you needed the state to support you, you needed increased monies from the federal government, and you had limited opportunities in a city which was then under pressure -- I mean, in 1978 the city was still in the doldrums. But he nonetheless was prepared to increase taxes if he had to, and he did. He had to bring people to a common point of view or a common agreement.

The second thing is that the financial institutions and labor unions were at loggerheads,
and there was a question as to how the city got back into the capital markets. One of the threshold questions was, could the city get the federal government to enact a bill that would guarantee certain -- give federal loan guarantees to city bonds? And there were then proceedings underway in Washington. And you remember that immediately preceding the mayor's having come on board, when Gerald Ford had been president of the United States, he had said to the city, "Drop dead," according to the "Daily News."

Q: Right.

Schwartz: So the federal government had turned its back on the city. Ed Koch, who had come out of the Congress and he had many, many friends in the Congress, was able to get tremendous support in the Congress for his program of closing the budget deficit, getting us back to a balanced budget, committing to an ongoing balanced budget year after year. And Ed Koch said, contrary to what people expected, he wanted a Financial Control Board because "I'm always going to be doing more than the Financial Control Board will ever require me to do."

He said to me very early in the administration, "I'd like you to be involved in these problems. They're the major problems of the administration, and I'd like you to be with me." So I, from day one, was involved in the development of the city's financial plan, the development of its legislative program, the negotiation and preparation of the Financial Emergency Act, the negotiation of the federal loan guarantee agreement, after we were able to get a federal loan guarantee bill through Congress, which I also went down to Washington with him on, and I also had to, as part of that, get involved in the labor
negotiations and were negotiating with labor, their term sheet on the matters that they would want in any package or program that would be enacted in Albany, the Financial Emergency Act.

I have to tell you, I have so many, many observations here. Prior to Ed Koch becoming the mayor, the unions really had an extraordinary control over the way in which the city's operating budget was handled. I mean, they could stop the mayor, or encourage the mayor not to lay off people. They could get the mayor to agree to an attrition program, if that's what they wanted. They could get the mayor to agree to make cuts in certain areas rather than other areas. Different union leaders would put their pressure on the mayor and get him to give certain concessions. They had a very, very strong hand in the process.

Ed Koch was not prepared to give them that role. It was a lot of tension that went on. The financial institutions also put a lot of pressure on the city, both in terms of how it was to deal with its work force and to deal with its policies and programs, but also made clear that the financial institutions wouldn't buy city paper unless there was a Financial Control Board, a real Financial Control Board in place, with real powers to take over, if necessary, the city's budgetary process and operation, expenditures and revenue activities, in the event the city failed to meet certain standards.

They also had certain positions with regard to how much of a shortfall the city could have and how it would be made up. They wanted limits on that. Something like $15 million was the most they would let the city go over-budget, which, in a budget of $14 billion, is quite small. They had a real hand in this, fashioning of a program. And they also were very hostile to the unions.
Schwartz: Right. And so, as I was making dramatic changes in the Law Department and as we were handling various substantial legal issues and program questions, I was also spending time with the mayor, learning the budget, learning the issues, dealing with people who were presenting term sheets and issues to be considered by the city. We were also beginning to look at the question of what labor agreements were involved and were coming up now for negotiation. I mean, there were just a great many things going on. I was putting in 16-, 18-hour days seven days a week. So was the mayor.

One Sunday --

[END OF SIDE 2, TAPE 1. BEGINNING OF SIDE 1, TAPE 2.]

Q: This is Side C of an interview with Allen G. Schwartz and Jonathan Soffer, December 23, 1992, at his office in New York City.

Schwartz: Let me begin by saying that Ed Koch was one of the brightest public officials you will ever know, who has an enormous capacity to absorb facts and information. He's not a financial person. His background was not in the financial area, and he's not a mathematician. And when you are dealing with the city's budget, which is, on the operating side, $14 billion, broken up into thousands of pieces and many, many issues that depend upon assumptions and projections and all this -- To put it mildly, it's very complicated.

He asked me to sit with him. I did, and we read copious materials and then we would go to
presentations. Well, one Sunday, it was like a few days before the financial plan was going to be announced. Ed and I sat on a couch in Gracie Mansion while the deputy mayor for finance, Phil [Phillip L.] Toia, the budget director, all the staff of those people, there must have been 15 or 18 of them in Gracie Mansion, presented the program by which they would phase out a deficit of $1 billion for that year, to be phased out over the four years.

They began to talk about all these programs they would put it, and where more revenue would come from, and where the expenditures could be cut, and on and on it went. It was a very lengthy presentation. Ed Koch and I sat there quietly. We didn't ask a question.

When it was all over, he turned to me in this living room and he said to me, "What do you think?" I mean, everybody was present. They were all there. They didn't know either Ed Koch or me. I mean, Ed Koch was not known as a humorist, and I certainly was not known as a humorist, maybe then or ever. But we together, Ed Koch and I, had been friends for many years, and we talked to each other in a way that was collegial. We're friends. We joke and we communicate openly.

So he said to me, "What do you think?" And I said, "Well, this reminds me, this presentation by which they're going to close the budget gap of $1 billion, reminds me of my grandmother. My grandmother used to have two words for every situation. It didn't matter if it was good news, that is somebody got married, somebody came into unexpected wealth, someone had a baby, or if it was something terrible, there could be someone died unexpectedly, someone lost their business, someone's house had burned down. Whatever it was, she had the same two words in that situation, whether it was good or whether it was bad. Those two words occur to me as I sit here now and listen to this presentation as to how they're going to cut the billion dollars from the deficit."
He said, "So?" And I said, "Those two words were, 'Yeah, yeah.'" He burst into laughter. He howled. Both of us. Because we both realized, maybe it will happen and maybe won't happen. Who knows? But in the entire room, there was a stony silence. Not one person in finance or budget or anybody laughed at this.

Eventually we began to talk about little pieces of it, but the idea was Who knew whether you could cut $1 billion from the deficit? Who knew you could get rid of it, whether we would find the money or be able to cut the expenses?

But we began working on it. In terms of going to Washington, Ed Koch went down to Washington. I went with him. He met with numerous people, senators and congressmen, and was able to get their support.

Q: Talk about some of those meetings.

Schwartz: I tell you, when we met with William Proxmire, for example, there was a kind of a wiseguy attitude about Proxmire, which was really disappointing to me, because I had read so much about him and I thought so well of him. I was hoping that he would be a more focused person. He may have been interested, but there was a certain self-interest that Proxmire had which I guess I should have expected. It was naive of me. He wanted to go through a dog and pony show. He wanted to beat up on the city of New York. I guess out in the hinterlands people thought the city had done profligate things and therefore had to be punished, and Proxmire was going to accomplish that.
Q: Getting to matters of more gravity, what we started to talk about was the fiscal crisis of the first 20 days when there was a deadline for seeking federal loan guarantees. We talked some about relations between the Koch and Carter administrations at that point. But then there were a series of other instances in the government of the city, in terms of changing the relationship between the city and the unions, and the relationship between the bank lenders and the budgetary process that characterized the next couple of years.

The first thing I wanted to ask you about was the TWU negotiations. You were involved in some of the meetings on that, the 1979 ones.

Schwartz: Yes, I was involved in every labor negotiation we ever had while the mayor was in office, at least during the first four years. If we can go beyond the TWU just for a moment. In the very beginning, the labor leaders had said to Ed Koch when they met him right after he'd been elected, "We're going to be partners."

And Ed Koch stopped them and said, "We're not partners. I was elected. You were not elected. I'm the mayor. We will negotiate together, but we're not partners."

He said that in the very first meeting, a meeting in which Jack Bigel, who represented the sanitation workers and was generally a spokesperson for all the coalition -- Victor Gotbaum and Barry Feinstein, and the people at the UFT, Bascada or [Albert] Shanker, the president, I don't recall who, but Ed Koch very clearly established that he was not going to deal with the unions as they had been dealt with in the past, that is in some collegial way, which was very important.
What happened was that in the bargaining that was set up at the very outset of the administration Ed Koch made clear that he was going to hold the line on increases and that he was going to do all that he could to maintain the operating budget of the city within what he thought the city's fiscal constraints were. This created a lot of tension. What he did do, however, was to appoint as his deputy mayor for labor relations Basil Paterson, who had extremely good relations with the unions. The selection of Basil helped to keep things on an even keel, because Basil is a very decent, very kind man. Basil exudes warmth -- you have to like Basil. He's both bright and warm and he's the kind of person you'd want to deal with a situation that was by definition confrontational, because Basil's not at all confrontational.

What soon developed was that Basil Paterson was bringing messages back to the mayor as to what the unions' demands were, which the mayor felt were not only excessive but overreaching. And so a tension developed between Paterson and the mayor. It began to become evident that the mayor was not comfortable with the negotiations that were being conducted by Basil Paterson, and the mayor was surrounded by people who were also encouraging him to take a firm position.

Q: Who were some of those people?

Schwartz: Some of those people were people like David Margolis, who was a close friend and had a great deal of experience in the private sector, and who was known for being very firm in dealing with the unions -- in fact, he was called a union-buster, which I don't think he was, but in any event, he certainly took a strong line with the unions. I think you could
call me "strong" with regard to unions; there were a number of people—OMB (Office of Management and Budget), who felt that OMB over the years had been too lax in encouraging the mayor to hold the line with the unions; people like Phil Toia, who was deputy mayor for finance, were more disposed to the mayor's position than toward Basil Patterson's position, and therefore were also encouraging the mayor to take a strong position and hold the line. Jim Brigham, who eventually became a very strong voice in the administration, was also very firm in regard to the unions. The mayor, because of his own views and being surrounded by a number of advisors who took very strong views with regard to holding the line on the expense budget, created a real tough situation vis-à-vis the unions.

Now, I have to tell you a couple of stories. During the first six months of the administration, a number of things were happening. First, the collective bargaining negotiations which were occurring during a period when there had already been 50,000 or so employees taken off the payroll, principally through attrition. Also, it was a very difficult negotiation, because not only had the workforce been reduced, but there had been wage deferrals, and limitations on all kinds of things the unions had grown accustomed to over the years but simply weren't available during the period when the city didn't have the money. So the unions were looking to maintain their situation and improve it, and set the tone for further increases down the road when the city's situation improved. It was a difficult situation.

The second situation was that the financial institutions were no longer buying city paper and were insisting that before the city got back into the public markets that there be a financial control board with real teeth, and that the financial control board be created under a financial emergency act that would impose restraints on the city, particularly with regard to the operating budget, and that would require that the city have a balanced
budget under GAAP -- Generally Accepted Accounting Principles -- within three years, and maintain that balanced budget. Otherwise, if the city were to go out of balance by more than, say, $100 million, and there was a reserve to be set up to cover any out-of-balance situation, then the control board could impose certain things on the city that effectively would take some judgments away from the mayor and put them in the hands of this state-created body.

The third thing was that the city recognize that it couldn't get back into the financial markets without some assistance from the federal government. It was lobbying in Washington to get the federal government to create a loan guarantee bill on city paper and the federal government was also requiring that there be a financial emergency act with a financial control board with teeth. I told you the story about the conflict between the mayor and Mike Blumenthal, secretary of the treasury, with regard to how the executive director would be selected, not replaced.

Anyway, these three things were going on simultaneously. While the mayor was getting his policy in place and his budget in order and putting people into positions of authority, and creating the view that the city was turning around, and giving an upbeat tone, he was under pressure on all three fronts. The unions were trying to use the process with regard to the federal emergency act and the federal loan guarantee requirements to get their own point across -- that is, they were lobbying the legislature and the governor and they were lobbying in Washington to try to get the financial control board watered down and to get certain things into the two legislations, the state and the federal, to leave room for the unions to put pressure on the city to meet certain needs of theirs as they saw it.
Text of Address Delivered by Koch at His Inauguration as Mayor of New York City


pg. 13

Text of Address

Delivered by Koch at His Inauguration as Mayor of New York City

Following is a transcript of Mayor Koch's inaugural address yesterday as recorded by The New York Times.

Friends and fellow New Yorkers:

This is a very proud moment for me, for my family and for the system that has once again transformed the arguments and debates of the electoral process into an orderly change of government.

It's a privilege and an honor to serve as Mayor of New York City, and I will do my very best to work for and defend the interests of every citizen in this city. And I particularly look forward to sharing with City Council President Bellamy, Comptroller Goldin and with the other elected officials the important work of saving this city.

I will talk about issues tomorrow. Today, I want to tell you how I feel about the city.

In a certain way, we have grown eight years older than we were when John F. Kennedy said: "Ask not what your country can do for you." That moving sentiment was 17 years ago a plea, a hope for the future. In our day, in this place, it's a necessity.

If we are to live in this great urban center, we have to give more than we ask. Living in the height of reality and splendor of our city demands a price from everyone of us — and it is a price worth paying.

I do not exaggerate when I say that New York is unique in the history of human kindness. New York is not a problem. New York is a stroke of genius. From its earliest days, this city has been a lifeboat for the homeless, a ladder for the hungry, a living library for the intellectually starved, a refuge not only for the oppressed but also for the creative.

New York is and has been the most open city in the world and that is its greatness and that is why in large part it faces monumental problems today.

It is not easy to characterize this city. New York is a place of boundless exuberant diversity. More books are published here than anywhere else in the world. This city is an art center without equal for the new and the experimental as well as for the established talents. Music, theater, dance, the museums — can anyone question that.

New York still leads the way.

City Hall meetings are written into the history of contemporary architecture. Our public-school system has produced some of the finest minds of our age and yet, unfortunately, the depth of our problems matches the scope of our achievements.

Mistakes of the Heart

Without question, this city has made mistakes, and our mistakes have been those of the heart. In my administration, I intend to bring the heart and the mind; and the deep, deep desire to see the best of ourselves, and to see the best of ourselves.

In the past, programs that were meant to help the needy ended up as bonanzas for the greedy. All too often those who were charged with caring for the disadvantaged turned the generosity of New Yorkers into a form of exploitation, and by their callous acts, they tempted us to think that what many people were ready to believe that somehow the poor are not poor enough.

And now our city treasury is nearly empty, and it must be wisely managed. We can no longer afford to subsidize poverty programs that do not help the poor. The money that is appropriated for the poor must directly benefit the poor, and in my administration a firm hand and a helping hand will be the same hand.

When we no longer waste our resources in ways that do not help one, we will be able to do more to help everyone. That means better services for the middle-class and a healthy climate for commerce and business and industry.

But the experiences of the past tell us that money alone is not the answer to our problems. If an ideal city could have been bought with money, we would have purchased and paid for it long ago. If a safe prosperous city could have been converted into dollars, we would have it today. But experience has shown that utopia cannot be purchased with a magic formula of more services, more agencies, more plans and more programs. A better city requires the one ingredient that money cannot buy: people who are willing to give of themselves, people who will fight for a cause they believe in, people who are willing and able to stand and protect the people they love. Fortunately, these people exist.

I know they exist. Because I spent the last hour of the day walking hand in hand with working people in the streets of New York. From Borough Hall to the East River, from the Lower East Side to the heart of Brooklyn, from the heights of Manhattan to the slums of the South Bronx, from the farms of the north to the beaches of the south, from the joy of the city to the sorrow of the city, I know that these people exist.

How a City Really Works

I know that the people of New York have not forgotten how a city really works. They have not forgotten that it is we, the citizens, who form the city's first line of defense. People still remember that police officers are here to do our jobs. They are hired to help us do our jobs. The sanitation workers are not here to provide mail service for people who litter the streets; they are here to provide the assistance we need to keep the city clean. The teachers are not paid replacements for concerned parents and families; they are only half of the vital partnership between the schools and the home.

We are the ones who set the standards for our city employees. If we look the other way, if we don't do our jobs, how can we ask our employees to do theirs?

Government cannot do what the people will not do. In calling upon the people of New York City to join with me in the hard work needed to bring this city back to the top again, I call upon the only people who can do that job.

These have been hard times. We have been tested by fire. We have been driven across the knife-edge of every type. We have been betrayed by some of our own and by the people we love. We have been betrayed by the people we love. We are the people of New York City, and in adversity towers above any other city in the world.

Tradition and Teamwork

New York is a special place because New Yorkers are a very special people. They are a special people because they live in a city where religious services are held in 40 different languages, a city where new ideas are tested and old ideas are honored, a city where a hundred different cultures have been woven together into a tapestry of tradition and teamwork. But most of all, we are a special people because we are the trustees of a national treasure: the City of New York itself, the greatest national treasure in this country.

History will hold us accountable for how well we live up to that trust. We must not let this city dwindle or diminish. We must not, we cannot.

Today, yes today, we begin a new year and a new administration. The mistakes of the past are past. This is a new beginning. We have been tested and the testing will continue. But we have survived and soon we will again begin to flourish.

During the last 30 years, New York City sent millions of Americans on a westward trek to grow up with the country. Descendants of those New Yorkers are scattered throughout the nation today. And today the great challenges that confronts this country lie in a different direction. Today it is the City of New York where the urban pioneers of this generation are to be found. Today it is Flatbush and Harlem in the heart of Brooklyn, Flushing and all in all of our neighborhoods where people are working and sweating to restore the most exciting city in the world to prime condition.

There are houses to be rehabilitated and maintained, schools to be rebuilt and preserved, neighborhoods to be saved from the oppression of crime and the simpletons of unemployment. There are patterns and precedents to be learned. And as New York in the 18th and 19th centuries led the way, so must we now lead in the rebuilding of America's cities. And that is why I ask those who are not with us now, those who are waiting for a challenge, come east and join us, come east and grow up with the new pioneers, grow up with the City of New York.

Thank you.

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STATEMENT OF EDWARD I. KOCH, MAYOR, CITY OF NEW YORK; 
ACCOMPANIED BY HARRISON J. GOLDIN, COMPTEROLLER, AND 
CAROL BELLAMY, PRESIDENT, CITY COUNCIL

Mr. Koch. Mr. Chairman, with your permission, I should like to 
have Mr. Toia, deputy mayor; as well as corporation counsel, Mr. 
Schwartz accompany me.

The Chairman. Very good. Mr. Mayor, we are delighted to have 
you. You have been warmly recommended by some of the Members 
of the House and we all know what a splendid Congressman you 
were and what a good, strong job you’re doing as the mayor of the 
city of New York. We await your word.

Mr. Koch. Senator Proxmire, Senator Brooke, Senator Javits, 
Senator Moynihan, and Senator Riegle, we have waited a long time
to come to the table to make our case. We think that we will be able to convince you of the equities of our case.

I did serve here for 6 years and I had a great deal of pleasure in doing that and working with you on a number of matters in the Congress.

Being the mayor of the city of New York is a different kind of job, a different kind of responsibility, with different kinds of problems; but what is essential for me is to make certain that that which has to be done to save the city will be done and that the efforts to be made involve our own resources and where they are not adequate and where we can make the case to ask for assistance of the Federal Government.

I know that the first matter that you would want me to comment upon would be the labor package arrived at last night. In my statement—and I have a full formal statement that I think runs 60 pages which I would like to make part of the record (see p. 34).

The CHAIRMAN: Yes, we would be happy to do that.

Mr. Kock. In my statement I set forth the details which in my judgment support that settlement as a reasonable one; not all I would have wanted, but a reasonable one.

But rather state the facts in my own way—they would then be self-explanatory. I'd rather read a brief three paragraphs from an article which appeared in today's New York Times by Jerry Flint which comments on the nature of the settlement. He says:

The completion of the settlement made by a massive coalition of more than 50 unions and achieved without a strike threat that will be effective by the expiration date of most contracts would normally be considered an enormous achievement in labor-management relations. The completion of the agreement is also likely to mean that the unions will be more cooperative in supporting the use of peonage fund money to buy municipal assistance corporation notes.

This is the key:

The workers will get a pay increase of 4 percent 3 months into the new contract or on October 1, 1975, for most. Another 4 percent raise will be paid on October 1, 1976. This means city workers will be receiving 8 percent more at the end of their contract than at the beginning, but the two raises are the equivalent of a raise in 5 1/2 percent for the full 2 years, less than 6 percent. As a comparison, Federal workers are complaining because they have been told that they must accept a 5.5 percent increase for 1 year. New York City's public workers must spread that percentage over 2 years. There will be an annual employment bonuses of $750 for each worker instead of the cost-of-living adjustment of the old contract. This money will be paid on a biweekly basis and will mean $23.79 in the paycheck. The $750 bonus a year is actually more than the old cost of living it replaces.

I have saved the city $3.5 million.

Now another brief word with respect to the labor negotiations. The City of New York is the largest city in the world or at least in the United States—75 1/2 million people. It has a budget which I think is the 11th largest in the world in terms of government budgets because of the size of its population and our expense budget just adopted last night is $13.3 billion. This package in city tax levy dollars is $757 million. Over a 2-year period, if you want to contrast it with the appropriate overall figure, the comparison would be $757 million as applied to a budget of $828 billion for the 2-year period.

That is why it is so important. The dimensions, the size of the city, the number of people who are involved have to be considered when a matter is discussed and it covers 264,000 people, not only municipal workers who are city employees directly, but it also covers those of the independent authorities, the health and hospital corporate, the board of education, to cite just two.

I will be happy in the question period to go into more details, any that you would want, with respect to the labor settlement.

I also want to point out that when I started I had hoped that I would do even better—no question about it. I had hoped that we would be able to reduce what are referred to as "give-backs" or special fringe benefits, things that went against the grain so far as I was concerned, and it wasn't that we were necessarily impacting on the city's budget—the ones that upset me basically don't cost much, if anything at all. One illustration would be—and I want to put it one table so that there's no concealment here—one illustration was that I thought we should get back "blood days." When a police officer, for example, contributes a pint of blood, volunteers it, he takes a day off. I thought that was wrong and I said so and I say it today and I tried to get that back. It means that the city pays the man $50 and you say the city's expenses money. Naturally because you don't replace the police officer, although you lose his services during that day, but I couldn't get that back nor could I get back others unless I would pay for it by increasing the money that we would give to the unions and that would be a larger sum down the road.

So that for every dollar in give-backs, I would have had to have given a hard cash dollar and that would have cost the city much money because the hard cash dollars that we gave are not the equivalent of the soft dollars returned by these extra fringes which I have just referred to, and so I had the problem: do I stay with that simply because I had made so much of it, and rightfully so, or do I accept the fact that nowhere in the history of collective bargaining—so far as I know and as I understand those who have written on it—have there ever been give-backs that haven't been paid for in the private sector, and I hope the City of New York will be run as though it were in the private sector. Every time management wants a give-back, they pay for it in dollars. We didn't have the dollars to pay for it and so I gave up on that issue.

Let me go on to other matters. Let me outline some of the measures that I'm taking to restore the fiscal integrity of the city to have a balanced budget. I am committed to balancing the budget in accordance with generally accepted accounting principles by fiscal 1982 and to having the city's books audited by independent public accountants which is a fact now, and I strengthened the city's office of operations which is designed to apply to city government those management techniques used in the business world—the efforts of these dollar-a-year people from private industry who will be assisted by the recently developed integrated financial management system, known as IFMS.
Let me tell you those people were brought in before I got there, but I'm expanding the program. They are people from the private sector. The telephone company gave us the person who is running that program, Lee Oberst, who is a genius in this area, and they work for nothing. Their companies pay for them and the idea is to put better management techniques into the city and we are expanding that program.

I am committed to stimulating economic development and the expansion of jobs in the city and the recently announced decisions on Battery Park City and Westway and the new convention center will bolster those efforts with respect to economic development. I will not tolerate incompetence or inefficiency in the city workers and I have instituted a new system of inspectors general that, in addition to the traditional concern with corruption, will deal with incompetence and inefficiency.

Let me just tell you with respect to that, that commissioners are bringing people up on disciplinary proceedings, people who in the past—for example, in the police department—were out on sick leave, unlimited sick leave, have now been dismissed, where they could not establish that they had to get back to the job or go on pension. If they couldn't establish the right to go on pension the police commissioner has moved to remove them from the payroll. That hadn't been done before. It's being done now.

I'm changing the way the city awards concessions and contracts. I have instituted a system for competitive bidding for the city's concessions and for all contracts we have established a system of review before the contract is officially acted on, and as a result we have better documentation on the reliability and performance of city contractors than we have ever had before. And I started evaluations of poverty and model cities programs with a view to terminating those that do not adequately benefit the community and those of those programs have already been put into so-called receivership and the directors removed from jurisdiction over those programs.

What happens when I do those things? There are picket lines around City Hall and in front of Gracie Mansion, but those things—the measures that I take—won't be deterred simply because there are people who get upset that there is a change going on, because the change is intended to use our city dollars, our State dollars, and our Federal dollars to a far better extent than ever before and to remove the incompetence.

Nevertheless—and that is why we are here—investor confidence has not been restored to the city. This is the heart of the matter. This lack of confidence was clearly seen in the hearings conducted in March by Chairman Moorhead on the House side. At that time potential investors—the State Comptroller as the sole trustee of the State pension fund, the trustees of the city pension funds, the institutional investors and the commercial banks—said that they would not lend to the city unless there was a Federal guarantee.

More recently, these investors, as well as officials at MAC, have stated publicly and privately that the city could not reenter the public credit markets.

The 4-year financial plan developed in the opening days of my administration is designed to change this situation. It is a comprehensive plan involving a partnership by the Federal, State and city governments and by the private sector, and the partnership is vital since the city cannot realize these objectives solely by its own efforts. If we could, we would; but we can't; and I pledge to you today that the city will continue to do everything within its power to do, within the limit of our resources—and I'm telling you now what we are doing and what is part of our 4-year plan—there will be a further reduction through attrition of 3,000 employees in the work force over the next 4 years and as those who have testified a moment ago from the House side testified to you, we have already, prior to my getting there, prior to my taking office, there was a reduction of 61,000 city jobs. There will be 20,000 fewer jobs at the end of the 4 years of my term.

There will be a 12-percent reduction in real purchases of materials and supplies over that period. There will be a continuation of management improvements and the elimination of unnecessary programs and expenses such as the continuing reduction of ineligibles on the welfare rolls.

We have today, as a result of efforts imposed by the administration and by the prior administration continued by us, reduced the welfare rolls to the lowest point since 1970 and there has been an acceleration in the collection of real estate taxes in order to ease the city's seasonal cash requirements from outside sources. A new law to accomplish this was passed by the city council and was signed by me.

I also would like you to know that the State is also doing its part and the Governor has acted superbly. The State has provided an additional $250 million in budget aid to the city during the next fiscal year, in addition to increasing the State subsidy to the transit authority and helping us with Westway and other economic development projects, and it's not only the Governor that has to be thanked; it is the legislative leaders on a non-partisan or bipartisan basis because in the State assembly and the State senate the Democrats have joined forces with the Republicans to come to the assistance of the city of New York and I want to thank them for that.

We have made considerable progress on other fronts. Since our meeting in New York with Secretary Blumenthal on May 10, several key elements of the package have been put into place and more progress is going on at this very moment. Ten days ago the New York State Legislature passed the necessary legislation to extend the Emergency Financial Control Board and to expand the borrowing authority of the Municipal Assistance Corporation by $3 billion.

And let me tell you about the EFCCB. I said before I was elected and I said subsequently to my election that I have no problem in living with the Emergency Financial Control Board because every measure that they would insist upon I hope would be there before them. I have the same sense of fiscal integrity as I know that they have and it is not a question that they are going to have to prod me. I'm going to do what has to be done before they ask that it be done, but if I fail, then they are there to make certain that those actions are taken.

So when the reference was made about another mayor who said that he could not live with such a situation—of course, if we were
not asking for this assistance we would not self-impose it—that extra layer, not of bureaucracy, but of control—but since we are asking for this assistance it is not something that I come to you and say that I stare unwillingly. I accept it. I accept that additional control because I will meet those limitations before those controls are required to be imposed.

The MAC legislation will enable us to meet our financial obligations during the remainder of the current fiscal year and help us realize the objectives of the 4-year financial plan. The extension of the control board is designed to assure investors that the money they placed in our care will be repaid.

Not only does this legislation continue most of the powers of the control board, including the board's authority to oversee city funds, but it establishes a debt service fund and it limits our short-term borrowing ability.

The legislation also provides the city with protection against unreasonable arbitration awards to municipal employees by requiring that any such awards be within the city's ability to pay without raising taxes and by involving the Control Board in all aspects of the proceedings. And let me tell you if I may, Senators, that's landmark legislation that I was able to get through the State legislature. I sought to get that in the city council. I was not able to. I was not able to gain it because the municipal labor unions and others said they would not tolerate a change in the arbitration procedures. The current arbitration procedures that apply to the rest of the State of New York provide that an arbitrator's award so long as it is not “irrational” will be upheld at every stage—not that it is arbitrary or capricious or unreasonably—you have to establish that it is irrational; a test totally unable to be met, and I said to the council I want to change that and the city council committee would not concur and I went to the state legislature and I said to them:

I will not go through with this legislation—I will not sign off if I'm left to the mercy of arbitration as it currently exists; that unless there is a review procedure which will allow the Emergency Financial Control Board to come into play, the arbitration, the arbitrator's level, the review before the Office of Collective Bargaining, and ultimately to the appellate division—with the threshold question of the city's ability to pay having first to be answered before there will be such an award.

I said I will not sign off on that legislation and I'd rather take nothing and go down to defeat and suffer the consequences. I will not permit that open-end run to exist. And I prevailed. So today the city of New York, unlike any other city in the State, has the protection which I have just outlined to you so that those who seek the arbitration route will not do an end run and come up with an award greater than that permissible under collective bargaining and approved by the EFCB.

In addition to the passage of this legislation, New York-based financial institutions—the clearinghouse banks, savings banks and insurance companies—have committed themselves to furnishing $1 billion in long-term loans under the 4-year financial plan on the condition that the Federal guarantees are available, and let me say at this point, Senator Brooke, because there was a misstatement in your opening remarks—the guarantees don't relate to that. The guarantees in no way affect the financial institutions. Their investments are without guarantees. The city's employee pension funds jointly administered by the city and the municipal unions have been asked to contribute $1 billion in commitments and the State pension funds have been asked to provide a $500-million commitment with the remaining $3 billion to come from public offerings and private placements.

So the question then becomes, if the financial institutions are not getting the benefit of these guarantees, why do they insist those guarantees be there? That's basically the question. The answer, Senator, is the following: That the pension funds cannot, will not make the investment without the guarantees and without the pension fund investment the banks and the lending institutions say that unless you have this total package of $6.3 billion in place it is a waste of our money to come up with $1 billion and have it go down the drain; that if the city of New York is going to come out of this morass, if the city of New York is going to succeed, there has to be this total response to its needs. And is that solely the statement of the financial institutions? Is that solely the statement of the city administration that comes before you, the comptroller and the president of the city council and myself as mayor? No; sir; it is not.

I would like to read just a brief two sentences from the report of the Comptroller General of the United States which was alluded to by the three prior witnesses, but let me give you the sentence.

Senator Brooke. That's the date of that?
Mr. Koch. The date of that, sir, is March 30, 1978.
Senator Brooke. Thank you.
Mr. Koch. He says:

If the Congress decides to continue a Federal financing role, we believe the wisest course of action would be one which offers a long-range solution rather than a series of temporary measures which tend to obscure and complicate the problem.

They support the long-range effort, not the seasonal loan. And why do we take that same position? Because we have come to the conclusion that if it is simply a seasonal loan, whether it's 1 year or 3 years, we will be back at your doorstep. There is no question about the fact that we cannot work our way out of this situation unless we have the long-term commitment which will allow us to restructure our debt and will allow us to provide the capital improvements so necessary for the city of New York to engage in this renaissance involving economic development.

Without that, people will not stay in the city of New York. I'm talking about the people with capital. I'm talking about the people who provide jobs. Those are the people. Those are the industries that have to stay and be attracted to come there and without our having the infrastructure, without our having the ability to go forward in a rational way, they will leave.

The Chairman, Mr. Mayor, I don't want to cut you off at all because this is a very, very important statement you're making. As you know, we hoped to confine the opening remarks as much as possible. We have a statement, as I understand, from Comptroller Goldin and
President Bellamy, and we want to limit as much as we can the opening remarks so we have as much give and take as possible. At the end of the questioning, if you would like to make additional remarks, you're very welcome to do it.

Mr. Koch. I accept the limitation and I'm sorry that you did not give me the time period. I would have made every effort to stay within it.

So I will conclude my remarks because I much prefer the Q. and A. Having sat on that side of the table, you learn more from the Q. and A. than you do from the prepared statement and I'm willing to submit to that because I think we have the answers to the questions you will raise.

So let me close by saying this to you. I'm the 105th mayor of the city of New York. I'm very proud of that and I believe I come to this city at a very special crucial moment to participate with the 7½ million citizens there in what can be an extraordinary period for us or that which can be our downfall. The extraordinary period we are in, in my judgment, we are on the edge of a renaissance, that if we are able to pull this together the city of New York will once again be the premier city of the world, once again be the city that everybody says that is the Empire City, the city that leads.

What is the alternative? Others have said to you—and I will not harp on it—bankruptcy. I don't even say that. I don't say that. I simply say if we are not able to do what I tell you is necessary to do and we become ultimately your ward, if in fact the businesses leave, if the jobs aren't there—and who will be there? The poor will be there. Our burden today—Senator Moynihan made that point in his opening remarks—we would not have a deficit if we were not spending out of our own tax levies $1 billion in welfare. You may say then: "Are you paying the highest in the country?" The answer is we are not. There are other States that pay more than we are paying. But people around this country over the years have said New York is the place to make it, not to go on welfare but that's the place that's been the haven for the homeless, for those who wanted an opportunity, whether it was from other countries or from the 49 other States, and when they couldn't make it they went on welfare. And it was our obligation because the Supreme Court said there are no residency requirements—and we wouldn't have imposed residency requirements because that would not have been the American attitude—nevertheless, it is as a result of that, not because of largesse. We don't pay the highest welfare. It was because people came to us and we responded to their needs.

Now if we go down—and that is not a threat—it would be ridiculous to threaten because you know the facts as well as I or perhaps even better—but assume for a moment that were to occur. Who picks up all of those bills? If the pension funds and the banks and the private markets won't invest a single dollar today when we are indeed solvent and on the edge of a renaissance, who in his right mind would sell to the city of New York a single dollar in merchandise except COD and who in his right mind would provide the books to the board of education or the medicines to the hospitals or the hundreds of millions of dollars that have to be transacted and pur-
Memorandum for the Record
By Mayor Edward I. Koch

Senator Proxmire, members of the Senate Banking Committee.

I am Edward I. Koch, Mayor of the City of New York.

It is a privilege for me to appear before this distinguished committee to present to you the case for continued federal assistance to my City. I have approached this hearing with a sense of great seriousness and urgency since the well-being of seven-and-one-half million residents of New York is in the hands of this committee. I thank you for this opportunity to be heard.

I. INTRODUCTION

In 1975, a serious fiscal crisis — the product of long-simmering internal and external factors — hit my City. At that time, New York lost access to the public credit markets; it became unable to obtain funds for operations through normal means because investors no longer had confidence in the City’s ability to meet its financial obligations.

Shut out of the credit markets, the City was forced to turn to unconventional sources — employee pension funds, special state agencies and, finally, the federal government. New control mechanisms were imposed and the City drew up a three-year financial plan which imposed severe economies, service cutbacks and layoffs. Despite these efforts, the City has been unable to regain access to the markets. In January of this year, the month in which I assumed office, we submitted a new four-year financial plan to the Secretary of the Treasury. We have imposed additional economies; we intend to reduce our payrolls even further. We are determined to put our fiscal house in order and we have, in fact, made much progress in doing so. Yet our fiscal crisis — our lack of credit access — continues unabated; the needs of our residents remain.

It is for this reason that I appear here today. In the testimony which follows, I will outline some of the causes of the 1975 crisis, detail steps taken to cope with its effects and present our proposals for further assistance. I believe that this historical approach will put our proposals in their proper context and also will serve to separate the internal and the external causes of the current crisis.

II. BACKGROUND

Many observers — such as the Temporary Commission on City Finances and the United States General Accounting Office — have investigated the crisis with an eye towards uncovering the roots of the City’s fiscal problems. The increasing cost of debt, the increasing cost of medical and public assistance, the cost of labor and retirement benefits — have all been identified as having played a role in precipitating the fiscal crisis. However, analysts of the crisis have also tended to agree that these issues are manifestations of more pervasive changes. Indeed, an understanding of the demographic shifts and related social and economic changes that occurred in the past two decades are as central to understanding the causes of the crisis as are the changing ledgers of the government. Because these factors were major determinants of the cost of services provided by the government and its ability to finance its activities, understanding them is essential to understanding the City’s response to the fiscal crisis and its need for continued Federal financing assistance.

A. ECONOMIC AND SOCIAL FORCES OF THE 60’s

While the decade of the sixties was a prosperous one, it contained indications of the social and economic troubles that developed to crisis proportions in 1975.

During the sixties the number of City residents remained stable at 7.9 million and private sector job levels increased by 1.6 percent. The booming construction industry provided evidence that the private sector viewed the City in a favorable light — more than 100,000 privately financed housing units were built in the first half of the decade and by 1969 construction had begun or plans were announced for over 60 million square feet of new office space, including the World Trade Center.

The apparent stability in the population and in the job market however masked fundamental changes that were beginning to affect the economy. In the early sixties the migration of indigents attracted to the City by the promise of employment accelerated while the City’s middle class population began to decline in response to the lure of more attractive housing and services in the surrounding suburbs, encouraged by Federal housing policy and facilitated by the interstate highway program.

(1) Most of the information contained in this section was taken from The Message of the Mayor in the Fiscal 1979 Executive Budget.
By 1970, the percentage of the population in need of subsidized or free social and health services had substantially increased and the percentage of elderly persons no longer participating in the workforce had expanded. Similarly, the numbers of poor people whose limited education and job skills restricted them to unskilled or low-skilled jobs grew while the number of manufacturing jobs was falling — by 180,000 between 1960 and 1970, thus dropping to 20 percent of the total jobs in the City in 1970 compared with 27 percent ten years before.

These problems were not unique to New York City but had become a common feature in the northeastern quadrant of the nation. The response from Washington was the Great Society and the "War on Poverty" in which the Federal government expanded existing programs and initiated new social experiments in the hopes of raising the standard of living of the poor.

This might have been manageable had the City maintained a stable economy with which to generate the taxes necessary to fund its share of the burden required by State and Federal law. However, with the onset of a nationwide recession in the 1970's, the City's economy went into decline. Between 1970 and 1975, the City lost 470,000 private sector jobs and the population declined by about five percent to 7.5 million persons.

Many factors appear to have contributed to this local business decline. High local inflation had its roots in the unprecedented expansion of public and private sector employment of the 1960's. When unemployment in the City fell below four percent, wages and prices leapt up to the point where the City's competitive position as the center of commercial activity was lost to other parts of the nation and the world. As employment declined, the need for social services grew, causing taxes to rise and thus increasing still further the cost of doing business in the City. The result was a further loss in local employment, with the unemployment rate exceeding 10 percent by 1975.

When the nation's economy began to show signs of renewed growth in the early 1970's, most analysts assumed that, as in past decades, the City would see a parallel upsurge. But there was no significant local recovery, only a slowing in the rate of decline.

The rapid increase in the municipal workforce in the 1960's was accompanied by an increase in labor union activity. During the period from 1960 to 1970, while full-time City employment grew 43 percent, membership in Civil Service unions grew by 300 percent. By 1970, three-quarters of the City's employees were union members, and 90 percent were represented by unions in collective bargaining matters.

The net effect was to produce a City saddled on one side with a shrinking economy and tax base and on the other with rising costs of welfare and municipal personnel. The table below comparing the Budget to Gross City Product provides an insight into this combination of forces. The average growth of the tax levy portion of the expense budget over the 15-year period was more than twice as great as the average growth in overall economic activity in the City as measured by the Gross City Product (GCP), suggesting that the City was spending beyond its means.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Levy Budget (in Billions)</th>
<th>GCP Growth (in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>$1.75</td>
<td>$33.38</td>
</tr>
<tr>
<td>1965</td>
<td>2.63</td>
<td>43.15</td>
</tr>
<tr>
<td>1970</td>
<td>4.14</td>
<td>58.94</td>
</tr>
<tr>
<td>1975</td>
<td>7.25</td>
<td>72.47</td>
</tr>
</tbody>
</table>

Comparison of the City expense budget to the GCP or resident personal income measured in constant 1960 dollars (rather than current dollars), as shown in the following chart, brings the problem into even more dramatic focus. Real personal income and GCP continued to rise until 1969 when both indices peaked and began to decline although the expense budget continued to rise almost without exception during the entire 1960-1975 period.
These chronic deficits were compounded by the use of accounting techniques—such as including expense items in the capital budget—that are best described as "abuses." Equally as harmful, the city used short-term credit to pay for this continuing budget deficit. From fiscal 1966 to fiscal 1975, the city's short-term debt outstanding at the end of the year rose from $0.5 billion to $4.5 billion, accounting for over 40% of total short-term municipal borrowings in the United States by the later year.

B. CHANGES IN THE EXPENSE BUDGET

In the fifteen year period 1960–1975, the city's expense budget more than quintupled from $2.5 billion to almost $13.0 billion, accompanied by major growth in the cost of operating agencies, personnel and pension benefits, health and social services, and debt as illustrated in the chart below.

Expense Budget Components

With its revenue base declining but its expenses still increasing, the city recorded mounting budget deficits, accumulating to over $5 billion by the end of the 1975 fiscal year.
1. Providing for the Poor

From 1960 to 1975, the greatest rise in City spending was due to growth in the welfare caseload and to the massive impact of the Medicaid program. Costs of welfare grants increased from $132 million in fiscal 1960 to $1,185 million in 1975. By 1975, more than 987,000 New York City residents, about 13 percent of the population, were receiving some form of public assistance and payments for public assistance amounted to nine percent of the entire City budget. Although the State and Federal governments financed 65 percent of that amount, the City paid the balance — $366 million — from its own tax revenues.

The largest welfare program was, and is, Aid to Families with Dependent Children (AFDC) which serves families where the children are deprived of economic support due to the absence, death, incapacity or long-term unemployment of either parent. The family is provided a "pre-added" subsistence grant, at a level established by the State Legislature, and a rent allotment up to a schedule of maximum rents established by the New York State Department of Social Services. The City also provides for the subsistence of 100,000 persons in the Home Relief program who are poor, generally unemployed and do not meet the eligibility criteria of the Federal AFDC program.

A recent study by the Temporary Commission on City Finances indicated that the $270 million paid by the City toward the cost of the AFDC program in 1975 greatly exceeded the amount of local revenues paid for AFDC by any other city in the country. Of the twelve urban areas in the United States with more than 10 percent of their population supported by the AFDC program, ten contribute no local revenues whatsoever to AFDC costs. The City of New York however is required to pay 25 percent of the total AFDC costs, twice the share required by the only other locality, Newark, that makes a local contribution. In fact, local governments in New York State pay about one-half of the welfare costs borne by all cities and counties in the nation.

Adding to the cost of welfare has been the expense of Medicaid. The passage of Federal legislation in 1966 establishing the Medicaid program was heralded as a major step in making comprehensive health care available to all people. The legislation authorized Federal financial assistance to states for payments to individuals who provide medical services to recipients of federally mandated Public Assistance as well as to certain other indigent individuals. Within broad Federal guidelines, each state designed its own program. In 1976, New York State established the most comprehensive Medicaid program possible within the guidelines.

Although Medicaid has unquestionably improved a large portion of the population's access to medical care, it has also become the most expensive social welfare program in New York City. The Medicaid program in New York City began operating in May 1966. In its first full year of operation, $368 million was spent on Medicaid. By fiscal 1975, payments for Medicaid benefits in New York City amounted to $1.86 billion, 14.2 percent of the City's budget. Despite the fact that a large portion of Medicaid costs are financed by the Federal and State governments, the program cost $301 million in City funds in fiscal 1975.

Taken together, Medicaid and Public Assistance consumed 33 percent of the City's 1975 budget.

2. Traditional City Services

Although spending for traditional City services expanded at an annual rate of approximately 9.6 percent between 1960 and 1970 in response to demand for higher quality services and the increasing salaries of city employees, the percentage of all City resources allocated to these areas declined due to the rapid growth in social services expenditures. Welfare and health shares of the budget increased from 23.4 percent to 33.4 percent from fiscal 1960 to fiscal 1975 while the shares of police, fire and environmental protection declined from 25.3 to 21.2 percent, from 9.6 to 6.9 percent, from 5.0 to 3.0 percent and from 5.1 to 3.0 percent, respectively.

Not only did total City expenditures show a substantial shift in the allocation of the City's resources over the past fifteen years, a similar redistribution occurred with respect to allocation of the City's locally raised tax levy revenues. Tax levy monies for these traditional services declined from 45.9 percent to 41.7 percent between fiscal 1960 and 1975.

3. Personal Service Costs

Over the 1960-1975 period, wage and salary costs increased 31.6 percent while the total budget increased more than fivefold. The share of personal service costs in the total budget decreased from 51 percent in 1960 to 35 percent
in 1975, largely because of the increasing cost of other than personal service costs such as public assistance, Medicaid and debt service.

Personal service cost increases are the product of increases both in the number of City employees and in their salary levels. From fiscal 1960 to 1975, the number of City employees grew from 236,000 to 322,000 positions, an increase of 30 percent. Wage and salary raises, substantial enough to permit a real rise in the standard of living were enjoyed by City employees during this period. As the table below shows, for certain positions, while the Consumer Price Index rose 80 percent between 1963 and 1975, representative salaries increased more rapidly, by 84 to 135 percent. Most employees were able to improve their purchasing power by 0.5 to 4.5 percent annually between 1963 and 1975.

<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1975</th>
<th>% Change</th>
<th>1963</th>
<th>1978</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sanitation Man</strong></td>
<td>9,653</td>
<td>10,563</td>
<td>9.4</td>
<td>8,372</td>
<td>9.4</td>
<td>8,837</td>
</tr>
<tr>
<td><strong>Patrolman</strong></td>
<td>18,872</td>
<td>23,301</td>
<td>23.5</td>
<td>16,007</td>
<td>23.5</td>
<td>18,007</td>
</tr>
<tr>
<td><strong>Teacher</strong></td>
<td>42,366*</td>
<td>62,582</td>
<td>43.3</td>
<td>52,085</td>
<td>41.5</td>
<td>55,017</td>
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<tr>
<td><strong>Senior Clerk</strong></td>
<td>2,700</td>
<td>6,298</td>
<td>133.2</td>
<td>4,901</td>
<td>101.2</td>
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<tr>
<td><strong>Representative Salary (2)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Title</strong></td>
<td>1963</td>
<td>1975</td>
<td>% Change</td>
<td>1963</td>
<td>1978</td>
<td>% Change</td>
</tr>
<tr>
<td><strong>Sanitation Man</strong></td>
<td>6,419</td>
<td>14,990</td>
<td>133.5</td>
<td>17,074</td>
<td>13.9</td>
<td>17,074</td>
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<tr>
<td><strong>Patrolman</strong></td>
<td>7,873</td>
<td>18,513</td>
<td>135.1</td>
<td>20,794</td>
<td>23.2</td>
<td>20,794</td>
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<td><strong>Teacher</strong></td>
<td>7,623**</td>
<td>16,576</td>
<td>117.4</td>
<td>18,993</td>
<td>14.5</td>
<td>18,993</td>
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<tr>
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<td>18.2</td>
<td>10,184</td>
<td>19.9</td>
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<tr>
<td><strong>CPI (1963 Base, as 100) (3)</strong></td>
<td>100</td>
<td>180.2</td>
<td>80.2</td>
<td>210.2</td>
<td>109.8</td>
<td>210.2</td>
</tr>
</tbody>
</table>

* Authorized Positions Fiscal 1963
**As of December 31, 1961

Notes:
1. Number of positions and salaries are as of 12/31 of that fiscal year; for teachers in 1975, as of 6/30/75.
2. Representative salary for: a) Teacher, Senior Clerk are average salaries; b) Sanitation Man and Patrolman are 1st Grade 10-year men. "Old" COLA and "Productivity" COLA are included in averages. Overtime is not considered in any average.
3. CPI is the prior December reading, taken from The New York.

4. **Pensions**

As salary costs increased, so did the cost of pension contributions. Expenditures by the City and certain other organizations for retirement benefits increased 438 percent between fiscal 1961 and 1975, reflecting reductions in the employee portion of pension funding as well as increases in benefits established by State law. Pension costs as a percentage of total expenditures remained relatively stable at approximately 9 percent annually, partly because the expense budget for other items was increasing more rapidly and partly because required pension fund contributions did not reflect realistic assumptions of the eventual liabilities of the pension systems.

5. **Debt Service Costs**

The cost of City debt service more than quadrupled during the 1960-1975 period, increasing from $418 million in fiscal 1960 to $764 million in 1970 and to $1,896 million in 1975, as the City became increasingly reliant on the issuance of debt to fund its operations. Factors that increased the City’s debt service costs included:

- rising interest rates in response to market conditions;
- the ever-increasing amount of City debt issuances;
- shortening of maturities in the City’s overall debt structure; and
- increases in the amount of short-term borrowings.

The particularly acute $651 million increase in debt service costs from 1974 to 1975 was also attributable to the City’s need to make budgetary provision for payment of $308 million in budget notes that had been issued to fund operating deficits in prior years.

6. **Composition of the City’s Revenue Sources**

The nature of the revenues supporting the City’s expense budget changed substantially during the 1960-1975 period. Of the fiscal 1960 budget of $1,995 million, $563 million or 28 percent was Federal and State aid, consisting mostly of State aid to education and general (per capita) State aid. In the 1960-1969 period, the absolute level of Federal and
State aid quintupled, from $419 million to $2,263 million, and further, though smaller, increases were registered in the 1969-1975 period. As a proportion of the budget, Federal and State aid payments rose from just one-fourth of the budget in 1960 to nearly 40 percent of the total in 1969, a level which has been maintained since that time. The following chart, drawn to a logarithmic scale, indicates the changing patterns of this growth.

Although the level of Federal and State aid in the budget grew dramatically, this did not reduce the demand for City funds. Not only was the bulk of Federal and State aid unavailable for general City services, but it was offered on the condition that it be matched by City funds in various mandated ratios.

As demands for City funds grew, the real property tax - the mainstay of local revenues accounting for over half of the receipts - was tapped more heavily. Construction in New York City had shown remarkable vitality in the post-World War II period, reaching its peak in 1964 when $1,346 million of new buildings was added to the tax base in a single year. But one by one the sources of new construction demand faded away as private home sites were used up, as apartment buildings erected with permits secured under the less restrictive zoning regulations were completed and as the rush of new office buildings caught up with or exceedened demand. Rising real estate taxes, difficult in a strong economy, became more burdensome when growth slackened. To respond to this increasing demand on real property tax revenues, sources of City funds were both expanded and refined in an attempt to create an overall package of non-property taxes that would be more equitable as well as more responsive to changes in economic activity. The City personal income tax was instituted in 1966. The stock transfer tax was shifted from the State to the City in 1965 and in 1966 there was a shift from taxes on business gross receipts to taxes on business income.

As indicated in the following chart, the gross revenues of the economically sensitive taxes have shown an average 12.7 percent growth over the 1969-1976 period. There were two sharp increases in revenues: in fiscal 1972 when there were increases in the rates or base in the general corporation tax, the unincorporated business tax, the financial tax and the personal income tax; and in 1976 when there were increases in all the taxes with the exception of the unincorporated business tax. Thus, when the revenues are adjusted for rate changes and additions to the taxable base, the average annual growth in the 1969-1976 period was 4.7 percent.
Of the $2.1 billion in economically sensitive taxes received in 1976, $1.14 billion represents the total increase in actual revenues since 1969. Of this amount, $850 million is due to tax rate and base changes and only $290 million is due to "true" revenue growth. As this ratio indicates, the declining trend in the City's real wealth overwhelmed the City's efforts to increase tax revenues from economic growth.

D. ACCOUNTING CHANGES

Please to the State to assist the City were partially met by additional aid, but more often, with the concurrence of the State Legislature, new fiscal devices, many questionable, were formulated to enable the City to balance its budget. The most well known technique was the financing of certain expense items from the Capital Expenditures. The Capital Budget is intended to provide for the authorization and appropriation of funds for major physical construction or long-term capital projects. Under the State Local Finance Law, the City may issue special bonds to fund these projects if they have a period of probable usefulness (PPU) greater than one year. For instance, the acquisition, construction or reconstruction of a water system can be bonded over a 20 year period; parks 10-20 years; and highways 5-15 years.

As the City developed the need for additional funds, the concept of a long-term development project was expanded at first to include general planning and repairs and maintenance and then to include "intangible development" or "creation of assets" of the City. Thus, manpower training and vocational education, which might provide a future skilled labor force, were viewed as programs designed to create new City "assets". As such, these were treated as items that would be bonded under the Local Finance Law, generating revenues for the expense budget. These changes in the Local Finance Law allowed the City to increase revenues from this source from $74 million in 1968 to $180 million in 1970 and $335 million by 1975.

Other changes in accounting techniques were introduced to recognize future expected State and Federal revenues in current years. These accounting and financing changes, which started modestly in 1969, continued to grow, enabling the City to continue to increase budget expenditures despite the continuing decline in real personal income and City Base. These changes in the accounting techniques are one reason the City had accumulated a deficit in excess of $5.2 billion as measured by generally accepted accounting principles by fiscal 1975.
E. BORROWING TO FINANCE THE BUDGET

The bulk of Federal and State categorical aid that began in the 1960's came to the City in the form of "reimbursable" programs - programs that required the locality to obtain the aid by claiming reimbursement for expenditures already incurred. Upon submission of a claim by a locality, legitimate expenditures for eligible activities would be reimbursed by the Federal and State governments. The major program operated in this fashion included welfare, social services and Medicaid.

Revenue anticipation notes (RANs) were issued to bridge the time between the City expenditure and the anticipated reimbursement but processing delays both by the City and the Federal government delayed the receipt of the revenue, causing note rollovers into the next fiscal year. In the next year the cycle would start again: new expenditures, new RANs and delayed receipt of revenue. The whole process served to obscure the crucial question of whether the City would ever receive revenues to reimburse it for its initial outlays.

Just as the City programs were building up to full operation, the Federal government started a major retrenchment to save Federal dollars by impounding funds and placed an after-the-fact expenditure ceiling on certain expenditures under Titles IV and XVI of the Social Security Act. As a result, the revenue in anticipation of which expenditures had already been made was never forthcoming.

Federal aid in the budget increased from $209 million in 1965 to $1,911 million in 1975. In 1965 the City issued no RANs at all against Federal aid but by 1971 there were $393 million of RANs outstanding against Federal aid at the end of the fiscal year and by the end of 1975 $800 million of such obligations were outstanding.

Even increases in State aid to the City caused the City to borrow. To meet its own budget needs, the State increasingly pushed off its aid payments to the first quarter of the State's next fiscal year - the last quarter of the City's. Until funds started coming in, the City was forced to borrow by issuing RANs. Thus, as State aid in the budget increased from $544 million in 1965 to $2,044 million in 1975, so did the amount of RANs issued against it. The amount of RANs outstanding against State Aid at the end of the fiscal year increased from $62 million in fiscal 1965 to $572 million in 1971 and to $1,760 million in 1975.

Another means of bridging the gap between the timing of City expenditures and the receipt of cash was the issuance of notes in anticipation of receipt of real estate tax payments. As the total tax levy increased from $1.9 billion in 1970 to $2.9 billion in 1975 in response to a 33 percent increase in the tax rate and a 15 percent increase in assessed value, the amount of notes that could be issued increased accordingly.

The rapid rise in the tax strained the ability of taxpayers to meet their obligations; at the same time increasing levels of tax abatements were being granted for housing and other purposes without adjustment of tax collection estimates. As a result, increasing amounts of tax were left uncollected at the end of the fiscal year in which they were due. Notes issued in anticipation of the uncollected taxes were rolled over at the end of the fiscal year and the cycle of borrowing was resumed the next fiscal year. By 1975, the amount of tax anticipation notes (TANs) outstanding on June 30 was $380 million, more than double the $170 million outstanding at the end of fiscal 1970.

As part of the City's overall expansion in the kinds and quality of services delivered to its residents that began in the late 1960's, the capital program was also expanded. This expansion was further increased by including expense items in the capital budget as a way to enlarge the revenues available to the expense budget. City funds appropriated in the Capital budget increased to an average of $1,248 million in the 1971-1975 period, compared to $644 million for the preceding five year period. Cash outlays increased accordingly, from $550 million annually in 1966-1970 to $1,354 million annually in 1971-1975. Since these capital outlays were to be financed by borrowing, the issuance of funded debt also increased.

Additional requirements for the issuance of long-term debt arose from the City's Mitchell-Lama program of mortgage loans to housing companies for construction of new housing. The program had been initiated in the 1950's to take advantage of the City's ability to borrow inexpensively on a tax exempt basis and therefore lend less expensively than traditional sources of mortgage money.

To fund the program, the City issued bond anticipation notes (BANs) while the projects were in construction and redeemed the notes from time to time by issuance of bonds. In 1965, the City's interest rate on 50-year debt issued for the program was 3.7 percent; by the end of 1970, the City's
the interest rate on 10-year debt issued for general purposes exceeded 7 percent - the result of a general increase in interest rates as well as the City's deteriorating credit standing. Hoping that long-term rates would come down, the City stopped issuing bonds for Mitchell-Banx purposes during this period, choosing instead to roll over its BANs and to issue additional BANs to finance further mortgage advances to housing projects. At the same time, the number of projects undertaken and their per unit costs were also on the rise. As a result, the amount of new BANs issued and never redeemed by issuance of bonds averaged $64 million annually in fiscal 1968-1970 and $144 million in 1971-1975 so that by June 30, 1975 the City had outstanding $1.1 billion in BANs issued for municipal loan to owners of multiple dwellings. Further, an additional $200 million in debt issuance remained to complete the financing of projects already in construction.

As the capital program expanded and expense items in the Capital Budget increased year after year, room within the City's constitutional debt limits for new obligations was very limited. To circumvent these limitations, the City, following the State's precedent of setting up "moral obligation" public authorities to do construction and the borrowing necessary to fund it, set up its own public authorities such as the New York City Housing Development Corporation and the Educational Construction Fund and entered into lease agreements with State authorities that would enable construction of public facilities, thereby adding another burden on the credit market.

Although each one of these factors would have been reason for concern, their convergence was devastating. As the following table shows, by the end of fiscal 1975 the amount of short-term debt outstanding was $4,540 million - 52 times as great as it had been only 15 years earlier - and the amount of funded debt had almost doubled the 1960 amount.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tang</th>
<th>BANs</th>
<th>Other</th>
<th>Total</th>
<th>Short-term</th>
<th>Funded Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>$41.9</td>
<td>$33.3</td>
<td>-</td>
<td>$13.2</td>
<td>$98.4</td>
<td>$4,208.6</td>
</tr>
<tr>
<td>1965</td>
<td>38.8</td>
<td>225.3</td>
<td>118.6</td>
<td>92.8</td>
<td>525.5</td>
<td>4,704.5</td>
</tr>
<tr>
<td>1970</td>
<td>170.0</td>
<td>467.6</td>
<td>536.7</td>
<td>113.9</td>
<td>1,360.2</td>
<td>5,235.8</td>
</tr>
<tr>
<td>1975</td>
<td>380.0</td>
<td>1,570.2</td>
<td>2,560.0</td>
<td>30.0</td>
<td>4,242.0</td>
<td>7,768.3</td>
</tr>
</tbody>
</table>

III. THE CRISIS

These, then, were the forces impacting the City in fiscal 1975 - the accumulated budget deficit of over $5 billion, faulty accounting practices, an expanding tax base, mounting municipal services, adverse national economic trends, discriminatory Federal policy. And they were largely underwritten by increasing the City's short-term debt from 50.5 billion to $4.5 billion in the decade preceding the fiscal crisis, thereby truly mortgaging New York's future.

The reckoning came in the spring of 1975 when the City's underwriters informed the Mayor and the Comptroller that New York City Securities could not be sold publicly. At that time, the credit markets were in disarray as a result of restrictive monetary policies undertaken by the Federal Reserve Board to control an inflation rate exceeding ten percent on an annual basis. The nation was also in the midst of a recession that led to the highest unemployment rates since the Depression. Caught between inflation, recession, the public credit markets refused to absorb the indebtedness of a City whose budget deficit was mounting and whose accounting practices were suspect.

The reaction to the City's exclusion from the credit markets was immediate and multi-faceted, including both fiscal and financing actions and involving the State and the Federal governments as well as the City.

First, to enable the City to meet its short-term needs, the State advanced the City $800 million in aid that it was scheduled to receive in the next fiscal year. This advance, repaid by withholding aid, has been continued in each subsequent year and constitutes a working capital shortage, resulting from past budget deficits.

However, the City's short-term needs proved to be greater than the $800-million provided by the State Advance. The Municipal Assistance Corporation ("MAC") was established in June 1975 to serve as the City's financing agent. MAC's principal function was to convert the City's short-term debt into long-term obligations. Because MAC was a State agency backed by the State's moral obligation and because the City's sales and stock transfer taxes were pledged to meet MAC's debt service costs, it was believed that the Corporation could issue bonds when the City could not.

Unfortunately, the market failed to distinguish MAC from the City in determining the Corporation's credit standing. As a result, MAC had also been excluded from the market by the beginning of September.
To correct one of the basic impediments to market access -- the inability of the City to balance its budget -- on September 9, 1975 the State passed the Emergency Financial Act that required the City to prepare a three-year plan designed to balance its fiscal 1976 budget in accordance with prescribed accounting principles. This Act also established the Emergency Financial Control Board ("Control Board") to insure that the City adhered to the requirement of a balanced budget, as prescribed, by fiscal 1978.

Accordingly, the City prepared a financial plan of projected revenues and expenses for fiscal years 1976, 1977 and 1978 based on revenue estimates approved by the Control Board. This financial plan, as modified by the Control Board, was approved on October 20, 1975.

With the passage of the Financial Emergency Act, the State initiated a financing program to meet the City's short-term needs for the next three months. Basic to this program was a $750 million investment by the State in City securities. It was matched by financing commitments from New York City banks, City pension and sinking funds, other City-based financial institutions and the State Insurance Fund.

At the time this financing package was designed however, it was recognized that it was only an interim measure and work was immediately started on a more comprehensive proposal. This plan was announced in November and it contained four main elements:

- Moratorium: On November 15, 1975 the State Legislature adopted the Emergency Moratorium Act that permitted the City to suspend payment of principal on its short-term debt for a three-year period.

- Taxation: On November 26, 1975 the State Legislature enacted tax increases for the City, calculated to provide $500 million in increased revenues over the next three years.

- Exchange Offer: On November 26, 1975 the Municipal Assistance Corporation offered, as a part of the Emergency Moratorium Act, to exchange its eight percent bonds for approximately $1.6 billion of City notes then held by the public: $458,275,000 of notes were exchanged for an equal face amount of MAC bonds.

- Amended and Restated Agreement: On November 26, 1975, an agreement was also reached with the New York Clearing House Banks and with the City pension and sinking funds, providing that the sinking funds would exchange $200 million of City notes held by them for long-term City bonds, the banks and the pension funds would

restructure their previously purchased $1,609,123,000 of MAC bonds by reducing interest rates and altering maturity schedules, and the pension funds would invest $2.5 billion in new long-term City bonds over the next three years.

One of the purposes of the November 1975 actions was to secure Federal financing assistance. This was achieved on December 15 of that year when the President of the United States signed into law the Seasonal Financing Act. This act was designed to meet the City's short-term borrowing needs arising from differences in timing between expenses and revenues.

To effect the Seasonal Financing Act, the City, the State, the Control Board and the United States entered into the Federal Credit Agreement, dated December 30, 1975. Under this agreement, the Secretary of the Treasury was authorized to make short-term loans of up to $1.3 billion in fiscal 1976 and up to $2.3 billion in fiscal 1977 and 1978.

In fiscal 1976, the City borrowed $1.26 billion under this agreement, with repayment being made in full on June 30 of that year. In fiscal 1977, the City borrowed $2.05 billion that was repaid in full by June 30, 1977, with certain repayments being made in advance of maturity. During the current fiscal year, the City has borrowed $1.875 billion to date, of which $1.2 billion has been repaid, and it does not expect to make any additional borrowings under the agreement.

As the Secretary of the Treasury stated in his testimony before the House Subcommittee on Economic Stabilization, the City has met all the important requirements of the Seasonal Financing Act, with each repayment being made on time or in advance. In addition, the Federal government has earned over $30 million in profit from the loans made to the City since they carry an interest rate one percent above the Treasury's borrowing rate.

The State Moratorium Act did not however fare as well as the Federal Seasonal Financing Act for it was declared unconstitutional by the State Court of Appeals in November 1976, with a remititur providing for payment of the notes being issued the following February. Of the $1.3 billion of City notes that were outstanding at the time the Moratorium Act was declared unconstitutional, about $400 million were exchanged for MAC bonds in March 1977, approximately $415 million was repaid with City funds by the end of October 1977, and $819 million held by the pension funds and the Clearing House banks was exchanged for MAC bonds. In November 1977, the City defensed the moratorium notes by setting aside a total
of $167 million for the payment of current and anticipated claims by holders of these notes. Thus, through the issuance of MAC bonds, by exchange of City notes for MAC bonds and with its own funds, the City provided for the redemption of the refinance of all the $4.5 billion of City notes that were outstanding on June 30, 1975.

The above-mentioned exchanges of $819 million of City notes for MAC bonds in October 1977 by the banks and pension funds was part of an amendment to the Amended and Restated Agreement known as the Restructuring Agreement. Under this agreement, the banks and the pension funds also agreed to exchange approximately $1.35 billion of outstanding MAC bonds for new MAC bonds with longer maturities and higher interest rates and the pension funds agreed to purchase $736 million of City bonds during fiscal 1978, including reinvestment of $206 million of maturing City bonds.

In November 1977, as a condition of the Federal Financing Act that the City made its best efforts to meet its short-term borrowing needs in the public credit markets, the City attempted to sell $200 million of notes through an underwriting syndicate. Assigned an A3 rating by Moody's Investors Services, these securities did not meet the quality requirements of investors and the City's underwriters recommended that the offering be cancelled.

The reason given for the failure of the November note offering was that investors still lacked confidence in the City's ability to meet its financial obligations. This lack of confidence stemmed from two sources:

- the imbalance in the City's budget in terms of generally accepted accounting principles, although for fiscal 1978 the City expects to balance its budget in accordance with the Financial Emergency Act; and
- past financing pressures, in spite of funding the $4.5 billion in short-term debt that was outstanding on June 30, 1975.

The past financing pressures facing the City are carryovers from the 1975 crisis and include:

- operating expenses, in the City's fiscal 1978 Capital Budget; these items are carried over from fiscal 1977's budget and are a hold-over of past fiscal abuses and my Administration is committed to phasing them out twice as fast as required by law;
- the $800 million State Advance, like all working capital shortages, should be permanently funded;
- MAC capital reserve requirements, which, as a protection to investors, must equal one year of MAC's debt service requirements by the end of fiscal 1979;
- MAC refinancing to restructure the Corporation's debt as to rate and maturity.

The principal areas where the City has not had GAAP-based accounting in recent years is in the inclusion of certain operating expenses in the capital budget and in the understatement of pension costs. In the Financial-Emergency Act of 1975, provision was made to phase these expenses items out of the capital budget over the next decade. In the same year, the Pension Task Force of the Mayor's Management Advisory Board was established to recommend the funding pattern the City should follow to make the pensions sound actuarially. The Board's proposals were adopted in 1977 and the City expects to bring its provision for pensions in line with generally accepted accounting principles by fiscal 1982, the same year the City now intends to remove the last operating expenses from the Capital Budget.

In addition to these steps, the City has taken the following actions to balance its budget:

- Work Force Reduction: the City's work force has been reduced by 21,000 employees since December 31, 1974; this represents almost a 21% reduction over the work force on December 31, 1974.
- Debt Service Reductions: debt service has been reduced from $310 million in fiscal 1976 to an estimated $2610 million in fiscal 1978, primarily through restructuring.
- Increased Real Estate Tax Collection: improved procedures have resulted in reductions of uncollected real estate taxes ($12 million) and a substantial increase in the collection of prior year's taxes ($32 million more in fiscal 1977 than in fiscal 1976).
- State Takeover of the Courts: the enactment of legislation providing for the takeover of the courts system by April 1, 1980 will generate savings of approximately $16 million, based on revised estimates in fiscal 1978; an additional $25 million will be saved in 1979.
- **State Support of CUNY:** the assumption by the State of a greater share (75%) in the support of CUNY senior colleges has reduced the City's share by $54 million in fiscal 1978; in addition, the implementation of tuition reduced the need for State/City support by $85 million in 1977.

- **Federal Acquisition of Public Housing:** in fiscal 1978, the federal government acquired approximately 15,000 units of state owned public housing, reducing the subsidy required from the City by approximately $8 million in 1978 and $11 million in 1979.

- **Reduction in Pension Contributions:** since 1976 City workers have been required to contribute between 2% and 2¾% more to the costs of their pensions; due to the two year lag, this action will save the City approximately $49 million in fiscal 1978, with the savings to increase to $95 million in 1979.

- **Mitchell-Lama Refinancing:** as of April 30, 1978, $136 million net cash has been realized through the refinancing of projects through the Federal Housing Administration (FHA).

- **Public Assistance Cost Control Program:** implementation of programs to reduce acceptances of ineligible clients, to detect fraud, to eliminate special payments and to improve management will produce a savings of $266 million for fiscal 1977 and 1978; as a result of these programs, welfare rolls have been reduced to the lowest level since 1970.

- **Transit Fare Increase:** in September 1975 the NYC Transit Authority increased New York City transit fares for subways and buses over forty percent from $15 to $60; this action produced an increase in revenue of approximately $150 million.

- **Closing of Fire Companies:** 19 fire companies have been closed.

- **Elimination of Funding for Day Care Centers:** the funding of 77 day care centers has been transferred to other parties or eliminated.

- **Electricity Savings:** energy conservation programs and the purchase of electricity from the Power Authority of the State of New York, instead of Consolidated Edison, reduced electricity costs by $95 million for fiscal 1978 below estimated costs.

- **Tax Increases:** since 1975 the City has raised taxes on personal income, on several types of business income, on stock transfers, and on cigarettes while extending the sales tax; in an effort to enlarge the economic base of the City, a detailed Economic Recovery Plan allowing for some tax reductions was begun in fiscal 1978; although the increases in taxes since 1975 yield approximately $445 million annually to the City, the fiscal impact on the Economic Recovery Plan cannot be quantified at this early date but it is expected that the annual revenue loss of approximately $200 million will be offset by economic growth directly stimulated by the Recovery Plan.

- **Establishment of the Integrated Financial Management System:** IFMS has allowed the City to better control expenditures and collect receivables.

This program of fiscal stringency is a primary reason the City was able to repay all its seasonal borrowings by yearend in fiscal 1976 and 1977 and it is the principal reason the City expects to have repaid all such indebtedness by the end of the current fiscal year. This record of repayment has prompted the Citizens Budget Commission, an independent fiscal watchdog group based in New York, to say, "one of the proudest achievements over the past three years is the City's success in settling each year all seasonal borrowings on time prior to the beginning of the succeeding fiscal year."
IV. FOUR YEAR FINANCIAL PLAN

Prior to my taking Office, the Secretary of the Treasury asked me to prepare a plan that would serve as a blueprint for the City's effort to attain fiscal stability. My Administration had been in office less than three weeks when a Four Year Financial Plan was submitted to the Secretary on January 20. The centerpiece of this Plan is a Federal guarantee of securities to be sold to City and State pension funds to finance the City's true capital needs. We also have proposed extension of seasonal financing assistance, on a reduced basis, as we set forth in the Four Year Plan, the total Federal credit exposure would never be as great as the $2.3 billion short-term line of credit currently available to the City under the Seasonal Financing Act of 1975.

A. LACK OF MARKET ACCESS

When the Seasonal Financing Act was passed, City and State officials, as well as the Congress, believed that the City's Financial Plan would enable it to balance its budget in accordance with the Municipal Assistance Corporation Act by 1978. The financing arrangements undertaken at that time were intended to provide a financing bridge over the three year period so that the City could regain access to the public credit market during its 1978 fiscal year. Although the City expects such a balanced budget this year, the market problems were more severe than anyone realized and the City has not been able to sell its securities publicly.

As you know, investor confidence is a fragile commodity. It cannot easily be won but it can be lost quickly. And once it is lost, it is very difficult to regain. Above all, it is the lifeblood of the securities market.

Investor confidence in the City of New York was shattered in the 1975 fiscal crisis. That it has not been regained was demonstrated in the failure of the City's note offering in November.

Yet, in spite of that failure, you have concluded that the City does not need a Federal guarantee, saying that local sources of funds are adequate to meet the City's financing needs. Identifying sources of funds, unfortunately, is not the same thing as getting the funds. While local institutions obviously have the ability to meet the City's financing needs, the ability to lend and the willingness to lend are not synonymous. The failure of the November offering points up the difference. It reflects the lack of investor confidence in the City of New York.

This lack of confidence is further reflected by the public statements of persons responsible for investing the sources of funds identified in the Four Year Financial Plan. The State Comptroller, citing his fiduciary responsibilities, has refused to invest substantial amounts in City securities. The consultant on pensions to several municipal unions stated in hearings conducted by the House Subcommittee on Economic Stabilization that he would not invest in additional City securities without a Federal guarantee. Mr. Elmore Patterson, Chairman of the Executive Committee of Morgan Guaranty Trust Company of New York, said if there is no Federal assistance after June 30, I do not feel very hopeful about raising any additional money from these local sources which act in the capacity of depository or fiduciary for other people's money. Mr. John A. Sarno, President of The Savings Bank Association of New York State, also spoke of fiduciary responsibilities in his testimony before the Subcommittee.

In addition to the above statements, the City has been informed by NAC that the City could not expect to enter the public credit markets in the near future. Thus, the advice we receive from bankers and financial advisors is nearly unanimous -- the City does not have access to the marketplace.

We designed the Four Year Financial Plan to make the City creditworthy. The Plan presents a comprehensive approach by which the City can achieve a truly balanced budget and regain access to the public credit markets in fiscal 1982. But achieving these goals will require firm long-term and short-term financing commitments from many parties, including the Federal government.

B. FEDERAL-STATE-CITY PARTNERSHIP

Basic to the Four Year Plan is the concept of a City-State-Federal partnership. It calls on all levels of government to continue, and to increase, their efforts to solve the City's long-term problems.

The State of New York has been asked to help because under our Federal system states have primary responsibility for cities within their jurisdiction. The Federal Government has been asked to help because many of the problems confronting the City are national problems. For example, the City's share of welfare and Medicaid payments -- $2.2 billion -- is greater than its budget gap in accordance with generally accepted accounting principles.

I am happy to report, that the State is doing its share. An additional $930 million in aid for the City was included in the State's fiscal 1979 budget. For their help in securing this increased aid, I want to thank Governor Carey and the legislative leaders.
We also have held discussions with the Administration regarding the Federal share of the increased aid package -- in particular, we will be pressing for a continuation of the New York City countercyclical revenue sharing program as the principal source of increased Federal assistance in 1974. However, over the long term, we believe that a fundamental change in the Federal and State share of welfare and Medicaid assistance will be necessary for the City to eliminate its budget gap.

I also want to make it clear that the Four Year Plan does not ask others to do what the City should do for itself. As I have said, the Plan is based on the idea of partnership. And during this four-year period, actions taken by the City will account for 50 percent of the total gap to be closed.

It is of course one thing to talk about taking such actions and quite another to effect them. I however want you to know that my Administration is intent upon implementing its part of the City-State-Federal partnership. In the Executive Budget submitted to the City Council on April 26, we reflected the budget targets set in the Four Year Plan by taking the following actions:

- A further reduction in the municipal work force through attrition;
- A cost control program in materials and supplies that will force a decline in real purchases of 12 percent during the next four years;
- Changes in health service delivery and continuation of the City's successful cost containment program in the areas of public assistance and social services;
- Management improvements based on audits developed by the City Controller; and
- The reduction of capitalized expenses by $193 million.

C. GOVERNMENTAL EFFICIENCY

In addition to these steps, I have taken a number of actions to improve the performance of the City's agencies. One of the first acts of my administration was to appoint a Deputy Mayor for Management who was assigned to ensure that the highest priorities be given to major problems of program coordination. In addition, I have upgraded and expanded the Office of Operations -- my team of management analysts and

innovators. Currently, they are examining the organization of all the City's agencies to determine those areas in which excess personnel might be reduced as well as the best organizational structure for each agency.

A second major emphasis has been on the removal from the work force of employees who do not perform. Each of my commissioners knows that "no-shows" and incompetents are not welcome in my administration. Each commissioner is making use of the available procedures to eliminate these workers from the City's payroll. This is, of course, not an attempt to purge the workforce for arbitrary reasons. Rather, it is an effort to facilitate a more efficient operation and to provide necessary services to the citizens of New York City.

Shortly after taking office, I authorized the implementation of the City's new management service plan, which will provide greater flexibility and management control within City agencies. It includes a broad-handling of managerial civil service titles, reducing the number of titles significantly and allowing a more efficient deployment of managers based on their expertise and abilities. The plan also provides flexibility in the compensation of managers so that we can reward those who excel without rewarding those whose performance is not up to our high standards. Also included in this management package is our proposal, now before the state legislature, to remove 3,600 high level managers from collective bargaining. If approved, this will remedy the intolerable condition whereby less than a dozen of the top people are not part of the bargaining system in some departments.

I am also committed to the idea that we must improve the efficiency with which our many federaily funded programs are operated. All of my commissioners are on notice that they must apply the highest possible standards in terms of performance and honesty in the conduct of their programs. In our CETA program, for example, my administration has required that all of the contracts that it inherited be placed on a 90-day status to allow for a thorough review of the contractors' organizations. For all our federally funded contracts we have established a system of careful review before the contract is officially acted on by our Board of Estimate. As a result, we now have better documentation on the reliability and performance of City contractors than we have ever had before.
In addition to these measures, the City has undertaken a number of reorganizations that will improve the performance of City agencies. The first initiative is the restructuring of the Office of Economic Development. I have recently appointed a Deputy Mayor for Economic Policy and Development who will be in charge of the restructuring process. A major thrust of this process will be the integration of those units of City government that are directly involved in development, including: the Department of Employment, the Department of Ports and Terminals, the Office of Development and the Business Marketing Corporation. It is expected that a clearer allocation of functions among these units will result in a less costly but more effective economic development effort. The new Deputy Mayor will also take a leading role with respect to tax, energy and government regulatory policies and will chair a new Development Funds Steering Group that will coordinate the application for and use of federal dollars for economic development. The recently announced decisions to proceed with the construction of Battery Park City, Westway and a new Convention Center will bolster these efforts.

D. CAPITAL IMPROVEMENTS

These actions, and others to be taken in the future, will, I hope, convince you that we intend to improve the fiscal management of the City so that budget gaps do not recur. But balancing the budget is only part of the Four Year Plan. The City must begin to rehabilitate itself to help preserve the tax base because the tax base is the fuel that powers the urban machine. Unless we repair our streets and fix our water mains, improve our drainage system and rebuild our subways, New York City cannot provide the quality of life essential to maintaining such a balance.

To renovate the City's physical plant, I once again have relied on the concept of intergovernmental cooperation. We are asking the Federal Government to guarantee, with State participation, bonds to be sold for capital projects.

Unless these improvements are made quickly, it may be too late to save what we already have. In that case, the future cost to rebuild what was not or cannot be repaired will be prohibitive.

To halt the deterioration of the physical plant and to build important projects, the original Four Year Plan called for a $2.6 billion capital improvement program that included:

- Instituting a 35-year replacement cycle for streets, a 40-year cycle for bridge roadways, a 100-year cycle for City sewers and a 75-year cycle for water mains instead of at current levels of expenditures whereby the City's physical plant is rebuilt every other century;
- Doubling the investment for transit modernization;
- Replacing aging Police, Fire and Sanitation facilities;
- Renovating piers and markets; and
- Constructing water pollution control facilities in Brooklyn and Manhattan.

In May 1978, the City in consultation with MAC modified the Four Year Plan to eliminate certain new construction projects, thereby reducing funds available for capital improvements by $2.3 billion. In addition to the amount budgeted for true capital projects, the modified plan calls for nearly an equal amount over the next four years to relieve past financing pressures. This will include:

- $800 million to finance operating expenses in the capital budget;
- $500 million to bond the State Advance;
- $560 million to restructure MAC's debt by refunding MAC bonds; and
- $250 million to meet MAC's capital reserve requirements to provide additional security for investors.

Thus, the City's long-term financing needs over the next four years total $4.5 billion - $2.3 billion for capital improvements and $2.2 billion to relieve past financing pressures.
E. SOURCES OF CAPITAL

To meet these needs, the following sources of capital are suggested in the modified Four Year Plan:

($) in Billions

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<th>Source</th>
<th>Amount</th>
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<td>1.000</td>
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<td>Public Offerings</td>
<td>2.000</td>
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As previously noted, the Plan contemplates that most of the pension fund purchases of bonds sold to finance true capital expenditures will be guaranteed by the Federal Government.

However, it is not merely the pension fund purchases that will be affected if the Federal guarantee is not extended. The entire plan will be jeopardized. It will be jeopardized because all the parts are dependent on each other. Unless the budget gap is closed and a balance maintained, investors will not have confidence in the City's ability to meet its financial obligations. Unless the physical plant is renovated, a long-term budget balance cannot be maintained. Unless a Federal guarantee is extended as part of a financing package, fiduciaries will be unwilling to risk the money that belongs to others.

Thus, the guarantee is included in the Four Year Plan to increase investors' willingness to lend to the City. Once it is in place, the City can move to meet the balance of its long-term financing needs.

The same is true with the City's short-term financing needs. Although the City Council has passed legislation to accelerate the payment of real estate taxes, our short-term needs could be as high as $1.2 billion in 1979. They arise from the timing differences between collections and expenditures -- the City's expenditures are relatively equal each month while a disproportionate share of its revenues come in the fourth quarter. To obtain the funds that the City needs to meet its operating expenses, the City must turn to outside sources. There again, a high level of confidence will be the necessary factor in determining whether lenders are willing to extend credit. If we have Federal financing assistance, I feel certain that such credit will be forthcoming, at least in the amounts indicated in the Four Year Plan. Without assistance, our ability to secure credit is highly doubtful.

Of course, no one can predict the future with certainty. It is my belief, however, that a continuation of the seasonal financing program combined with a long-term guarantee will give the City time to achieve a record of balanced budgets while reducing past financial pressures so that it can enter the market on its own strength within the next four years.
V. LEGISLATION

A. CARTER ADMINISTRATION’S PROPOSAL

As you know the Secretary of the Treasury, W. Michael Blumenthal, has submitted the Administration’s proposal for the City of New York. Under this proposal, the Federal Government would replace the Seasonal Financing Act with a program to guarantee up to $2 billion in long-term City or MAC securities. The guarantee would last for up to 15 years and the City would pay a guarantee fee of 0.5 percent on any guaranteed security.

The guarantee would be issued only if the City met the following conditions:

- Submission of a four year plan that by fiscal 1982 will produce a balanced budget in accordance with generally accepted accounting principles; and
- Creation of a fiscal monitor to review the City’s finances, with the monitor’s power to be at least as extensive as those of the Emergency Financial Control Board.

The security for the guarantee would be primarily Federal transfer payments to the City and secondarily Federal transfer payments to the State.

For having submitted this legislation, I want to thank the President of the United States, the Secretary of the Treasury and New York’s two Senators, Patrick Moynihan and Jacob Javits. This marks a real beginning toward solving New York’s financial crisis once and for all. By guaranteeing bonds that the City sells for true capital purposes, the Federal government will enable the City to undertake the renovation of the physical plant that is vital to its long-run health.

In regard to most of the Administration’s proposal, I am in accord with Secretary Blumenthal. Prior to assuming office, I called for a continuation of the fiscal monitor. Legislation to continue the Emergency Financial Control Board has been passed by the State Legislature. Not only does the bill continue most of the powers of the existing Control Board, including the Board’s authority to receive and disburse City funds, but it establishes a debt service fund and it limits our short-term borrowing ability. The legislation also provides the City with protection against unreasonable arbitration awards to municipal employees by requiring that any such awards be within the City’s ability to pay and by making the Control Board a party to the proceedings.

Now that this legislation has been enacted, I hope it will allay any fears about the City’s ability to return to fiscal integrity. I also hope that it will clear the way for this Committee to act favorably on the Secretary’s proposal.

In addition to providing guarantees of City bonds, the Committee is urged to continue the Federal government’s seasonal financing assistance to New York. As you know, the chief route to insolvency in the short run for the City, or any other entity, is the inability to pay its bills due to a lack of credit. While I do not intend to let the City slip into default, I believe that financial prudence demands that the City be assured of short-term funds by the Federal Government. We will do everything in our power -- accelerate the collection of real estate taxes, request an acceleration of State aid, attempt to sell notes publicly, try to arrange a line of credit -- to meet our seasonal needs. A continuation of seasonal financing assistance however would insure that the City could pay all its bills in the event that we are not successful in arranging for our short-term requirements in the public credit markets.

B. MOORHEAD BILL (H.R. 12426)

I want to thank Representative Moorhead of Pennsylvania for having introduced legislation to provide a Federal guarantee of City securities. I would also like to express the City’s appreciation to Congressman Stewart McKinney of Connecticut and to Congressman Henry Reuss, Chairman of the House Banking Committee, for their help in securing Committee approval of this legislation. In some ways -- particularly in its extension of short-term financing assistance -- the Moorhead bill is an improvement over the Administration’s proposal. However, in other ways, such as Federal transfer payment to the State as well as payments to the City being the primary security for the guarantee, the exclusion of interest from determination of the amount to be guaranteed and the right to waive the Federal priority in the event the guarantee must be utilised, the Administration’s bill is superior. I urge this Committee to report out a combination of the two proposals that will insure that the City of New York never has to return to the Congress, its hat in hand, to ask for Federal financing assistance.
VI. LABOR NEGOTIATIONS

I would like to emphasize initially that we have been engaging in coalition bargaining for the first time, and we have been trying to conclude agreements well in advance of the normal expiration dates, also an unprecedented attempt. At a time of labor unrest, when inflation has far outstripped wage gains since 1975, this has been a more difficult process than we expected. The negotiated wage rate is $400 or $400 per annum, whichever is greater, but the first $400 shall not be effective until the beginning of the fourth month of most of the contracts in fiscal 1979. The second $400, or $400, will be effective at the beginning of the sixteenth month of most of the contracts in fiscal 1980. Therefore, this is an equivalent of 3% in FY 1979 and 3% in FY 1980 on an annualized basis, although at the end of the two-year period the workers will be earning at a rate of $8 more than they are today. It is far less than the 2.5% per year recommended by the President for Federal employees; and it far less than the projected rate of inflation over this period.

The over-all cost of the settlement depends on how you look at it and what you take into account. A City taxpayer would like to know how much City tax levy funds will be required in the two years. From this perspective the cost is $378 million over a two-year period, or an average of $378 million per year.

A City worker is most interested in how much more he or she will get in the paycheck. Since part of the new package consists of continuing payments under previous cost-of-living adjustment programs, an average worker's salary will increase from $17,113 to $17,671 in fiscal 1979 and to $18,343 in fiscal 1980. The rate of increase over the two-year period is approximately 7.2% and the average annual increase is approximately 3.5% for the average worker.

A budget expert would add to the City tax levy funds the fiscal 81 and fiscal 82 pension costs (which are attributable to the increases in fiscal 79 and fiscal 80), and the Federal and State funds which would supplement the City increases. The resulting figure would be $1.1 billion, including increments.

However you calculate the settlement, it is a large figure; but New York is a large City, with an annual budget of $13.5 billion, and we have over 200,000 employees. I have prepared for your reference a sheet showing what the settlement means for an average employee. I believe the proposed labor increase is reasonable. It will be reviewed by the Control Board in order to determine whether adequate provisions have been made for funding the cost of the agreement.

The Executive Director of the Control Board has advised me that, on the basis of his preliminary review of the projected costs of the settlement, he believes that it is possible to modify the Financial Plan and contingency plan in a reasonable and acceptable manner to accommodate the settlement. It is important to note that the Control Board will always be a check to assure reasonable future labor settlements consistent with the Financial Plan.

In this negotiation, I have of course sought better terms for the City, and I have made concessions that I would have preferred not to make. I had hoped to get agreement of the unions to give back some previously won fringe benefits, but I found that these demands were an insuperable obstacle to conclusion of an agreement. The unions were prepared to be reasonable on increases for the future, but (reinforced by tradition in the national labor movement) were unyielding against giving back that which has been won in the past. I did not want to pay for a few "give backs" for window dressing, and the City could not afford to pay for more. I want to emphasize, however, that our municipal workers have made real sacrifices over the last three years and that this is a reasonable settlement that deserves the support of everyone concerned.
VII. CONCLUSION

Since the fiscal crisis began in 1975, the City has taken many steps to insure that all its expenses fall within its means. These steps to our continuing fiscal recovery often were painful; they were made through the cooperation and sacrifice of virtually every sector of our City’s life. In many cases, these accomplishments were gained at the expense of customary municipal services, employment benefits -- and employment itself -- and urban amenities previously taken for granted. Yet the City of New York, determined to set its house in order, has taken these steps and will continue to take those steps necessary to carry forward our fiscal recovery.

In closing, I would like to make three observations and a promise.

Firstly, I cannot say with certainty that the City faces imminent bankruptcy if Federal financing assistance is not available. Obviously, however, the possibility exists. To me the consequences -- for the City, the State, the Federal government, the public credit markets and the foreign exchange markets -- are so great that I cannot conceive that responsible government leaders would even consider taking that risk.

Secondly, I want to say that I agree with the Secretary of the Treasury that over the long run the cost to the Federal Government of not helping the City will be greater than the cost of helping. If the City does not rehabilitate itself, it will decay and slowly die, becoming a ward of the State and the Federal governments. In these circumstances, denying the City’s request for financing assistance today will prove costly tomorrow. It is being penny-wise, pound-foolish on an incredible scale. On the other hand, a Federal guarantee can be as financially rewarding for the Federal government as the seasonal loan program has been because we have offered to pay a guarantee fee -- an insurance premium if you like -- on the principal amount guaranteed. This Committee, like the Secretary of the Treasury, has already noted New York’s creditworthiness in reporting that “The City has an impeccable record of repaying its seasonal loans (and) has made tremendous strides toward putting its financial house in order in the past three years.” This, I submit, is a strong argument why the cost of the guarantee program to the Federal government will be small

and the rewards -- rehabilitation of the nation’s largest City -- great, so that such a program seems clearly within the national interest.

Thirdly, I want you to know that we are not looking for a handout. We are not asking for welfare. Rather we ask you to allow us to help ourselves. We are looking for a self-help program that will enable the City to achieve long-term viability.

Finally, so long as I am Mayor of the City of New York, the City will make every effort to see that the dollars it spends are spent well. Our citizens are tired of fiscal waste and high taxes. They are also tired of the abuses that have too long afflicted certain social programs. For these reasons, I pledge to you that my Administration will work night and day to see that the trust which you place in us is not betrayed.

Thank you.

# # #
An Act to authorize the Secretary of the Treasury to provide financial assistance for the city of New York.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

Section 1. This Act // 31 USC 1521 // may be cited as the "New York City Loan Guarantee Act of 1978".

TITLE I--LOAN GUARANTEES
DEFINITIONS

Sec. 101. For the purpose of this title, the term--,

(1) "city" means the city of New York;

(2) "State" means the State of New York;

(3) "Secretary" means the Secretary of the Treasury;

(4) "independent fiscal monitor" means an agency, board, or other entity authorized by the law of the State which has the authority to control the fiscal affairs of the city during the entire period for which assistance under this title will be outstanding and which authority the State has covenanted will not be substantially impaired during such period;

(5) "financing agent" means any agency or instrumentality of the State duly authorized by the law of the State to act on behalf of or in the interest of the city, and no other subdivision of the State, with respect to the city's financial affairs;

(6) "city indebtedness" means indebtedness for borrowed money of (A) a financing agent, but only if the proceeds thereof are advanced to or applied for the benefit of the city, or (B) the city; and
(7) "fiscal year" means a fiscal year of the city, except in section 111.

GUARANTEE AUTHORITY
Sec. 102. (a) Upon the written request of the city and the Governor of the State, the Secretary may guarantee the payment, in whole or in part, of interest, principal, or both, of city indebtedness in accordance with this title, but any such guarantee shall cease to be effective not later than fifteen years after the date of the issuance of the city indebtedness involved.

(b) A guarantee under this title is effective only with respect to city indebtedness which is issued or is to be issued to employee pension funds of the city or of the State, or of any agency of the city or of the State, and shall terminate whenever such indebtedness is sold or otherwise disposed of by such a fund (other than to a successor in interest not involving a change in beneficial ownership).

(c) Whenever the payment of principal and interest on city indebtedness is guaranteed under this title, the Secretary shall assess and collect from the issuer, no less frequently than annually, a guarantee fee computed daily at a rate of no less than one-half of 1 per centum per annum on the outstanding principal amount of city indebtedness guaranteed hereunder. All funds received by the Secretary in payment of such fees shall be paid into the general fund of the Treasury. The Secretary may periodically escalate the guarantee fee to induce the obligor to enter the public credit markets.

CONDITIONS OF ELIGIBILITY
Sec. 103. The Secretary may make guarantees under this title only if--,

(1) there is a reasonable prospect of repayment of the city indebtedness to be guaranteed in accordance with its terms and conditions;

(2) the Secretary determines that the city is effectively unable to obtain credit in the public credit markets or elsewhere in amounts and terms sufficient to meet the city's financing needs;

(3) the interest rate on such city indebtedness is reasonable, taking into consideration current average market yields for other obligations guaranteed by the United States;

(4) during the four-year period ending June 30, 1982, the long-term and seasonal borrowing needs of the city (other than borrowing assisted or to be assisted under this title) will be met through commitments from the State, an agency of the State, private sources, or through public credit markets, in amounts which will be sufficient to enable the city, when the guarantee authority conferred by this title has terminated, to meet all of its long-term and seasonal borrowing needs through the public credit markets, and for the purpose of making such determination, the Secretary may assume that all other conditions under this section are and will be fulfilled;

(5) (A) The independent fiscal monitor is requiring the city to adopt and adhere to budgets covering all expenditures other than capital items, the results of which would not, for fiscal years of the city beginning after June 30, 1981, show a deficit when reported in accordance with generally accepted accounting principles and, for fiscal years of the city beginning on or prior thereto but after June 30, 1978, to make substantial progress toward that goal, and for each fiscal year of the city beginning prior to June 30, 1981, but after June 30, 1978, is requiring the city to adopt and adhere to budgets covering all expenditures other than capital items, the results of which would not show a deficit when reported in accordance with accounting principles established under State law;

(B) the city has submitted to the Secretary, with the approval of the independent fiscal monitor, in such detail and in accordance with such accounting principles as the Secretary may prescribe, a plan for bringing all of its expenditures other than capital items into balance with its revenues for each of the first three full fiscal years of the
city beginning after June 30, 1978, and the city agrees to publish, after the completion of each fiscal year covered by the plan, an analysis reconciling its actual revenues and expenditures with projected revenues and expenditures, and to publish periodic projections which reflect the impact of the plan on tax rates; and

(C) the city submits, with the approval of the independent fiscal monitor, in such detail as the Secretary may prescribe and in accordance with generally accepted accounting principles, a plan for bringing all of its expenditures other than capital items into balance with its revenues no later than the final fiscal year of the four year period which begins with the fiscal year beginning July 1, 1978, and the city is required, on or before the first day of each fiscal year thereafter during which city indebtedness guaranteed under this title is outstanding, to have prepared and submit a plan covering the four year period beginning with such fiscal year which will result in budgets which would not show a deficit when reported in accordance with accounting principles set forth in subparagraph (A);

(6) the independent fiscal monitor demonstrates to the satisfaction of the Secretary that it has the authority to control the fiscal affairs of the city for the entire period during which assistance under this title will be outstanding;

(7) the city has agreed--,

(A) to obtain and submit to the Secretary, as soon as practicable after the close of each fiscal year of the city during which the Secretary may make guarantees under this title or during which any city indebtedness guaranteed hereunder is outstanding, an opinion of independent public accountants setting forth the results of an audit by such accountants of the financial statements of the city for such fiscal year, which opinion shall describe any deviation in the preparation of such financial statements from generally accepted accounting principles applicable to governmental bodies and shall state that the audit of such financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary under the circumstances; and

(B) to establish an audit committee which shall assist in the determination of areas of inquiry for, review the progress of, and evaluate the results of, audits to be conducted by such independent public accountants, and which shall consist of the mayor of the city, the comptroller of the city, the president of the city council, two individuals with expertise in municipal finance, and two officers or employees of two different firms of independent public accountants which are not engaged either by the city or by the comptroller of the city, such individuals and such officers or employees of such firms to be selected by the independent fiscal monitor;

(8) (A) in the case of guarantees issued after June 30, 1979, the State has furnished the Secretary satisfactory assurances that the amount of financial assistance to be provided by the State to the city during the fiscal year in which such guarantee is to be issued will not be less than the amount of such assistance which was provided during the fiscal year ending June 30, 1979, except during any fiscal year for which the city has presented a budget which the Secretary has determined is balanced in accordance with generally accepted accounting principles; and

(B) the State or an agency of the State, subject to and in accordance with applicable State law, when any guarantee hereunder is made by the Secretary, shall deposit in a fund approved by the Secretary, an amount which, together with all amounts previously so deposited in such fund, shall equal not less than 5 per centum of the principal of and of one year's interest on the then outstanding city indebtedness then guaranteed under this title, and which shall, under the direction of the Secretary, be used to pay, or to reimburse the Treasury for paying, principal and interest which the city fails to pay, the payment of which is guaranteed under this title, but in no case will the fund be used to pay or reimburse an amount in excess of 5 per centum of the principal amount of and of one year's interest on all guaranteed city indebtedness outstanding on the date of the failure;

(9) the city has agreed, in addition to other efforts undertaken by the city to increase employee productivity, to establish a productivity council (A) which shall consist of representatives of the city government and of city
employee unions, (B) which shall develop and seek to implement methods for enhancing the productivity of the city’s labor force, and (C) which shall have a representative of the independent fiscal monitor as an observer, and the independent fiscal monitor shall review and report, not less than annually, on the development and implementation of such methods, such report to be published and made available to the public, and transmitted to the Secretary;

(10) the city has agreed to offer to sell for distribution to the public its short-term notes in fiscal years 1980, 1981, and 1982 and its long-term bonds in fiscal years 1981 and 1982, unless the Secretary determines that any such offer would be inconsistent with the financial interests of the city;

(11) the city has agreed that--,

(A) following the fiscal year ending June 30, 1982, and during any fiscal year thereafter in which a guarantee under this title is outstanding, the city will pay or provide for the payment of city indebtedness than guaranteed hereunder, giving priority to city indebtedness having the longest maturity or maturities, in a principal amount not less than 15 per centum of the net proceeds of city indebtedness issued in public credit markets during such year, except that the Secretary may modify or waive such 15 per centum requirement to the extent he determines that its application (i) would substantially impair the city's ability to meet its essential capital needs, or (ii) would substantially overburden the market for long-term city indebtedness; and

(B) as soon as practicable after the Secretary determines that the city has demonstrated its ability to meet its long-term credit needs through public credit markets, the city will implement a program satisfactory to the Secretary of refunding any outstanding city indebtedness guaranteed under this title for the purpose of achieving complete repayment of such indebtedness at the earliest practicable date, taking into consideration such factors as the Secretary deems appropriate, including the effect of such refunding on the city's need to maintain the city's continued access to public credit markets for its long-term credit needs; and

(12) the city and the State are meeting their respective obligations under this section.

Any determination by the Secretary that the conditions set forth in this section have been met shall be conclusive, such determination to be evidenced by the making of such guarantee, and the validity of any guarantee so made shall be incontestable in the hands of the holder of such city indebtedness, except for fraud or material misrepresentation on the part of such holder. The Secretary is authorized to determine the manner in which such guarantees will be issued and, in addition to the terms and conditions required by this section, to require from, or agree to with, the city, a financing agent, the holders of the city indebtedness guaranteed, and any other party in interest such other terms and conditions as he may deem appropriate, including provision of security for the repayment of amounts paid pursuant to any guarantee under this title. Any such other term or condition may be modified, amended, or waived in the discretion of the Secretary.

LIMITATIONS ON GUARANTEE AUTHORITY
Sec. 104. (a)(1) The authority of the Secretary to extend guarantees under this title shall not at any time exceed $1,650,000,000 in the aggregate principal amount outstanding.

(2) During the fiscal year beginning on July 1, 1978, not to exceed $750,000,000 shall be available for the guarantee of city indebtedness--,

(A) of which not to exceed $500,000,000 shall be available for the guarantee of city indebtedness maturing more than one year after its date of issuance, and

(B) of which not to exceed $325,000,000 shall be available for the guarantee of city indebtedness maturing in one year or less after its date of issuance, but only to the extent authorized by the provisions of subsection (b).
(3) During the fiscal year beginning on July 1, 1979, not to exceed the sum of—,

(A) $250,000,000, and

(B) $750,000,000 reduced by the principal amount of city indebtedness guaranteed prior to July 1, 1979, and outstanding on the date on which the guarantees are made under this paragraph,

shall be available for the guarantee of city indebtedness maturing more than one year after its date of issuance, except that no guarantees may be made under this paragraph if prior to July 1, 1979, either the Senate or the House of Representatives agrees to a resolution stating in substance that it disapproves such guarantees.

(4) During the fiscal year beginning on July 1, 1980, not to exceed the sum of—,

(A) $325,000,000, and

(B) $1,000,000,000 reduced by the sum of (i) the principal amount of city indebtedness guaranteed under paragraphs (2)(A) and (3) and outstanding on the date on which the guarantees are made under this paragraph, and (ii) the amount, if any, covered by a resolution agreed to by the Senate or the House of Representatives pursuant to paragraph (3),

shall be available for the guarantee of city indebtedness maturing more than one year after its date of issuance, except that no guarantees may be made under this paragraph if prior to July 1, 1980, either the Senate or the House of Representatives agrees to a resolution stating in substance that it disapproves such guarantees.

(5) During the fiscal year beginning on July 1, 1981, not to exceed the sum of—,

(A) $325,000,000, if the Secretary determines, in accordance with generally accepted accounting principles, that the city has presented a balanced budget, and

(B) $1,325,000,000 reduced by the sum of (i) the principal amount of city indebtedness guaranteed under paragraphs (2)(A), (3), and (4) and outstanding on the date on which the guarantees are made under this paragraph, and (ii) the sum of the amounts, if any, covered by resolutions agreed to by the Senate or the House of Representatives pursuant to paragraphs (3) and (4),

shall be available for the guarantee of city indebtedness maturing more than one year after its date of issuance.

(b) The Secretary may guarantee the payment of principal or interest, or both, on city indebtedness issued prior to January 1, 1979, and maturing prior to July 1, 1979, but only to the extent that the Secretary determines, after taking into account any commitments the employee pension funds of the city have made with respect to the purchase of city indebtedness maturing more than one year from its issuance, that the employee pension funds of the city are not able to provide sufficient amounts of seasonal financing as required under section 103(4) of this title without being considered to have failed to meet the requirements of section 401(a) of the Internal Revenue Code of 1954 (as such requirements apply to such pension funds) or being considered to have engaged in a prohibited transaction described in section 503(b) of the Internal Revenue Code of 1954.

**REMEDIES**

Sec. 105. (a) The Secretary shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency thereof as a result of the issuance of guarantees under this title. Any sums recovered
pursuant to this section shall be paid into the general fund of the Treasury.

(b) The Secretary shall be entitled to recover from the borrower, or any other person liable therefor, the amount of any payment made pursuant to any guarantee agreement entered into under this title, and upon making any such payment, the Secretary shall be subrogated to all the rights of the recipient thereof.

(c) Notwithstanding any other provision of law, the Secretary shall provide for the withholding of any payment from the United States to the city or State which may be or may become due pursuant to any law and offset the amount of such withheld payment against any claim the Secretary may have against the city or State pursuant to this title.

(d) The remedies prescribed in this title shall be cumulative and not in limitation of or substitution for any other remedies available to the Secretary or the United States.

(e) With respect to any debt of the United States arising under this title, for the purposes of section 3466 of the Revised Statutes (31 U. S. C. 1c. 191), the term "person" includes the city and any financing agent. Notwithstanding the provisions of such section, the Secretary is authorized to waive, wholly or partially, the priority for the United States established thereunder with respect to any indebtedness of the city or the financing agent issued after the effective date of this title (other than any indebtedness the proceeds of which are applied to the repayment prior to the stated maturity thereof of indebtedness outstanding on or before the effective date of this title to the lender of such proceeds) if, in his judgment such waiver is necessary to facilitate the ability of the city to meet its financing needs. No waiver under the preceding sentence shall by its terms subordinate the claims of the United States to those of any creditor of the city or any financing agent.

(f) The Secretary may bring a civil action in any United States district court or any other appropriate court to enforce compliance with the provisions of this title, any agreement related thereto, or any provision of State law related thereto, by the city, the State, the financing agent, the independent fiscal monitor, or any official of any of the foregoing, or any other party to any such agreement, and such court shall have jurisdiction to enforce such compliance and enter such orders as may be appropriate.

INSPECTION OF DOCUMENTS
Sec. 106. At any time a request for a guarantee is pending or indebtedness guaranteed under this title is outstanding, the Secretary is authorized to inspect and copy all accounts, books, records, memorandums, correspondence, and other documents of the city or any financing agent relating to the city's financial affairs.

GENERAL ACCOUNTING OFFICE AUDITS
Sec. 107. The General Accounting Office is authorized to make such audits as may be deemed appropriate by the Comptroller General of all accounts, books, records, and transactions of the city and any financing agent. No guarantee may be made under this title unless and until the city and any financing agent agree, in writing, to allow the General Accounting Office to make such audits. The General Accounting Office shall report the results of any such audit to the Congress.

REPORTS TO CONGRESS
Sec. 108. Within three months after the date of enactment of this title, and at six-month intervals until June 30, 1982, and thereafter at twelve-month intervals, the Secretary shall transmit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives a report containing a detailed statement of his activities under this title.

SEVERABILITY
Sec. 109. If any provision of this title is held to be invalid, or the application of such provision to any person or
circumstance, is held to be invalid by a court of competent jurisdiction, the remainder of this title, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

TERMINATION
Sec. 110. The authority of the Secretary to make guarantees under this title terminates on June 30, 1982. Such termination does not affect the carrying out of any contract, guarantee, or other obligation entered into pursuant to this title, or the taking of any action necessary to preserve or protect the interests of the United States arising hereunder, except that no commitment to guarantee the payment of principal or interest on city indebtedness under this title shall be effective after such date.

AUTHORIZATION
Sec. 111. (a) There are authorized to be appropriated beginning October 1, 1978, and to remain available without fiscal year limitation, such sums as may be necessary to carry out this title.

(b) Any other provision of this title to the contrary notwithstanding, the authority of the Secretary to make any guarantee under this title shall be limited to such extent or amounts as are provided in advance in appropriation Acts.

TITLE II--AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1954
Sec. 201. TAXABILITY OF CERTAIN FEDERALLY GUARANTEED Obligations

(a) Certain Federally Guaranteed Obligations.--Section 103 of the Internal Revenue Code of 1954 // 26 USC 103 // (relating to interest on certain governmental obligations) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) Certain Federally Guaranteed Obligations.--Any obligation the payment of interest or principal (or both) of which is guaranteed in whole or in part under title I of the New York City Loan Guarantee Act of 1978 shall, with respect to interest accrued during the period for which such guarantee is in effect, be treated as an obligation not described in subsection (a)."

(b) Obligations May Not Be Acquired by Federal Financing Bank.-- Nothing in any provision of law shall be construed to authorize the Federal Financing Bank to acquire any obligation the payment of interest or principal of which has at any time been guaranteed in whole or in part under title I of the New York City Loan Guarantee Act of 1978.

(c) Effective Date.--The amendments made by subsection (a) // 26 USC 103 // shall apply to taxable years ending after the date of the enactment of this Act.

LEGISLATIVE HISTORY: HOUSE REPORTS: No. 95--1129, Pt. 1 (Comm. on Banking, Finance and Urban Affairs), and Pt. 2 (Comm. on Ways and Means); and No. 95--1369 (Comm. of Conference).

SENATE REPORT No. 95--952 (Comm. on Banking, Housing, and Urban Affairs).

June 6--8, considered and passed House.
June 29, considered and passed Senate, amended.
July 25, House agreed to conference report.

July 27, Senate agreed to conference report.


Approved August 8, 1978.

PL 95-339, 1978 HR 12426

END OF DOCUMENT
New York City—Municipal Assistance Corporation

CHAPTER 201

An Act to amend the public authorities law, in relation to the issuance of obligations by the municipal assistance corporation for the city of New York, in relation to the amount of short-term obligations that may be issued by the city of New York and obligations that may be issued by such municipal assistance corporation, in relation to the purposes for which such municipal assistance corporation may pay moneys to the city of New York, in relation to the obligations of such city which may be acquired by such municipal assistance corporation and in relation to indemnification; to amend chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York state financial emergency act for the city of New York and assistance to certain municipalities during periods of financial emergency, in relation to legislative findings and statement of purposes; to amend the New York state financial emergency act for the city of New York, in relation to the financial assistance required by the city of New York during an emergency period and repealing subdivisions fourteen and fifteen of section two and section twelve of such act relating thereto; to amend the local finance law, in relation to the sale of municipal obligations by or on behalf of the city of New York; and to enable such city to refund or exchange certain indebtedness; to amend the state finance law, in relation to authorization of the advancement of payment of state moneys; and to amend the public authorities law, in relation to making certain technical and conforming changes necessitated for certain administrative functions of the municipal assistance corporation for the city of New York and such city and repealing paragraph (h) of subdivision five of section three thousand thirty-eight of such law relating thereto.

Approved June 2, 1978, effective as provided in section 44.

Passed on message of necessity. See Const. art. IX, § 2(b)(2), and McKinney's Legislative Law § 44.

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

Section 1. Subdivision two of section three thousand thirty-three of the public authorities law, as amended by chapter four hundred fifty-six of the laws of nineteen hundred seventy-seven, is hereby amended to read as follows:

2. Subject to the provisions of any contract with noteholders or bondholders, the corporation shall not issue bonds and notes in an aggregate principal amount exceeding five billion eight hundred million dollars, excluding (i) bonds and notes issued to refund outstanding bonds and notes and (ii) notes issued for the purpose described in subparagraph (d) of section three thousand thirty-seven of this article.

§ 2. Section three thousand thirty-three of such law is hereby amended by adding a new subdivision two-a to read as follows:

2-a. In addition to the authority provided in subdivision two of this section, the corporation may, until June thirtieth, nineteen hundred seventy-eight, issue notes in an aggregate principal amount which the mayor certifies to the corporation is required by the city to provide, without interruption, services essential to its inhabitants while meeting its obligations by expropriation...
tion shall be entitled to representation by private counsel of his choice in any civil judicial proceeding whenever the attorney general determines based upon his investigation and review of the facts and circumstances of the case that representation by the attorney general would be inappropriate. The attorney general shall notify the individual in writing of such determination that the individual is entitled to be represented by private counsel. The attorney general may require, as a condition to payment of the fees and expenses of such representation, that appropriate groups of such individuals be represented by the same counsel. If the individual or group of individuals is entitled to representation by private counsel under the provisions of this section, the attorney general shall so certify to the comptroller. Reasonable attorney's fees and litigation expenses shall be paid by the state to such private counsel from time to time during the pendency of the civil action or proceeding and subject to certification that the individual is entitled to representation under the terms and conditions of this section by the chairman of the board of directors of the corporation upon the audit and warrant of the comptroller. The provisions of this subdivision shall be in addition to and shall not supplant any indemnification or other benefits hereof or hereafter conferred upon directors, officers or employees of and representatives to the corporation by section seventeen of the public officers law, by action of the corporation, or otherwise. The provisions of this subdivision shall inure only to directors, officers and employees of and representatives to the corporation, shall not enlarge or diminish the rights of any other party, and shall not impair, limit or modify the rights and obligations of any insurer under any policy of insurance.

§ 10. Chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York state financial emergency act for the city of New York and assistance to certain municipalities during periods of financial emergency, is hereby amended by adding a new section one-a to read as follows:

§ 1-a. Legislative findings and statement of purposes
It is hereby found and declared that a financial emergency and an emergency period continues to exist in the city of New York. Since a financial emergency and an emergency period were first declared to exist in the city of New York by chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five the city has been unable to regain access to the public credit markets. The city without the receipt of federal guarantees of its obligations, or the obligations of a state financing agency which is authorized to assist the city, additional long-term financing, continued federal seasonal financing, which terminates on June thirty-first, nineteen hundred seventy-eight pursuant to the New York city seasonal financing act of 1975, or other seasonal financing is unable to obtain the funds needed by the city to continue to provide essential services to its inhabitants or to meet its obligations to the holders of outstanding securities. Unless such funds are obtained the city will soon (i) fail to pay salaries and wages to employees and amounts owed vendors and suppliers to the city, (ii) fail to pay amounts due to persons receiving assistance from the city, (iii) default on the interest delusions by strikoutas
and principal payments due to holders of outstanding obligations of the city and (iv) fail to make payments to other governmental agencies which rely upon the receipt of such revenues from the city to maintain their operations.

If such failures and defaults were to occur, the effect on the city and its inhabitants would be devastating: (i) unpaid employees might refuse to work; (ii) unpaid vendors and suppliers might refuse to sell their goods and render services to the city; (iii) unpaid recipients of public assistance would be unable to provide themselves with the basic necessities of life; and (iv) unpaid holders of city obligations would seek judicial enforcement of their legal rights as to city revenues. These events would effectively force the city to stop operating as a viable governmental entity, and create a clear and present danger to the health, safety and welfare of its inhabitants.

The difficulties of finding solutions to such events are compounded by the likelihood that the city, as well as the municipal assistance corporation for the city of New York, would be foreclosed indefinitely from obtaining funds in the public markets sufficient to meet the city's requirements. The elimination of the public markets as well as federal financing as a source of funds would leave the city with no foreseeable way to pay its outstanding indebtedness. Thus, the city might be unable for an extended period to cure defaults on its outstanding obligations and that event could almost permanently destroy the fiber of the city. The status of the city as the financial capital of the nation, and the world, and as the headquarters of American and international commerce would be severely shaken. Just as significantly, the exodus from the city of corporate and individual taxpayers would increase, thereby having the effect of imposing a greater burden on the remaining taxpayers.

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

A failure by the city to meet its obligations would also affect the state's own ability to raise funds in the public markets. Defaults by the city would adversely affect the ability of all public issuers within the state to market securities to meet their cash requirements. To the extent the state and other public issuers within the state would be able to market their securities at all, the interest rates would significantly exceed those which otherwise would be paid. This effect has already been clearly demonstrated since the urban development corporation defaulted on its obligations in February nineteen hundred seventy-
five. Notwithstanding that such default was soon cured as the result of state action, other public authorities were unable to market their securities or were required to pay much higher interest rates for a considerable period thereafter and numerous municipalities, school districts, and sewer districts throughout the state were similarly affected.

This situation continues to create a state of emergency. To end this disaster, to bring the emergency under control, to restore investor confidence in the city's obligations, to meet the requirements for a federal guarantee of its obligations or those of a state financing agency, and to respond to the overriding state concern described above, the state must continue to undertake an extraordinary exercise of its police and emergency powers under the state constitution, and exercise controls and supervision over the financial affairs of the city of New York, but in a manner intended to preserve the ability of city officials to determine programs and expenditure priorities within available financial resources.

Since a financial emergency and an emergency period were first declared to exist in the city of New York in nineteen hundred seventy-five, the city has taken the following steps toward recovery: (i) its workforce has been reduced by sixty-one thousand employees which is over twenty per centum of the level of its workforce in nineteen hundred seventy-five; (ii) welfare recipients have been reduced from a high of one million two hundred sixty-five thousand three hundred in nineteen hundred seventy-two to nine hundred thirty-one thousand six hundred; (iii) tuition fees have been imposed at City University; (iv) the subway fare has been increased by forty per centum; (v) nineteen fire companies have been closed and funding for seventy-seven day care centers has been eliminated; (vi) a demonstration program of "absence control" in four city agencies yielded an overall reduction of thirty-three per centum in absences, and the program has now been expanded to all city agencies; (vii) fringe benefits to city employees have been reduced by forty-one million dollars; (viii) the city's deficit has been reduced by one billion dollars on the basis of generally accepted accounting principles; and (ix) accounting practices have been reformed and a new financial management and control system has been installed.

Despite these steps toward recovery, the city has been unable to regain access to the public credit markets. Two principal impediments to the city's access to these markets are (1) the inability of the city to balance its budget in accordance with generally accepted accounting principles and (2) the city's large annual financing requirements which are presently three billion dollars for both seasonal and long term purposes, an amount which is more than the market can reasonably be expected to absorb. The city has developed a four year financial plan covering fiscal years ending June thirty, nineteen hundred seventy-nine through June thirty, nineteen hundred eighty-two to remove these impediments. The plan calls for a balanced budget in accordance with generally accepted accounting principles by the end of the fiscal year beginning July first, nineteen hundred eighty-one and the elimination of more than one-half of the city's present annual financing needs. The plan also mandates the removal of operating expenses from the city's capital budget.
by July first, nineteen hundred eighty-one and commits funds to improve and to prevent further decay to its physical plant so as to provide essential governmental services to support the city's economy and to stimulate its economic development.

To accomplish these goals the city will require long-term financing which it hopes to obtain in part from the guarantee by the federal government of the principal of and interest on its bonds or the bonds of a state financing agency which is authorized to assist the city. Leaders of the United States Senate and the House of Representatives have advised the city that the United States Congress will not authorize federal financial assistance in the form of federal guarantees of city obligations unless the state covenants that it will not repeal, invalidate or otherwise substantially impair the authority of the board to control the fiscal affairs of the city during the entire period for which federal assistance will be outstanding. Bill number H.R. 12426 requires this agreement on the part of the state as a condition for the federal guarantee of obligations of the city or a state financing agent, as defined in bill number H.R. 12426. The plan also proposes the continuation through June thirty, nineteen hundred eighty-two of federal seasonal loan financing which will otherwise terminate on June thirty, nineteen hundred seventy-eight.

The financial program embodied in this act provides the necessary statutory changes to permit the financial assistance required by the city at this time, including the receipt of federal guarantees on its bonds or obligations of a state financing agency, restoration of investor confidence in its long-term obligations, and the investment of a portion of the funds of the state and city retirement systems in obligations of the city of New York and of the municipal assistance corporation for the city of New York and provides for (i) the continued existence of a state board with some city representation to review, control and supervise the financial management of the city, (ii) the adoption, with the approval of such board, of four-year financial plans that will provide the basis for a return of the city to sound financial condition, (iii) review, control and supervision by such board of the disbursement of city funds, under which debt service requirements will be met as a first priority, (iv) review, control and supervision of city operations by such board to assure that sound management practices are observed or restored and that operations are conducted in accordance with the plan and, (v) review by such board of contracts and the terms of each city long-term and short-term borrowing.

In addition, the act provides that the city must provide for a general reserve fund and debt service funds and accounts to further assure investors that it will meet its debt service requirements. Restrictions are placed upon the issuance and renewal of short-term obligations by the city.

The provisions of the act are proper, reasonable and appropriate means by which the state can and should exercise its duty under section twelve of article eight of the constitution to prevent abuses by the city
in taxation and in the contracting of indebtedness and that the provisions hereof are necessary and in the public interest and a proper means to improve market reception for the purchase of bonds and other obligations of the city.

This legislative program is intended to accomplish the objectives described above and thereby to insure the continuity of governmental operations in the city and to provide the means by which the present emergency can in time be overcome, the city restored to financial health and this intervention by the state brought to an end.

§ 11. Subdivision five of section two of section two of chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five constituting the New York State Financial Emergency Act for the city of New York, as amended by chapter eight hundred seventy of the laws of nineteen hundred seventy-five, is hereby amended to read as follows:

5. "Covered organization" means any governmental agency, public authority or public benefit corporation which receives or may receive money directly, indirectly or contingently, (other than monies received for the sale of goods or the rendering of services or the loan of monies to the city) from the city, and in any event includes, without limitation, the board of education of the city of New York, the board of higher education of the city of New York, the health and hospitals corporation, the New York city transit authority, the New York city housing authority, the New York city housing development corporation, city university construction fund, Battery park city authority, New York city convention and exhibition center corporation, Manhattan and Bronx surface transit operating authority, Staten Island rapid transit operating authority, the New York city sports authority and the Brooklyn sports center authority but shall not include (i) any governmental agency, public authority or public benefit corporation specifically exempted from the provisions of this act by order of the board upon a finding by the board that such exemption does not materially affect the ability of the city to adopt and maintain an expense budget pursuant to the provisions of this act and provided that at the time of such exemption there shall have been and during the period of such exemption there shall be an annual audit by a nationally recognized independent certified public accounting firm or consortium of firms, one of which shall be a nationally recognized firm, of the covered organization's financial statements performed in accordance with generally accepted auditing standards and report by such auditor thereon which includes an opinion that the financial statements so audited have been prepared in accordance with generally accepted accounting principles as the same may be modified by the board pursuant to subdivision two of section eight and such other information as such auditors deem appropriate, (ii) any state public authority as defined in section two hundred one of the civil service law, unless specifically named above, or (iii) any governmental agency, authority, commission or instrumentality created by compact or agreement between the state of New York and another state or states; provided, however, that the board may terminate any exemption granted by order of the board pursuant to this subdivision.

§ 12. Subdivision twelve of section two of such act is hereby amended to read as follows:

12. "Emergency period" means the period of time from the effective date of this act until the date when the board determines that the expenditures by strikers.
Ch. 201 LAWS OF NEW YORK

seventy-five, notwithstanding the expiration of such agreement, with such modifications to the form and content of such reports as the city shall propose and the board shall approve. Each quarterly report herein required to be submitted to the board must indicate any variance between actual and budgeted revenues, expenses or cash for such quarter.

§ 23. Section seven of such act is hereby amended by adding thereto four new subdivisions three, four, five and six to read as follows:

3. (a) Notwithstanding any provision of the New York City Collective Bargaining Law, codified as chapter fifty-four of the New York city administrative code, or any general or special law to the contrary, any report or recommendation of an impasse panel constituted pursuant to such chapter which provides for an increase in wages or fringe benefits of any employee of the city or covered organization, in addition to considering any standard or factor required to be considered by applicable law, including the standards enumerated in section 1173-7.0(c) (3)(b) of such chapter, shall also take into consideration and accord substantial weight to the financial ability of the city and or covered organization to pay the cost of such increase in wages or fringe benefits.

(b) The board of collective bargaining constituted pursuant to such chapter, when reviewing such report or recommendation before proceeding to other issues, shall make a threshold determination as to whether such report or recommendation for an increase in wages or fringe benefits is within the city and or covered organization’s financial ability to pay. If the threshold determination is in the negative, the matter shall be remitted to the impasse panel for further consideration. If the threshold determination is in the affirmative, the further review of the report or recommendation with respect to other issues, if any, shall proceed as provided by law. Unless the parties stipulate otherwise, the threshold determination shall be made within thirty days after submission of the report or recommendation to the board of collective bargaining.

(e) Any determination pursuant to article eight of the labor law 1 or any agreement or stipulation entered into in lien thereof which provides for an increase in wages or fringe benefits of any employee of the city or covered organization shall, in addition to considering any standard or factor required to be considered by applicable law, also take into consideration and accord substantial weight to the financial ability of the city and or covered organization to pay the cost of such increase.

408 Changes or additions to text are indicated by underline
(e) Any party to a proceeding before the board of collective bargaining as described in paragraph (b) or other body as described in paragraphs (c) or (d) hereof may commence a special proceeding in the appellate division, first department, supreme court, state of New York, to review the threshold determination as to the city and or covered organization's financial ability to pay. Such proceeding shall be commenced not later than thirty days after the final determination has been made by the board of collective bargaining in the case of paragraph (b) or other body in the case of paragraphs (c) or (d). Such proceeding shall have preference over all other causes in such appellate division, other than causes relating to the election law.

(f) The court shall make a de novo review of the record solely for the purpose of determining whether an award of an increase in wages or fringe benefits was within the city and or covered organization's financial ability to pay. The court's findings as to such issue shall be based upon a preponderance of all the evidence set forth in the record. Unless the parties stipulate otherwise, arguments or submission shall be had within fifteen days after commencement of the special proceeding and the court shall render its decision within fifteen days thereafter. All questions, other than the question relating to the threshold determination, shall be reviewed by the appellate division in the same proceeding in the manner provided by articles seventy-five or seventy-eight of the civil practice law and rules as may be appropriate, notwithstanding that the issue would otherwise have been cognizable in the first instance before a special or trial term of the supreme court. If an appeal shall otherwise lie from such determination of the appellate division to the court of appeals, notice of such appeal shall be filed within thirty days after the entry of the final order or judgment of the appellate division if such appeal is of right or within ten days after entry of an order granting leave to appeal and such appeal shall have preference over all other appeals other than appeals relating to the election law.

(g) At any stage of any proceeding under paragraphs (a), (b), (c), (d) and (e) hereof or any appeal from an order or judgment therefrom, the board may intervene as a party on the issue of the financial ability of the city and or covered organization to pay the cost of an increase in wages or fringe benefits.

(h) For the purposes of this subdivision, financial ability to pay shall mean the financial ability of the city and or covered organization to pay the cost of any increase in wages or fringe benefits without requiring an increase in the level of city taxes existing at the time of the commencement of a proceeding under paragraph (a), (c) or (d) hereof.

(i) The provisions of this subdivision shall terminate on December thirty-first, nineteen hundred eighty-two.

4. During an emergency period the city shall not enter any agreement or other arrangement, whether or not debt of the city, pursuant to which the revenues or credit of the city may be directly or indirectly pledged, encumbered, committed or promised, contingently or otherwise,
Ch. 201  LAWS OF NEW YORK

for the payment of obligations of a public benefit corporation except
upon approval by the board in accordance with the provisions of para-
graph a of subdivision one of this section. Nothing in this subdivision
shall limit the right of the city to comply with the provisions of any
existing agreement or other arrangement in respect of the obligations of
a public benefit corporation.

5. The board may employ such consultants as it may deem necessary
to assist it in performing its functions required under this act.

6. The board shall have the authority to make and execute agreements
and all other instruments which the board deems necessary for the ex-
cercise of its powers and functions under the act.

§ 24. Such act is hereby amended by adding a new section seven-a,
to read as follows:

§ 7-a. Reports of the city. 1. The city shall take such action as
may be necessary to enable a nationally recognized independent certi-
fied public accounting firm or consortium of firms, one of which at
least is a nationally recognized independent certified public accounting
firm, to perform an annual audit in accordance with generally accep-
ting auditing standards and to furnish to the board the report on such
audit prepared by such firm or consortium of firms, which report
shall include an opinion as to whether the city's financial statements
have been prepared in accordance with generally accepted accounting
principles as the application of same may be modified by the board
pursuant to subdivision two-a of section eight of this act. The city
shall make available for inspection and copying all books, records, work
papers and other data and material as required by such auditors, and
the city shall make its officers and employees available to, and shall
cooperate with such auditors so as to permit such annual audit to be com-
pleted and the report issued to the city and to the board within one
hundred twenty days after the close of the city's fiscal year.

§ 25. Subdivision one of section eight of such act, the opening para-
graph and the second undesignated paragraph thereof as amended by
chapter eight hundred seventy of the laws of nineteen hundred seventy-
five, is hereby amended to read as follows:

1. Pursuant to the procedures contained in subdivision three of this
section, the board, in conjunction with each year the city shall develop,
and may from time to time amend modify, with the approval of the
board during an emergency period, a four year financial plan for cov-
erg the city and the covered organizations with respect to the fiscal
years of the city ending June thirtieth, nineteen hundred seventy-six,
June thirtieth, nineteen hundred seventy-seven and June thirtieth, nine-
teen hundred seventy-eight. The board may from time to time extend
the period to be covered by the financial plan through the end of any
fiscal year of the city in which the emergency period terminates.

The each such financial plan and financial plan modification shall
conform to comply with the requirements of subdivision four of this
section and shall constitute a program by which the city will achieve
the following objectives, except as otherwise provided pursuant to sub-
division two-a of this section, conform to the following standards:

a. For fiscal year ending June thirtieth, nineteen hundred seventy-
eight eighty-two, and for each fiscal year thereafter, the city's

Changes or additions in text are indicated by underline
MEMORANDUM OF LAW IN SUPPORT
OF CLAIMANT'S POSITION THAT
ASSEMBLY BILL NO. 13025 AS
ENACTED IS VIOLATIVE OF THE
NEW YORK STATE CONSTITUTION

TABLE OF CONTENTS

INTRODUCTION

POINT I
ASSEMBLY BILL NO. 13025 CONSTITUTIONAL.

POINT II
THE EQUITABLE RIGHTS AND PRIVILEGES CONFERRED BY THE
EQUAL PROTECTION CLAUSE OF THE NEW YORK STATE
CONSTITUTION SINCE AS ITS LOGICAL RESULT
THE ENACTED POSITION OF THE NEW YORK CITY
PATROLMON'S BENEVOLENT ASSOCIATION MAY BE
REMEMBERED A HUDDLE.

POINT III
BY PLACING THE NEW YORK CITY PATROLMON'S
BENEVOLENT ASSOCIATION IN A DIFFERENT POSITION
THAN THAT OF ANY OTHER POLICE ORGANIZATION
THROUGHOUT THE STATE OF NEW YORK. ASSEMBLY
BILL NUMBER 13025, SECTION 23, SUBDIVISION 3(b)
VIOLATES THE SPIRIT, LETTER AND INSTANT OF THE EQUAL
PROTECTION CLAUSE OF THE NEW YORK STATE CONSTITUTION.

POINT IV
ASSEMBLY BILL NUMBER 13025, SECTION 23 UNILATERALLY
PLACES THE CHUS OF INCREASED TAXES UPON THE FOR
AN UDA BENEVOLENT ASSOCIATION IN SUCH A MANNER
AS IS THEREFORE DISCRIMINATORY AND CAPIRICIOUS.

POINT V
THE ACTION OF THE STATE LEGISLATURE IN ENACTING
ASSEMBLY BILL NUMBER 13025, IS PROCEDURALLY
DEFECTIVE AND VIOLATIVE OF THE CONSTITUTION OF
THE STATE OF NEW YORK.

CONCLUSION
INTRODUCTION

This Memorandum of Law has been prepared to more fully present and apprise the Office of the Attorney General, State of New York, with the position of the New York City Patrolmen's Benevolent Association with respect to Assembly Bill No. 13025.

It is claimant's position that the aforesaid Legislative enactment is unconstitutional for the following reasons:

1. Assembly Bill No. 13025 Unconstitutionally contravenes Article 8, Section 10(f) of the New York State Constitution.

2. The newly enacted legislation, Assembly Bill No. 13025, is violative of the Equal Protection Clause of the New York State Constitution since as its logical result the bargaining position of the New York City Patrolmen's Benevolent Association may be rendered a nullity.

3. By placing the New York City Patrolmen's Benevolent Association in a different position than that of any other similar police organization throughout the State of New York, Assembly Bill No. 13025, Section 23, Subdivision 3(a) violates the spirit, letter and intent of the Equal Protection Clause of the New York State Constitution.

4. Assembly Bill No. 13025, Section 23 unilaterally places the costs of increased taxes upon the PBA and UFA demands and is therefore discriminatory and capricious.

5. The action of the State Legislature in enacting Assembly Bill No. 13025, is procedurally defective and violative of the Constitution of the State of New York.

POINT VII

ASSEMBLY BILL NO. 13025 UNCONSTITUTIONALLY CONTRAVENES
ARTICLE 8, SECTION 10(f) OF THE NEW YORK STATE CONSTITUTION.

"It is well established that whatever is necessary to render effective any provision of a constitution whether it is a grant, restriction of prohibition, must be deemed implied and intended in the provision itself, and a statute which is opposed to the spirit, letter, and purpose of the constitution in as much within the condemnation of the organic law as through the intention to violate the constitution were written in bold characters on the face of the statute itself. (Emphasis added).


Article 8, Section 10(f) of the New York State Constitution, (Limitations as amount to be raised by real estate taxes for local purposes) expressly allocates to 'The City of New York and the counties therein,
for city and county purposes, a combined total of two and one-half per centum, of the average full valuation of taxable real estate of each city. This is to be determined by taking the assessed valuations of taxable real estate listed on the last completed tax assessment rolls and the four preceding rolls of the city and applying thereto the ratio which each assessed valuation on each roll bears to the full valuation, as determined by either the state tax commission or such other state officer or agency shall direct by law. McKinney’s Constitution, Article 8, Section 19(2); emphasis added. The foregoing language constitutes an integral portion of the Constitution of the State of New York enacted on November 9, 1949, revised on November 3, 1953, effective January 1, 1954.


Concomitantly, the courts have upheld with equal vigor the proposition that the constitution should receive a reasonable construction designed to facilitate rather than defeat its purpose. See, Association for Protection of Adirondack v. Mac Donald, 1930, 253 N.Y. 224, 170 N.E. 902; In re Bowling, 239 N.Y. 44, 113 N.E. 545, appeal dismissed 239 N.Y. 546, 113 N.E. 1062; Koster v. Greene, 1905, 184 N.Y. 494, 77 N.E. 983; In re Burns, 1896, 185 N.Y. 22, 49 N.E. 246; Rochester v. Quintard, 1892, 136 N.Y. 221, 32 N.E. 769; People v. Petrosa, 1893, 92 N.Y. 128; Matter of Gilbert & R. Co., 1877, 70 N.Y. 361; Matter of Workland, 1911, 146 App. Div. 350, 131 N.Y.S. 364; Weineman v. Sibley, 1897, 16 App. Div. 515, 44 N.Y.S. 1057; Adams v. East River Sav. Inst., 1992, 65 Hun 145, 20 N.Y.S. 12, affirmed 136 N.Y. 52, 32 N.E. 622. By construction of a constitutional provision, a meaning should not be given to words that will defeat the obvious purpose of the provision or will make it absurd, (In re Foy, 1943, 291 N.Y. 196, 52 N.E. 2d 97;) and further, the judicial rule of reasonable construction may not be utilized to contravene defeat or restrict the literal meaning of clear and unambiguous constitutional

To recapitulate, a litany of judicial decisions have held that clear and unambiguous constitutional language mandates a strict interpretation of intent as found within that constitutional provision itself (See, Judd v. Board of Education of Union Free School Dist. No. 2, Town of Hempstead, Nassau County, 1939, 278 N.Y. 209, 15 N.E. 2d 576, reargument denied 278 N.Y. 712, 17 N.E. 2d 130); and that the courts may not by construction extend the plain meaning of a constitutional provision. McKinney's Supra, at p. 6; See, In re Becker, 1916, 221 N.Y. 681, 217 N.E. 610; Franklin National Bank of Long Island v. Clark, 1961, 26 Misc. 2d 724, 212 N.Y.S. 2d 942, motion denied 31 Misc. 2d 189, 217 N.Y.S. 2d 615). Further, it is a cardinal judicial principal that written constitutions are to be accorded uniform and unvarying interpretation by the courts which should not consider the argument of convenience; or bend the constitution to "suit the law of the hour." McKinney's, Supra, at p. 6; Seab, Breese v. City of New York, 213 App. Div. 206, 211 N.Y.S.


For the tax year ending June 30, 1978, New York City real estate tax valuation was at 2.37 percent of its legal operating limit. The proposed tax rate as proposed by Mayor Koch for fiscal 1979 is at approximately 2.25 percent. Assuming arguendo, the City wished to tax at 2.5 percent by granting a reasonable pay increase to police officers, pursuant to Subdivision 3(h) of Section 23 of Assembly Bill No. 13025 the City is by General Legislature enactment now precluded from asserting its constitutionally guaranteed permissive to tax at 2.5 percent.

Similarly, the recently enacted legislation circumscrines the traditional parameters accorded an impact panel should it wish, after careful and due deliberation, to award police officers a pay raise in excess of the city's position taken before the selfsame panel.

It is clear, then, that Section 23, Subdivision 3(h) of Assembly Bill No. 13025 contravenes the manifest letter, spirit and intention of the New York State Constitution which clearly and unambiguously places a 2.5 percent limitation upon the legal operating limit of New York City. As the courts have repeatedly held:

"The government was established by the people for their own protection and welfare and to protect individual industry and enterprise, and the constitution should be construed with reference to that
purpose... (and) 'the language of the constitution cannot be extended beyond the scope of its terms because the enlarged construction would be desirable or convenient.'

McKinney's, supra, at pp. 7-8; see People v. Dayton, 1874, 55 N.Y. 367. See also, People v. Rathbone, 1885, 145 N.Y. 434, 40 N.E. 395, 28 L.R.A. 184; Settle v. Van Euren, 1872, 49 N.Y. 205; Parish v. Rogers, 1897, 13 App. Div. 279, 46 N.Y.S. 1058; Countryside v. Martin, 1880, 21 N.Y. 17.

POINT II

THE HEARILY ENACTED LEGISLATION, ASSEMBLY BILL §13025, IS VIOLATIVE OF THE EQUAL PROTECTION CLAUSE OF THE NEW YORK STATE CONSTITUTION IN THE LOGICAL RESULT THE INTEGRATING POSITION OF THE NEW YORK CITY PENSIONERS' BENEFICIARY ASSOCIATION MAY BE RENDERED A SELF-MADE PERSONALITY.

Article I, Section II of the New York State Constitution states:

"No person shall be denied the equal protection of the laws of this state or of any subdivision thereof. No person shall because of race, color, creed, or religion, be subjected to any discrimination in his civil rights by any other person or by any firm, corporation, or institution, or by the state or any agency or subdivision of the state."

In determining whether a law violates equal protection, the court must look to facts and circumstances behind the law, interests claimed to be protected, and those who are disadvantaged. Sommers, Inc. v. City of New York, 1977 Misc 2d, 392 NYS2d 110.

When looking at the facts and circumstances behind Section 23 Subdivision 3(b) of Assembly Bill No. §13025, it is apparent that the law is directed against the P.B.A. The purpose behind the law is to deny the P.B.A. its lawful right to go to arbitration. The method through which the law accomplishes its purpose is by requiring all increases in wages or fringe benefits to be dependent on the financial ability of the City to pay the cost of such increases without requiring an increase in the level of city taxes existing at the time of the commencement of the collective bargaining or arbitration.

In so doing the legislature is limiting any contract gain to an amount which the city could afford under its current rate of taxation. The result of this section will be to put a chilling effect on the entire...
collective bargaining process and pervert the entire bargaining process at its essence.

It is possible through the legislation, at the time the police officers reach impasse and are awarded even the same amount granted other city employees, the award would be denied because any increase would violate Subdivision 3 of Section 23, if the tax rate was increased.

Generally speaking, the essence of right to equal protection of law is that all persons similarly situated be treated alike, and that no person or class of persons shall be denied equal protection of laws which is enjoyed by others in like circumstances. People v. Smiley, 1976, 35 Misc. 2d 702, 301 NYS 2d 732. It can be seen that the legislation as enacted would pressure the various City unions to settle on a contract for their union and thus ensure them that their contract will be accepted as being within the financial ability of the City. The unions that fail to reach a quick settlement will necessarily find themselves in an increasingly precarious situation with the passage of time as the financial ability of the City to pay the costs of the increase in wages dwindles as more and more unions consummate their negotiations with the City. When the court looks to the facts and circumstances and realizes that the coalition of city unions, which includes all the city public service unions, except the Police, the Firefighters and the Transit EBA, the legislation in question emerges as being directed at a specific target, the unions who refused to be a part of the coalition. The legislation must be declared unconstitutional since a court can scarcely condone as constitutionally permissible any formulation at law which purports on its face to have general application to a class but which in effect singles out a member of a class for separate, distinct and individual treatment. Corning v.

Arbitrate their contract.

This uniqueness adopted by the Legislature has in essence singled out a specific labor organization, to wit: the PBA, and placed unconstitutional restrictions upon it that are not "enjoyed" outside New York City.

New York State Constitution's equal protection clause will be circumvented when the New York City Police unions reach impasse and is awarded a similar raise as other unions; this award could be denied because the aforementioned section forbids the raising of any taxes to pay said award.

The case law in this area is very lengthy concerning equal protection and in the case of Tucker v. Toia, 69 Misc. 2d 116, the court held that, "The mandate of equal protection is that all persons similarly circumstanced shall be treated alike." As aforementioned the New York City PBA is the only union of many similarly situated unions that these restrictions have been placed upon. Also in People v. Bator, 75 Misc. 2d 538, 1973, the court held:

"The essence of right to equal protection under this section is that all persons be treated alike under like circumstances and conditions both in privileges conferred and in liabilities imposed."

It seems that the PBA has had liabilities imposed upon it which no other Police Department in the State can likewise bear. There seems to have been a concerted effort to pass this legislation specifically directed at the PBA which is inconsistent with the holding in People v. Acme Markers, Inc., 37 NY2d 126, 1975. There the court held that "more
unequal application of a statute fair on its face does not of itself violate this clause and only PURPOSEFUL OR INTENTIONAL DISCRIMINATION IS PROHIBITED."

In line with the above case, the Court in Sommek Inc., v.

City of New York, 392 NYS2d 810, 1977, stated that:

"In determining whether the law violates equal protection the court must look to facts and circumstances behind the law, interests claimed to be protected, and those who are disadvantaged." 

Also in light with the unequal protection that the FBA is now faced with

In Re Donahoe, 72 Misc. 2d 772, 1973, where the court held that legislation which singles out one class for special liabilities from which all others are except denies equal protection of the laws.

In light of the above case law, I feel that the legislature has, singled out the FBA, placed liabilities upon the FBA and has purposely and intentionally discriminated against the FBA based on facts and circumstances that are not part and parcel of the actual Assembly Bill No. 13029.

POINT IV

ASSEMBLY BILL NUMBER 13025, SECTION 23 UNEQUITABLY PLACES THE ONUS OF INCREASED TAXES UPON THE FBA AND UFA DEMANDS AND IS THEREFORE DISCRIMINATORY ARBITRARY AND CAPPICIOUS.

The argument used by the Legislature that the demands of the FBA and UFA would cause New York City to raise its taxes have been argued and dealt with by Mr. Justice Pachson in the Court of Appeals case, City of Amsterdam v. Holley, 37 NYS2d 420, wherein he said:

"I do not find the arbitrator's power to decide disputed demands constitutes a delegation of power to impose taxes, whether by way of invasion of local government's authority to do so or otherwise. The panels' decision no doubt may affect the cost of police and firefighters services to their local governments, but the courts or taxes for whom they work remain free to make their own decision as to how they will meet such cost, whether by taxation, cutbacks in spending or other means."

It should be accepted by all sides that a Mayor has wide discretion in selecting the services of government he wishes to emphasize, those he wants to cut back, those he wants to eliminate and those new services he wishes to introduce. Indeed his is not the final say. Again quoting the learned Justice, "An act of taxation and an act which may result in the new for taxation are two different things." (supra, 420). The fact that the FBA and UFA in contract talks ask and receive certain concessions is an act which may result in the need for taxation is the point that Justice Pachson had made.

In Board of Education v. Board of Cooperative Educational Service 1971, 325 NYS2d 593, the court held,

"It is clear as to the first contention that
Thus the legislature claim that the demand of the union requires the city to raise taxes is specious. The Mayor has a right to disburse his funds as he sees fit, to cut back where necessary and to increase where necessary, his budget is not solely contingent upon the active demands of two unions as the current thinking of the New York State Legislature would lead one to believe.

The argument against the legislature's intent goes as far back as 1855 in *Darlington v. City of New York*, 31 NY 164, 166. In 1855 private citizens property was destroyed because of mob riots, a law was passed the act of 1855, compensating parties whose property was destroyed. This in itself was not a tax, but if recovery was to be had a tax may have to become a necessity. The courts held that it is the discretion making power of the state to disseminate its funds.

Thus a line of judicial thought reaching as far as 1855 is in opposition to the present legislature's enactment which presumptively ties the necessity of any tax increase to the demands of the PBA. In 1855 the discretion to raise taxes because of another's act was in and of itself held to be written into the "Mayor's" power and legislature's power.

Thus the actions of the PBA in pursuit of the legitimate aims of its membership may act, by legislative fiat, be singled out as the immediate and proximate cause of any necessary tax increases of the City of New York.

The action of the State legislature in enacting the above mentioned bill, and more particularly, section 23 thereof, is unconstitutional, in that it requires the proclamation of an emergency message of the Governor, followed by a 2/3 vote of the State Legislature, pursuant to the provisions of the State Constitution (Article IX, section 2, subdivision b-2).

The provision of the State Constitution provides, in substance, that the State Legislature may grant additional powers to local government and specific that powers granted pursuant thereto may only be impaired or suspended by a later legislative enactment passed in two (2) successive years.

That provision further provides that the State Legislature shall also have power to act in relation to the property, affairs or government of any local government only by general law requiring majority vote of the legislature, or, by special law on an emergency message from the Governor followed by a two-thirds vote.

It is submitted that the requirements of a special law have not been met by the enactment of the law in question.

The argument may be made that such law in a general law and hence, only a majority vote of the legislature is necessary.

This argument, however, is a specious one and defies logic and common sense. Indeed, it is contrary to the very spirit and intention of the Constitution.
A "general law", as defined in Article IX, Section 3, subdivision a, paragraph 1 of the State Constitution, is one "which in terms and effect applies alike to all counties, other than those wholly within a city, all cities, all towns or all villages." (emphasis added).

A "special law" is one which applies to some but not all entities with the categories covered under the definition of a general law. Obviously, the law under consideration does not apply statewide, since in reality only the City of New York is affected. Consequently, for all intents and purposes it is a special law, thus requiring a Governor's message and concurrence of 2/3 of the Legislature in accordance with the provision of Article IX, Section 2, subdivision b of the State Constitution.

The legislature, therefore, did indirectly and by subterfuge what it could not legally do directly. The constitutional provision here should be construed narrowly (see, Saltzman v. Impellitteri, 305 NY 414; County Securities v. Seaford, 278 NY 344; Adler v. Deegan, 251 NY 487).

It is well settled that a delegation of power by the Legislature to a subordinate body is constitutional, provided it was accompanied by sufficiently specific standards in its use and provided that the delegation is of power to carry out law, not power to make law, Martin v. State Liquor Authority, 43 Misc. 2d 682, aff'd 15 NY 2d 707; 8200 Realty Corp. v. Lindsay, 27 NY 2d 24; People v. Local 365 Cemetery Workers, 33 NY 2d 582).

We are fully cognizant of the strong presumption of constitutionality attaching legislative enactments. However, no matter how laudatory its purpose, a law or an amendment to a law may not conflict with State statute or the State Constitution.

In determining whether a statute is violative of Article IX, Section 2, subdivision b(2), the Courts must inquire not only whether it was general or local in its terms, but also whether it was general or local in its effect (In Re Elm Street in City of New York, 1927, 246 NY 72).

Clearly, the language of the bill here indicates indeed, specifically states - that it is intended to apply only to the City of New York.

The patent disregard of the mandate of the State Constitution by the Legislature in passing the bill and the ensuing signing of the bill into law by the Governor, was a blatant violation of public trust, and more particularly, the thousands of City employees, involving political machinations.

The attempt of the City of New York to establish collective bargaining limitations upon its employees through State Legislation in order to maintain its fiscal survival, is inconsistent with its own collective bargaining procedures as well as the State Constitution.

The result, therefore, by employing such tactics, is to effectively render meaningless the concept of collective bargaining, thus depriving City employees the same rights and privileges afforded other citizens to organize and be represented in contract wage negotiations, as well as other municipal employees throughout the State of New York.

The legislation here, and its concomitant ramifications, is contrary to every precedent set forth in the labor laws of our Federal, State and local governments guaranteeing the right of every citizen to labor.
and to protection from unlawful and unreasonable interference and obstruction.
It smacks of totalitarianism and should not be countenanced.

CONCLUSION

Assembly Bill No. 1426, as presently enacted is violative of the New York State Constitution.

Respectfully submitted,

HARTMAN, KOPFERMANN & LERNER
Attorneys for Patrolmen’s Benevolent Association

MAY 31 1978

Mr. Richard J. Vizzini
President
Uniformed Firefighters Association
of Greater New York
225 Broadway
New York, New York 10007

Dear Mr. Vizzini:

On behalf of Governor Carey, this is to acknowledge receipt of your letter of May 17, 1978, enclosing a copy of your presentation before the State Committee on Taxation and Government Operations on the proposed legislation to extend the EFCA.

Sincerely,

/s/ Judd Gribetz

JG: T

bcs: Bill Jacket w/Incoming files (2)
June 2, 1978

A.13025 — by Assemblymen Kramer and Siegel

AN ACT to amend the Economic Financial Control Board and the Municipal Assistance Corporation bill

APPROVAL RECOMMENDED

Honorable Hugh L. Carey
Governor of the State of New York
Albany, New York

Dear Governor Carey:

The above bill is before you for executive action.

This bill would amend the Financial Emergency Act of 1975 and, among other things, extends the life of the Emergency Financial Control Board.

As you know, the City, as part of the development of its four-year financial plan, has committed itself to seeking the extension of a fiscal monitor, which will assure investors of the continual financial security of investments they might make in City notes and bonds. The U.S. Department of the Treasury has suggested that the continuation of a monitor with the same basic powers as the Emergency Financial Control Board is essential to the passage of legislation providing for federal guarantees. Such a requirement is contained in the bill to provide for guarantees which is now before the Congress. We have also been advised by representatives of the financial community that a continued monitor is essential to the City's ability to market its notes and bonds.

In addition to extending the life of the Control Board, the bill also amends the Local Finance Law, in several respects, in order to facilitate the pattern of financing which we project in our four-year plan. It also amends the Public Authorities Law, in relation to the Municipal Assistance Corporation, in order to bring that statute into conformance with the provisions of A.13025.

The legislation also requires that ability to pay be given primary consideration in impasse proceedings concerning collective bargaining agreements. This is a vital provision in terms of the City's ability to maintain the integrity of its financial plan.

It is clear to me that A.13025 is essential if the City is going to implement its four-year financial plan. Securing legislation which would allow us to implement our four-year financial plan has been a central priority of my administration. I am pleased that the State Legislature has enacted this bill which I urge you to sign.

Your continued support for our common objective of the full fiscal recovery of New York City is very much appreciated.

Accordingly, I urge your approval of this bill which is part of the City's 1978 Legislative Program.

Very truly yours,

EDWARD I. ROCH, Mayor

By

Legislative Representative
MEMORANDUM FOR THE GOVERNOR

Re: Assembly 13025

This bill amends the Public Authorities Law, relative to the Municipal Assistance Corporation for the City of New York; the New York State Financial Emergency Act for the City of New York, relative to the powers of the Emergency Financial Control Board; and the Local Finance Law and State Finance Law.

The Act will take effect immediately, provided that with the exception of Section 2 of the Act (relative to the issuance of notes of the Municipal Assistance Corporation prior to June 30, 1978) the Act will not become operative until Federal legislation is enacted authorizing the United States to guarantee obligations of the City of New York or the Municipal Assistance Corporation. In the event no such legislation is enacted by December 31, 1978, the provisions of this Act will expire on that date.

The bill makes extensive changes in the powers of the Municipal Assistance Corporation and the Emergency Financial Control Board for the period of continued emergency, as defined by this statute, in relation to the affairs and financing of the City of New York.

Memorandum for the Governor

After examination of the bill, it appears that its provisions are not in violation of the Constitution of the State of New York.

I find no legal objection.

Dated: June 2, 1978

Respectfully submitted,

LOUIS J. LEFRAY
Attorney General
May 17, 1978

Ron. Hugh Carey
Governor
State of New York
Executive Chambers
Albany, N.Y. 12224

Dear Governor Carey:

Enclosed is a copy of our presentation before the State Committee on Taxation and Government Operations on the proposed legislation to extend the EFC.

As you may know, the Uniformed Firefighters Association opposes this legislation because it is a step toward destroying the democratic process. The proposal will set up an appointed Board of "Directors" that will supersede the authority of elected officials who are charged by law, to act upon and to administer the fiscal affairs of the City of New York.

We suggest that you read the full text of the UFA's opposition to the proposed Law that would extend the life of the EFC.

Respectfully,

RICHARD G. VIZZINI
President

B.W-126
Encl.
SAM DE MELIA PRESIDENT PATROLMEN'S BENEVOLENT ASSOCIATION
JOHN MAYE PRESIDENT N.Y.C. TRANSIT PATROLMEN'S BENEVOLENT ASSOCIATION

LEGISLATION TO BE THE MOST ANTI-DEMOCRATIC, ANTI-UNION, ANTI-PUBLIC EMPLOYEE, ANTI-LABOR LEGISLATION OF THE CENTURY. IT WOULD DESTROY FREE COLLECTIVE BARGAINING, DESTROY THE CONCEPT OF IMPARTIAL ARBITRATION, AND DESTROY THE CONCEPT OF ELECTED DEMOCRATIC GOVERNMENT.

WE URGE THAT YOU VOTE "NO" AND THAT YOU VOTE TO LIMIT THE EMERGENCY FINANCIAL CONTROL BOARD TO ITS LEGITIMATE FUNCTION OF INVESTIGATION, AUDIT, AND REVIEW, AND TO PUBLICIZE ITS FINDINGS TO THE PUBLIC, AND TO LEAVE ARBITRATION FREE AND IMPARTIAL.

THOSE WHO GOVERN THE CITY SHOULD BE RESPONSIBLE TO THE ELECTORATE. WE ASK FOR AN IMMEDIATE MEETING WITH THE GOVERNOR THE MAYOR AND LEGISLATIVE LEADERS TO ATTEMPT A CONSTRUCTIVE EFFORT TO SHAPE ACCEPTABLE LEGISLATION CONSISTENT WITH THE PUBLIC INTEREST.

RICHARD J. VIZZINI-PRESIDENT UNIFORMED FIREFIGHTERS ASSOCIATION
I am Richard J. Vizzini, President of the Uniformed Firefighters Association, The Representative of 8,500 New York City Firefighters.

I speak in opposition to proposed legislation which would extend the present system of non-democratic rule over New York City for 18 or more years. I speak specifically in opposition to the City's draft to extend the NECS to July 1, 1997. Since I find this proposal completely objectionable because it perpetuates our current status as a colony, it goes without saying that I consider proposals to hand outside control over the City even more stringent, impossible even to contemplate.

The proposed legislation violates every basic principle of an elected, democratic system of Government. Instead of a Government responsible to the needs of the populace, and responsible to the electorate, this law would substitute rule by bankers, responsive to the needs of bondholders. This law would strike the final blow to an already staggering remnant of home rule.

I think that it is important to point out that this bill is basically the same concept put forth by the bankers in their attempted Spring 1977 Takeover. There are some differences of technique and technically, but the fundamental objectives are the same. The prior administration withstood the money-lenders' efforts to manipulate the city into permanent submission last year, when we were all under the gun as a result of the Moratorium Decision. I hope that the state Legislature will be the guardian of our democratic system this year, now that the new city administration has surrendered so completely and spinelessly.

I do not speak only as a labor union leader -- or only about the proposed 18 year wage freeze. I speak as a citizen -- and about the whole idea of non-representative, elite, government by fiat.
PERMIT ME TO SAY ONE THING ABOUT THE SPECIAL PROBLEMS OF LABOR UNIONS UNDER THIS BILL. IN SHORT, IT COMPLETELY DISREGARDS LABOR COLLECTIVE BARGAINING. UNIONS AND THE CITY WILL GO THROUGH THE MOTIONS, BUT THE RESULT WILL BE DISSAID, SUBJECT TO NO REVIEW. WHATSOEVER, BY THE RICH. EVEN DECISIONS OF FINANCIAL AVOIDANCES — EVEN COURT DECISIONS — ARE WORTHLESS PIECES OF PAPER. THIS IS AN OUTRAGE.

I DO NOT OFFER MANY OF THE LEGITIMATE OBJECTIONS CLAIMED FOR THIS PROPOSED LEGISLATION. THERE IS NO OBVIOUS NEED TO RESTORE THE CREDIBILITY OF CITY GOVERNMENT, AND TO REGAIN THE CONFIDENCE OF THE WIDER COMMUNITY — AND NOT JUST THE FINANCIAL COMMUNITY. WE MUST CONVENE THE U.S. CONGRESS, THE U.S. PUBLIC, AND OURSELVES THAT WE ARE capable OF MANAGING OUR AFFAIRS RESPONSIBLY, EFFICIENTLY AND WITH DUE REGARD TO FINANCIAL INTEGRITY.

I DO NOT OFFER THESE LEGITIMATE NEEDS TO SERVE AS AN EXCUSE TO DESTROY OUR SYSTEM OF GOVERNMENT. GETTING THE TRAINS TO RUN ON TIME IS A PERFECTLY SOUNDED OBJECTIVE; FACILITATING IS TOO MUCH A PRICE TO PAY FOR TIMELAPSE EFFICIENCY.

SPECIFICALLY, I ACCORD THE NEED FOR AN ORIGINEE BOARD WITH POWER TO REVIEW, BUT NOT TO CONTROL, CITY FINANCES. THE BOARD SHOULD NOT HAVE FULL ACCESS TO ALL CITY BUDGETS AND PROGRAMS; IT SHOULD HAVE THE POWER TO AUDIT AND REPORT ALL ASPECTS OF CITY FINANCES, ALL CITY REVENUES AND EXPENDITURES, AND TO INVESTIGATE THE RELIABILITY OF THE CITY'S MANAGEMENT PROCESSES; IT SHOULD HAVE THE POWER TO PENDING THE FINANCIAL AUDIT AND TO SPEAK OUT ON ALL FINANCIAL MATTERS.

I SHOULD NOT HAVE THE POWER TO SUBSTITUTE ITS JUDGMENT FOR THAT OF THE CITY'S ELECTED LEADERS. IT SHOULD NOT BE CONSIDERED AS A "SUPER GOVERNMENT," RESPONSIVE TO NO ONE, BUT SUBJUGATED TO THE POWER OF THE BALLOT BOX.

THE BOARD SHOULD NOT HAVE THE POWER TO MAKE ESSENTIALLY POLITICAL DECISIONS ABOUT WHETHER IT IS MORE APPROPRIATE TO SPEND MORE MONEY ON BASIC ESSENTIAL SERVICES — FIRE, POLICE, SANITATION, OR ON "QUALITY OF LIFE" SERVICES — PARKS, MUSEUMS; OR ON TELEPHONE OR ABORTIONS, ETC. ETC. UNLESS THE CITIZENS FAVOR, AND THEY ARE OBVIOUS, I RECOGNIZE THAT I SHOULD NO MORE MAKE THOSE FINAL DECISIONS THAN SHOULD THE BARGAINERS, THE BARGAINERS, THE OFFICIALS, THE SPENDERS. THE PUBLIC FUNDS, THE INSTITUTIONAL FUNDS, THE INSTITUTIONAL FUNDS, ARE ALL ENTITLED TO THEIR "WAY" AND THEIR INPUT, BUT THE FINAL DECISIONS, THE DELICATE BALANCING OF PRIORITIES, MUST BE LEFT TO THE PEOPLE — THROUGH THEIR ELECTED OFFICIALS.

IT IS AN INSULT TO OUR SYSTEM OF GOVERNMENT TO JUSTIFY THIS LAW IN TERMS OF AN "EMERGENCY." THIS BILL WOULD HAMSTRING THIS COUNTRY FOR MORE THAN A GENERATION. IT SIMPLY WILL NOT "WORK" TO BLAME THE "LITTLE OLD LADY IN WISCONSIN" THE SUPPOSEDLY TYPICAL MUNICIPAL BOARD MEMBER, FOR THE WHOLESALE SHRINKAGE THIS LAW WOULD WIND UP WITH. THIS LAW IS NOT TO APPEASE THE PEOPLE, IT IS TO TURN THE CITY OVER TO ITS INSTITUTIONAL MONEY-MAKERS. ONE OF MY MOST REALED CONCERNS IS THAT THIS BILL DEMONSTRATES THE LACK OF THE CONCERN, THE CARE, OF THE FINANCIAL CONCERN. THEY ARE AFRAID OF DEMOCRACY. THEY DON'T TRUST THE PEOPLE. I'M SORRY. I DON'T TRUST THE BARGAINERS, NEITHER. OR POLITICAL FIGURES THE BOX AND SCRAPES TO THEM. I DON'T WANT MY ELECTED OFFICIALS HADDENING MY POLITICAL BIRTHRIGHT FOR 30 POUNDS OF SILVER — OR 3 BILLION PIECES OF PAPER.

I WANT TO EMPHASIZE THAT IN RELATION TO THE PROPOSED LEGISLATION IT IS BROAD-BASED AND TOTAL — IT IS NOT ONLY THE 10 THINGS FEEZE — OR THE POWER OF THE BOARD TO "CONTROL AND SUPERVISOR" THE FINANCIAL MANAGEMENT OF THE CITY; OR THE EXTENSION OF THE BASE FEEZE TO INCENTIVES AND STAFF CUTS; OR THE FACT THAT THE BOARD IS TO ENSURE THAT "PUBLIC SERVICE REQUIREMENTS" WILL BE MET AS A FIRST PRIORITY (EXCEPT THAT I MUST NOTE, PARADOXICALLY, THAT PUBLIC SERVICE TAKES A DECIDED BUMP THAT NO BARGAIN UNDER THE INTERNAL MUNICIPAL REGULATORY LAW) — AND THE MORE WHICH THIS BILL TOSSES TO US — THE SO-CALLED "SUNSET PROVISION" — HARDLY SAVES THE DAY. THAT'S LIKE TELLING US
THAT WE CAN STOP BEATING OUR HEADS AGAINST THE WALL AFTER WE HAVE
ALREADY KNOCKED OUR BRAINS OUT. THANKS, BUT NO THANKS.

THE BILL SHOULD NOT BE PASSED -- IN THIS, OR ANY OTHER "CONTROL"
FORM. REVIEW, AUDIT, MONITOR, INVESTIGATE, PUBLICIZE -- YES. "SUPER
GOVERNMENT" REPLACING AND CONTROLLING ELECTED OFFICIALS -- NEVER!

I AM ASHAMED FOR OUR CITY THAT THIS BILL IS EVEN RECEIVING
SERIOUS CONSIDERATION. I AM ASHAMED FOR OUR MAYOR THAT HE HAS
PROPOSED IT. I AM ASHAMED FOR OUR LEGISLATURE THAT YOU WILL BOW TO
THE MONEY-LENDERS AND RUBBER STAMP THE BILL.
Mayor Edward Koch Papers

Selected Documents

Volume II Part A: Fiscal Crisis

From the Mayoral Collection of the New York City

Department of Records and Information Services/

Municipal Archives

Brian G. Andersson, Commissioner
Dear fellow City employee:

It has been an exciting if hectic six months since I became Mayor, and while we can look back on a solid record of accomplishment, we also must look forward to continued efforts to ensure our City's future. We have received a vote of confidence in that future from the Congress and it is now up to us to carry forward our town's continuing recovery.

This recovery cannot be successful without the continued—and unprecedented—cooperation of all segments of our City. We came together to gain the federal assistance required for our survival, and I know we will work together to put that assistance to use.

It is amazing, when you think about it, that banks, labor unions, state legislators, executive officials, members of the Congress, from different political parties and ethnic groups, all joined together in a common effort to gain our mutual goal. It was a maximum effort, and one in which we can take pride; it is an effort which must continue.

A few weeks ago, we began a new fiscal year. And while our "New Year's Day" in July is not marked by noisemakers or crowds in Times Square, it is an occasion to take stock, to look at what we have done in the past and see how we can do better in the future.

This City, I believe, is in the midst of a renaissance, a new spirit. This new spirit is reflected in our City government. It is a spirit of cooperation, and dedication, and a willingness to make the necessary accommodations with our municipal realities. We are doing more with less; we are rendering services at a higher level than before.

And, it is you, the City employee, who is responsible. It is a spirit that is born in faith in our great City and reared in dedication to service.

With the foregoing in mind, let me share a few ideas with you and explain why I have taken certain actions. I hope that you will ultimately agree with these actions.

SNOW DAYS

I ended the snow days and there was some grumbling. But let me tell you why. I thought it wrong that simply because it snowed, making it difficult and, in some cases, impossible, to get to the office, that those who did come in would get time and a half for doing so and those who did not would be fully paid. And so I ended the declaration of snow days but did not require that any individual lose pay. However, I did require that absent workers use a vacation day. If I had not done that, the three snow days in January
would have cost the City over and above its regular payroll, $972 million. That is simply not acceptable in these difficult fiscal times. Some would think it is irrational to bring up snow days in July, but I think this is a matter about which you should be aware and understand why I acted as I did.

LOTTERY

Another matter that has caused some opposition, not in City government, but in the constituency that we serve, relates to the lottery program that I instituted. The lottery that I refer to has nothing to do with gambling. It is related to summer jobs.

I directed Commissioner Stanley Brezenoff of the Department of Employment that the 60,500 summer jobs made available by the Federal government for youth should not be assigned on the basis of whom you know or by being first in line as the result of having slept on the sidewalk two days in advance or by pushing a small child aside but, instead, by allowing everyone who was eligible under the guidelines to apply and then having those who are selected be selected by random computer designation. In the past it was pre-selection, and local public officials and community leaders decided who would work and who would not.

As a result of my instituting the lottery, more than 120,000 youngsters have applied and they each have had an equal opportunity to be selected. You ought to know that eligibility for these summer jobs was limited by strict federal income guidelines which required, for example, that a family of four could have an income no greater than $7580 in order for a young person to participate in the program.

As a consequence we expect that at least 50% of enrollees will be members of families on public assistance. In addition, as a result of this financial limitation, between 75 and 80% of those receiving jobs will be non-whites because in the City of New York poverty is disproportionately to be found among non-whites.

Jobs should go to those who have the greatest need. Some of those who no longer have the right to make the pre-selection are understandably upset. I hope that they will participate in the new process and, at the end of the summer, say it was the fairest ever.

THE RENAISSANCE OF THE CITY OF NEW YORK

Let me turn now to the positive. I believe, as I said on so many occasions, that the City of New York is entering a renaissance. I believe that the job of the City administration is not to do what the private sector can do so much better than government, to wit: provide jobs and profits. Rather it is the function of City government to provide the climate for the private sector to provide jobs in the private sector.

And many times the best thing that government can do is simply to get out of the way. I would hope that wherever you can you will cut red tape and reduce the time delays and extend the courtesies and cooperation of your office to those of our citizens who need the assistance of government to move in the private sector.

SEND IDEAS

Finally, I truly value your appraisals of what we are doing here in government and how we can do better. I want your ideas on how to streamline our government and reduce unnecessary costs. If you have such ideas send them directly to me at City Hall, New York, New York 10007 marking "suggestion" on the envelope.

In short, I want you to be a more visible part of government. It is my intention to be in touch with you regularly through this newsletter.

All the best.

Sincerely,

Edward I. Koch
MAYOR
July 24, 1978

Mr. Axel Schupt  
Chairman, Board of Directors  
Health and Hospitals Corporation  
125 Worth Street  
New York, New York

Dear Mr. Schupt:

Let me again thank you and members of your staff for having met with some of us who have had and still have an interest in Sydenham Hospital. As you know, this July 6 meeting came as a result of the deep concern I expressed to both you and Deputy Mayor Ronay Menschel during the recent budget hearings over a rather curious remark by the Office of Management and Budget with respect to the "uncertain future of Sydenham". As you recall, both you and the deputy mayor indicated that the comment by OMB did not reflect your positions, but that, quite to the contrary, there was an on-going commitment to Sydenham Hospital. Thus, the July 6th meeting was intended as a further demonstration of that commitment.

Perhaps it is well to review some of the more important matters which we discussed at the said meeting. We recognized the need for Sydenham to physically meet the minimal standards of J.C.A.H. and thus gain a two year accreditation after the forthcoming review. To accomplish this, it was felt, that the following is necessary:

a. Approval and execution by Health and Hospitals Corporation of the already-existing plan to rehabilitate the operating suite, including new equipment, lighting and air-conditioning.

b. The installation of a new boiler system.

c. The installation of a new sterilizing equipment throughout the hospital.

d. The implementation of the plan which has already been submitted for space allocation (rental for new laboratories).

e. A clear indication by Health and Hospitals Corporation as to the status of PAATH project funds and the availability of other grant funds for Sydenham.
Other areas of acknowledged concern include painting, drainage of basement, renovation of mortuary and the re-opening of obstetrics and pediatrics.

Finally, and of equal importance, is a clear and unequivocal commitment by Health and Hospitals Corporation to effectuate a meaningful affiliation between Sydenham and a teaching institution. I believe that there was, at the meeting, unanimous agreement that superior medical practitioners may only be attracted to Sydenham by such an affiliation.

We look forward to early word from you, indicating the timetable under which the aforesaid matters will be implemented and thank you once again for your interest and cooperation.

Very sincerely yours,

Fred Samuel
City Councilman

cc: The Board of Directors of HHC
Mrs. Lillian Roberts
Mr. Charles Moore
Mayor Edward Koch
Honorable Carl McCall
Honorable Charles B. Rangel
October 13, 1978

Honorable Edward I. Koch
Mayor
City of New York
City Hall
New York, New York 10007

Dear Mayor Koch:

In accordance with your directive of September 29, 1978, on hiring freeze policies and procedures, I have reviewed our May-June planned actions, and our July planned actions. There was no August plan.

As you know, the head count limitations in our FY79 budget had already set severe constraints on my ability to begin to rebuild this department. However, working within that constraint, I was proceeding to make the most judicious use of the scarce resources we had. My primary emphasis has been on strengthening management staff, the design and construction division, field supervision and vehicle maintenance personnel. Our planned actions reflect this.

Major promotional packages in the two plans included:

- promotions for field supervisors to reverse severe out-of-title grievance and control span problems.

- promotions of key central management staff who have extraordinary amounts of responsibility, for which they had never been compensated.

- promotions of key design and construction staff who are bearing new and additional responsibility in the reorganization of that division. Not only have in-house responsibilities increased; but supervision of the 75% of our design work to be contracted out has called for assumption of larger and often more complex workloads by staff of that division. This division is literally in a crisis condition, facing a backlog of $35 million in federal and city funded capital projects with a staff which has the capacity to handle only a third of that work at best.
Mayor Koch  
October 13, 1978  
Page Two

- promotions for the Inspector General staff.
- clerical promotions to fill vacancies created by retirement.

New hires in the plans included priority appointments to fill critical supervisory and vehicle maintenance positions.

Upon my review of the plans, I have decided to withdraw a number of the proposed actions. In the May plan we had requested 4 clerks which we planned to put into our payment processing division. We planned to use these openings as an opportunity to give some of our best CETA funded workers the opportunity to come onto permanent City lines. Our personnel division developed a clerical employee rating system, and 4 outstanding (CETA clerical employees were identified. However, I am withdrawing the request for these positions since I can fill the vacancies in our payment processing division with CETA funded employees.

Also in the May plan was a request for a Park Supervisor (L. Motoza), which I have deleted. Finally, one of the three Administrative Assistant positions requested in the May plan can be dropped for the moment due to a reorganization in the payroll division.

I am withdrawing these six positions, and will appreciate speedy processing of the remainder of the requested actions.

Sincerely yours,

[Signature]

Gordon J. Davis  
Commissioner

cc: Messrs. R. LeMieux  
R. Unger  
N. Dworkin  
J. Spiegel  
J. DeVincenzo
October 24, 1978

Hon. Gordon J. Davis
Commissioner
Dept. of Parks & Recreation
830 Fifth Avenue
New York, N.Y. 10021

Dear Gordon:

I have your letter of October 19 regarding the hiring of Maurice Nixon. I have sent a copy of your letter to Joe DiVincenzo and Jim Brigham.

As you know, the hire will be approved given the particular circumstances that you have outlined.

Sincerely,

Edward I. Koch
Mayor
Honorables Edward I. Koch
Mayor of the City of New York
City Hall
New York, New York 10007

Re: Hiring Freeze Exception
Request (Maurice Nixon)

Dear Mayor Koch:

In accordance with your directives regarding exceptions to the current hiring freeze, I am hereby requesting permission to appoint Maurice Nixon (formerly Director of Spofford House) to the position of Superintendent of the Bureau of Recreation in this Department effective November 1, 1978. If approved, Mr. Nixon's 'in-house' title would be that of Assistant Commissioner at an annual salary of $33,000 (the M-IV minimum).

The justification for this request is essentially twofold. First, Mr. Nixon is proposed for appointment to replace prior Recreation Superintendent, Mr. John Carty, who I terminated after determining that his performance was not satisfactory. Mr. Nixon will be appointed to the budget line vacated by Mr. Carty.

Second, Mr. Nixon's appointment is necessary to assure efficient administration and supervision of one of the Department's principal operating divisions. Since my appointment I have been able to recruit and appoint top level managers to direct three of the four critical line divisions in the Department (the three include Maintenance and Operations, Capital Projects-Design and Engineering, and Technical Services). At present, Recreation is the only bureau of the four in the agency not directly supervised by a permanent bureau head (traditionally Recreation had the same status as Cultural Affairs, being directed by a person at the commissioner or
deputy level; more recently it has been run by an assistant commissioner or superintendent). Essentially, I have had to assume the responsibility of running the Recreation division until such time as I succeeded in recruiting a person with the necessary qualifications and managerial ability to take on this important function.

As I believe you know from first hand experience, Maurice Nixon is in many ways ideally suited for this position. He has demonstrated unique leadership qualities and acquired broad professional expertise directly relevant to this agency's Recreation operations in his past work with youth, recreation and community relations programs in the Police Department and most recently as the Director of Spofford House.

Accordingly, for the reasons briefly set forth above I request your approval of an exception to the hiring freeze to allow the appointment of Maurice Nixon, effective November 1, 1978, as Assistant Commissioner-Superintendent of Recreation in the Department of Parks and Recreation.

Sincerely,

Gordon J. Davis
Commissioner

cc: David Brown
December 4, 1978

Honorable Edward Koch
Mayor
City Hall
New York, New York 10007

Dear Mayor Koch:

Plans by the Health and Hospital Corporation to reduce the mental health funding of the New York City Municipal Hospitals is, indeed, cause for concern. However, the disproportionate cut of $500,000 for the Bronx Municipal Hospital—when municipal hospitals in Manhattan are to receive no reduction in their funding—is a blatant act of discrimination against my borough.

Such biased action cannot be tolerated if our great city is comprised of five boroughs, of which Manhattan is one. It is, therefore, unthinkable that this one of five is constantly afforded preferential treatment at the expense of the others.

I call upon you to rectify this shocking imbalance immediately, Should there be a cut, and I do doubt the necessity and sagacity of such an action, it should be proportionate with no one borough receiving priority.

Your immediate attention to this issue would be appreciated. May I hear from you?

Kind personal regards.

Cordially,

Aileen B. Ryan
January 11, 1979

Hon. Edward I. Koch  
Mayor  
City of New York  
City Hall  
New York, N.Y. 10007  

Dear Mayor Koch:

Enclosed please find "A Study of Mayor Koch's Proposed Board of Education Budget Cuts, Fiscal Year 1980" by the Manhattan Borough President's Education Task Force. The report suggests alternative reductions in the Board of Education budget which would extend vital instructional programs to children by cutting administrative programs.

Sincerely,

ANDREW STEIN

Enc.
January 15, 1979

Honorable Andrew Stein
President
Borough of Manhattan
City of New York
New York, New York 10007

Dear Andy:

I have your letter of January 11 with the enclosure. It will of course be provided to the Office of Management and Budget.

As I hope you know, the illustrations used by OMB are not and were not in any way intended to be binding upon the Board of Education which is an independent or covered agency. It makes its own decisions as to where cuts will be made so as to stay within the budget which is assigned to it. The illustrations were simply set forth by OMB to indicate how monies could be cut equalling the $65 million, but I have said on a number of occasions that the Board of Education can undoubtedly make a better judgement as to where the money can be saved than OMB can. I trust that you have forwarded your suggestions on to Dr. Frank Macchiarella.

All the best.

Sincerely,

Edward I. Koch
Mayor

cc: James Brigham
A STUDY OF MAYOR KOCH'S PROPOSED
BOARD OF EDUCATION BUDGET CUTS
Fiscal Year 1980

Manhattan Borough President's
Education Task Force
January 11, 1973
CONCLUSIONS

Mayor Koch’s recent decision to cut the New York City Board of Education’s budget by $85.4 million for F.Y. 1980 would result in massive cuts into instructional services. In fact, the actual input of these cuts is in excess of $150 million, since provisions require the Board of Education must absorb an additional $64 million for COLA, longevity and other contractual agreements. Such massive cuts can only be absorbed by reducing instructional services to New York City school children.

In the opinion of the Borough President’s Task Force on Education, these cuts fall unfairly on the Board of Education and ultimately, upon the classrooms and the children.

This report highlights some areas which we believe can be subjected to budget reductions without a serious deterioration of the quality of education. This “shopping list” of administrative cuts can provide a $42.2 million fund. Some of the choices are difficult, and certainly unpleasant, but the alternative of doom is a generation of New York children to a lifetime of illiteracy is unthinkable.

In the long run, it is imperative that the ultimate burden of education costs shifts away from regressive property tax revenues onto a source more equitably chosen, as mandated by the Levittown Case. Additionally, more federal and state aid should be sought. However, until such reforms occur, the Board of Education and the City of New York must seek creative alternatives to cuts in the classroom.

In fact, this report details programs which should be increased. These programs ensure delivery of primary learning skills to students at the earliest levels of the educational ladder; they create a healthy social attitude toward school and provide a measure of neighborhood stability.

It is ultimately the purpose of this report to begin the process of reevaluating some of the assumptions inherent in Mayor Koch’s budget proposal. It is our position that children should not be forced to bear the brunt of the City’s fiscal woes. More than $500 million has been eliminated from the Board of Education’s budget in five years.

If this trend is allowed to continue, N.Y.C. schools will no longer be able to provide education. Parents will not and should not tolerate this, and those who are financially able will flee the city, further reducing our already depleted middle class tax base. This will result in further revenue reductions and a further round of budget cuts.

Uninterrupted, such a cycle will toll the death knell of New York City.
A study of the 116 New York State school districts in the New York Metropolitan Area (Nassau, Suffolk, Westchester and Rockland Counties) is particularly revealing of the desperate situation of the New York City Board of Education budget.

A comparison of General Funds (which excludes federal aid and special education monies from the budget and is therefore the best estimate of the real portion of the Board of Education budget assumed by New York City) shows that New York ranks 115th out of 116. Analysis of the percentage of the total budget devoted to instruction also finds New York City ranking last.
STEIN ALTERNATIVE CUTS

The following is a list of departments, divisions and bureaus within the Board of Education which provide no direct services to the classroom and/or whose functions could be transferred to other branches of city or state government without significant decreases in the quality of these supportive services. In addition, there are a number of administrative agencies which, we believe, could be streamlined by forced budget reductions.

1. BUREAU OF SUPPLIES:

   The functions of the Bureau of Supplies could be transferred to the N.Y.C. Department of Purchase without meaningful loss of control or service. The Bureau of Supplies fulfills those requirements for public bidding and runs the Board of Education’s warehouse, which the Board indicates they are seeking to eliminate.

   The Bureau has been criticized by this office and others for lack of planning and buying of items at prices significantly higher than either state or city contracts for similar or identical items.

   The work of this Bureau could be transferred immediately at a total savings (through staff and O.T.P.S. savings and savings of less expensive items). SAVINGS $5 MILLION

2. DIVISION OF SCHOOL BUILDINGS:

   The Division has a history of abuse and mismanagement predominantly with custodial contracts. These contracts provide windfall profits for some custodians as well as the opportunity for nepotism inflating the costs of cleaning and maintaining city school buildings.

   A pilot study of "contracting out" schools to private contractors has demonstrated savings on 87% of the schools studied. Using public bidding and hiring of professional services can cut the costs of maintenance by 15-20%.

   Applying like savings across the board to the remaining schools we save an estimated $13.2 million. While the City of New York spends an average of $.81 to clean an office building, the current custodial contract costs $1.30 per square foot, per year.

   Questions of efficiency have been raised in this department. Instances of long delays in processing requests for repair raise the spectre of gross inefficiencies. In one West Side school, 65% of its lights were inoperative for two years while the order for new light bulbs lingered.
STEIN ALTERNATIVE CUTS (continued)

in the bureaucratic pipeline getting more than 20 approvals.

Other instances of poor design, long delays and poor workmanship demonstrate the need for reevaluation of this department's management.

The unusually high number of approvals is symptomatic of an inflated bureaucracy. Trimming that bureaucracy would result not only in cost savings through reduced personnel, but in speedier dispositions of critical requests.

SUGGESTED EFFICIENCIES IN THE DIVISION OF SCHOOL BUILDINGS

| 1. Competitive bidding in awarding contracts | $300,000 |
| 2. Elimination of payment for work not done | $500,000 |
| 3. Enforce guarantees for work completed | $53,000 |
| 4. Eliminate full payment for unjustified and excessively pricd change orders | $75,000 |
| 5. Proper evaluation of credit change orders | $20,000 |
| 6. Evaluation of the financial stability and capability of contractors | $88,000 |
| 7. Imposition of liquidated damages | $50,000 |

TOTAL $1,086,000

Maintenance of school property must be improved. To do this at the same time that the maintenance budget is cut by the proposed $6 million the above efficiencies must be instituted.

SAVINGS: $6 million

A savings of $1.2 million can be had by more strict control’s over the leasing of space. Just on unused space the Board is wasting 12% of the face value of leases. The Board should sublet this unused space.

SAVINGS: 1.2 million

The Bureau of Educational Facilities Planning and Design is in charge of new school building. With the fiscal crisis,
such new construction has been sharply curtailed.

SAVINGS: $3.7 million
TOTAL SAVINGS: $24.1 million

3. SCHOOL LUNCH PROGRAM

The federal government has scheduled the assumption of this office's expenses within the next two years. This will eliminate $8 million in city tax levy funds. Approximately $4-5 million will be saved this year. An increase of 10¢ in the price of school lunches will yield the Board of Education approximately $1.2 million. By immediately instituting competitive bidding and proper food inspection as well as strict enforcement against non-complaint and vendors, further savings could be achieved in the coming year.

TOTAL SAVINGS: $5.7 million

4. PUPIL TRANSPORTATION

In order to re-allocate expenses we accept OMB's proposed charges in the Pupil Transportation Program. A charge of 10¢ is proposed for students in grades K-2 who live between 1/2 and 1 1/2 miles from school and students in grades 3-6 who live between 1 and 1 1/2 miles from school. For students in grades 7-8 who live between 1 and 1 1/2 miles from school, a charge of 50¢ is proposed. The total value of these fees is $3.5 million.

TOTAL SAVINGS: $3.5 million

5. GENERAL ADMINISTRATIVE CUTS

The administration of the Board of Education is notoriously top heavy. A school system that spends the lowest percentage of its budget on instruction of any school district in the metropolitan area cannot afford this bureaucracy. Ten percent "across-the-board" cuts in the City Board, Offices of the Chancellor and Deputy Chancellor, Division of Personnel, Community School District Affairs, and Division of Business Administration must be instituted.

The Office of the Auditor General should be consolidated into the Comptroller's Office for functional efficiency. Waste in the Board of Education programs is indicative of a need for audits, and this can best be performed by an independent auditor outside the agency.

Attendance services in the Office of Community School District Affairs must not be cut. State aid is dependent upon the size of attendance.

TOTAL SAVINGS: $4.4 million
6. **DIVISION OF EDUCATION, PLANNING AND SUPPORT**

Most education planning is done in the districts. OMB puts this savings at $1.8 million. Many of these centrally delivered services duplicate district level services. Keeping the Centers for Health and Education, Humanities and Arts, Mathematics and Science, Reading, Bilingual Education, and Career and Occupational Education while eliminating the other subdivisions and making the Center for Library, Media and Telecommunications a self-sustaining revolving fund would provide up to $2 million annually for the districts.

**TOTAL SAVINGS:** $2.0 million

7. **DEPARTMENT-WIDE COSTS AND LUMP SUMS**

Lump sums are a questionable segment of the budget in that there is no agency accountability for them. The agency can allocate amounts to these categories without specifying their purposes. As the agency can freely switch money within a unit of appropriation, there is already sufficient flexibility built into the budget. Taking a 10% cut in certain of these items the Board of Education can save $2.9 million.

**TOTAL SAVINGS:** $2.9 million
Hon. Comer Coppie  
Executive Director  
Financial Control Board  
270 Broadway  
New York, N.Y. 10007  

Dear Comer:  

I am writing in response to issues that have been raised during the course of your review of the four year financial plan and to supply you with supporting materials and additional information for your consideration.

FY 1979 Financial Plan  

You have questioned whether at this time there is a basis for recognizing in FY 1979 settlement of welfare aid claims with the State because the City has commenced legal action seeking an amount greater than the amount the State has offered as settlement. The $33 million amount we have recognized in the FY 1979 financial plan represents the Federal portion of the claim which was received by the State last year. The City is entitled to these funds, but the State has withheld payment pending resolution of the litigation. I have been informed by State Budget Director Howard Miller that the State will make payment to the City if and as soon as the City drops its legal action. Accordingly, while we intend to pursue the litigation, I believe that Miller's statement forms a basis for recognizing this revenue in the FY 1979 financial plan since the actions necessary to trigger payment of such funds to the City are within the City's control.

The Governor's Executive Budget would reduce State revenue sharing in FY 1979 by approximately $42 million below the level carried in the revised plan submitted to you on January 15. As you are aware, the State has informed us that they intend to offset such reduction by other State actions in our FY 1979.

Set forth as Exhibit I is a schedule of expenditure changes that result in a net reduction of approximately $5 million in City funds in FY 1979 compared with the plan submitted to you on January 15. This amount will be added to the general reserve
and bring the unallocated amount of the general reserve to $75 million. It is our opinion that a $75 million unallocated general reserve makes adequate provision for the uncertainties that can be reasonably anticipated for the balance of FY 1979.

FY 1980 Program to Eliminate the Gap

We have agreed to provide $35 million of additional City actions in FY 1980 to allow for uncertainties regarding the City's program to eliminate the gap and its prospects for additional State and Federal aid. Attached as Exhibit II is a schedule of $35 million of revenue increases and expenditure reductions that should be added to the $250 million of City actions contained in Level I and Level II of the FY 1980 plan. We have not allocated these actions to Levels I and II, although it is likely that some would appear in Level I. Our decisions with respect to City actions in FY 1980 will be made in the FY 1980 Executive Budget.


The draft report of the Special Deputy Comptroller identifies potential reductions of the City's gap estimates of $39 million in FY 1980, $84 million in FY 1981, and $135 million in FY 1982. While we do not have sufficient basis for reducing our estimates of the gap at this time, we believe it is appropriate to consider the potential improvements noted by the Special Deputy Comptroller in connection with your evaluation of the adequacy of the City actions to eliminate the gaps projected for those years.

City Program to Eliminate the Gap - FY 1981-1982

Attached as Exhibit III are details of the City program to eliminate the budget gaps for FY 1981-1982.

Also attached as Exhibit IV is a copy of our response to the draft report of the Special Deputy Comptroller. As always, we will provide additional supporting information and will be available to answer questions you or your staff might have.

Very truly yours,

James R. Brigham, Jr.
Director

JRB:lg

c: Hon. Philip L. Toia
Hon. Marilyn Friedman
Hon. Sidney Schwartz
Fiscal Year 1979 Financial Plan
Changes in Revenues and Expenditures
($ In Millions)

<table>
<thead>
<tr>
<th>Revenue Increases</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Miscellaneous Revenues</td>
<td>$ .6</td>
</tr>
<tr>
<td>State Aid</td>
<td>.2</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total Revenue Increases</strong></td>
<td><strong>$ 2.2</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure Changes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>City Debt Service - Long Term</td>
<td>$ 2.2</td>
</tr>
<tr>
<td>- Short Term</td>
<td>1.0</td>
</tr>
<tr>
<td>Non-Actuarial Pension Costs</td>
<td>2.2</td>
</tr>
<tr>
<td>Miscellaneous Budget - T.A. Loan of 1972</td>
<td>.2</td>
</tr>
<tr>
<td>Various Agency Adjustments</td>
<td>(3.2)</td>
</tr>
<tr>
<td><strong>Total Expenditure Changes</strong></td>
<td><strong>$ 2.4</strong></td>
</tr>
<tr>
<td>General Reserve</td>
<td>$(4.6)</td>
</tr>
</tbody>
</table>

**Total Financial Plan**
-0-
### Additional Actions

#### Fiscal Year 1980

($ in Millions)

<table>
<thead>
<tr>
<th>Revenue Increases</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>$10</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$ 3</td>
</tr>
<tr>
<td><strong>Total Revenue Increases</strong></td>
<td>$13</td>
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</table>

<table>
<thead>
<tr>
<th>Expenditure Reductions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Judgments &amp; Claims</td>
<td>$ 10</td>
</tr>
<tr>
<td>Reduction in Long-Term Debt Service ($12 Million purchase Fire Pension Fund)</td>
<td>$ 3</td>
</tr>
<tr>
<td>Reduction in Short Term Debt Service</td>
<td>$ 5</td>
</tr>
<tr>
<td>FICA Savings from PEG - Level I</td>
<td>$ 2</td>
</tr>
<tr>
<td>- Level II</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditure Reductions</strong></td>
<td>$ 22</td>
</tr>
<tr>
<td><strong>Total Additional Actions</strong></td>
<td>$ 35</td>
</tr>
</tbody>
</table>
EXHIBIT III

City of New York Financial Plan  
F.Y. 1981 - 1983

<table>
<thead>
<tr>
<th>Summary of City Actions</th>
<th>Level I ($ in Millions)</th>
<th>Level II ($ in Millions)</th>
<th>Total ($ in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>135</td>
<td>188</td>
<td>323</td>
</tr>
<tr>
<td>1982</td>
<td>240</td>
<td>346</td>
<td>586</td>
</tr>
<tr>
<td>1983</td>
<td>330</td>
<td>286</td>
<td>616</td>
</tr>
</tbody>
</table>

The actions set forth on the following pages summarize city actions that are planned to close the budget gaps for fiscal years 1981, 1982 and 1983. These actions will be further evaluated and refined during the next twelve months.
<table>
<thead>
<tr>
<th>Description</th>
<th>FY 1981</th>
<th>FY 1982</th>
<th>FY 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Register decline of approximately 40,500 students in FY 1981, 39,000 in FY 1982 and 37,500 in FY 1983 in the Board of Education</td>
<td>$44</td>
<td>$86</td>
<td>$127</td>
</tr>
<tr>
<td>Management improvements in the Board of Education possibly including closing underutilized schools</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Attrition of City funded workforce excluding Board of Education, Board of Higher Education, Fire and Correction</td>
<td>25</td>
<td>70</td>
<td>115</td>
</tr>
<tr>
<td>Pension reduction from Level I savings in personal service costs based on statutory method of financing</td>
<td>-</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>OTES cost containment</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Exclusion of sick pay from income for purposes of computing FICA</td>
<td>6</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Reduction of contracts of Department of Employment and Community Development agencies</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Improved claiming procedures under State and Federal reimbursement programs</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Cost containment of home attendant program through improved screening to limit unnecessary treatment and stricter standards regarding hours of care</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Impose service charge on certain tax exempt properties</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Reduce subsidy of the Housing Authority to be offset by management improvements</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>FY 1981</td>
<td>FY 1982</td>
<td>FY 1983</td>
</tr>
<tr>
<td>----------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>($) In Millions</td>
<td>$2</td>
<td>$2</td>
<td>$2</td>
</tr>
</tbody>
</table>
| Bring sales tax on parking garages into alignment with
  the sales tax on other goods and services |          |         |         |
<p>| TOTAL           | $135    | $240    | $330    |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>FY 1981</th>
<th>FY 1982</th>
<th>FY 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce reserve for CETA contingencies</td>
<td>$10</td>
<td>$10</td>
<td>$10</td>
</tr>
<tr>
<td>Increase attrition in City funded workforce</td>
<td>12</td>
<td>36</td>
<td>58</td>
</tr>
<tr>
<td>Pension reduction from Level II savings in personal service costs based on statutory method of financing</td>
<td>-</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Reduce funding for libraries and cultural institutions</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Reduce funding for Department of Correction for economies from new post study</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Eliminate remainder of increased take home pay</td>
<td>-</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Other (increased attrition, Fringe Benefits Savings, OTPS cost containment, revenue increase, layoffs)</td>
<td>157</td>
<td>220</td>
<td>136</td>
</tr>
</tbody>
</table>

**TOTAL LEVEL II**  
$188  
$346  
$286

**TOTAL LEVEL I**  
$135  
$240  
$330

**TOTAL ACTIONS**  
$323  
$586  
$616
BOARD OF EDUCATION

WORKFORCE REDUCTION AND TURNOVER FY 81 - 83

Workforce Reduction

| FY 81:     | $40.3 M + $4.0 fringes = $44.3 M |
| FY 82:     | $38.6 M + $3.8 fringes = $42.4 M |
| FY 83:     | $37.2 M + $3.7 fringes = $40.7 M |

Register Loss

| FY 81:     | 40,551 |
| FY 82:     | 38,826 |
| FY 83:     | 37,428 |
### Workforce Reduction ($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>City Positions (Excl. HA &amp; TA Police)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4% Workforce Reduction</td>
<td>3300</td>
<td>3197</td>
<td>3069</td>
</tr>
<tr>
<td>Average Salary</td>
<td>$16,800</td>
<td>$16,800</td>
<td>$16,800</td>
</tr>
<tr>
<td>Total Savings</td>
<td>55.9</td>
<td>53.7</td>
<td>51.6</td>
</tr>
<tr>
<td>Estimated City Funds</td>
<td>40.2</td>
<td>38.7</td>
<td>37.2</td>
</tr>
<tr>
<td>1981 Initiatives</td>
<td>$21.5</td>
<td>$40.2</td>
<td>$40.2</td>
</tr>
<tr>
<td>1982 Initiatives</td>
<td></td>
<td>20.7</td>
<td>38.7</td>
</tr>
<tr>
<td>1983 Initiatives</td>
<td></td>
<td></td>
<td>19.9</td>
</tr>
<tr>
<td>Total Excluding FICA</td>
<td>$21.5</td>
<td>$60.9</td>
<td>$98.8</td>
</tr>
<tr>
<td>FICA Saving</td>
<td>1.4</td>
<td>4.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Total Saving Excl. HA &amp; TA Police</td>
<td>$22.9</td>
<td>$65.0</td>
<td>$105.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HA &amp; TA Police</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4% Workforce Reduction</td>
<td>194</td>
<td>186</td>
<td>179</td>
</tr>
<tr>
<td>Total Saving-City Funds</td>
<td>$3.6</td>
<td>$3.4</td>
<td>$3.2</td>
</tr>
<tr>
<td>1981 Initiatives</td>
<td>$1.8</td>
<td>$3.6</td>
<td>$3.6</td>
</tr>
<tr>
<td>1982 Initiatives</td>
<td></td>
<td>1.7</td>
<td>3.4</td>
</tr>
<tr>
<td>1983 Initiatives</td>
<td></td>
<td></td>
<td>1.6</td>
</tr>
<tr>
<td>Total Excluding FICA</td>
<td>$1.8</td>
<td>$3.3</td>
<td>$3.8</td>
</tr>
<tr>
<td>FICA Saving</td>
<td>.1</td>
<td>.4</td>
<td>.6</td>
</tr>
<tr>
<td>Total Saving HA &amp; TA Police</td>
<td>$1.9</td>
<td>$5.7</td>
<td>$4.2</td>
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<tr>
<td>GRAND TOTAL</td>
<td>$24.8</td>
<td>$70.7</td>
<td>$144.6</td>
</tr>
</tbody>
</table>

**Note:** Excludes Board of Education, Board of Higher Education and uniformed forces in Fire Department and Correction Department.

1/26/79
### Pensions Savings
1981 and 1982
PEG LEVEL I & II Programs
(City Funds $ In Millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Level I Reductions in Personal Service</td>
<td>-107</td>
<td>118</td>
<td>118</td>
<td>118</td>
</tr>
<tr>
<td>Pension Savings at 15%</td>
<td>-</td>
<td>-</td>
<td>16</td>
<td>18</td>
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<tr>
<td>Level II Reductions in Personal Service</td>
<td>42</td>
<td>54</td>
<td>54</td>
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<tr>
<td>Pension Savings at 15%</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>
May 8, 1979

Mr. Sanford Solender
Chairman
Task Force on the
New York City Crisis
225 Park Avenue South
New York, NY 10003

Dear Mr. Solender:

This is in response to your letter of April 16, 1979, requesting my support for inclusion of a Welfare grant increase in the State's Supplemental Budget. As you know, I strongly favor a ten percent increase in the Welfare grant with the State bearing the additional costs. I was very disappointed that the Legislature did not choose to add this item to the budget. I am still strongly in favor of such a Bill and will support efforts to include a Welfare grant increase in the State's Supplemental Budget.

I must add that as the State's Supplemental Budget is only around $200 million, it does not appear to be likely that the Legislature and the Governor will choose to allocate nearly one half the budget for a grant increase; however, I will be making my views on this issue known to the Legislature in the very near future.

Sincerely,

[Signature]

Edward I. Koch
Mayor
May 17, 1979

Hon. Edward I. Koch
Mayor
City of New York
City Hall
New York, New York 10007

Dear Mayor Koch:

Because of the continuously deteriorating sanitation service in Manhattan, I am demanding that you immediately initiate a program of constructive competition between public and private sector refuse collection to clean up our streets.

Experience and studies indicate a healthy competitive climate produces the least costly and most efficient service delivery. You must act now, before our filthy streets turn into a health hazard.

Sincerely,

Andrew Stein
May 18, 1979

Honorable Andrew Stein
President
Borough of Manhattan
2050 Municipal Building
New York, New York 10007

Dear Andy:

I have your letter of May 17th. All of us are concerned that essential services be delivered better than they have in the past notwithstanding all of the problems involved in the operation of the various departments because of fiscal constraints, union practices and civil service regulations. Most important would be getting the people of the City not to litter. I do hope that your many press releases will not add to the garbage problem.

All the best.

Sincerely,

Edward I. Koch
Mayor
May 24, 1979

Hon. Edward I. Koch
Mayor
City of New York
City Hall
New York, New York 10007

Dear Ed:

I am in receipt of your letter of May 18, 1979, and am delighted to learn of your concern over the problems of garbage in the streets of our city. If we as a city are to prosper, we must ensure a suitable environment for our future.

Taxpayers all throughout my borough are outraged and dismayed over the lack of efficient garbage collection. As elected officials, we must succeed in relieving this problem by giving our constituents results and not excuses.

Allow me to state in conclusion that I will consider your recommendation regarding my press releases. However, it is equally important that your road of good intention does not become littered by your broken campaign promises - making the streets safer and cleaner, Westway, etc., etc.

Sincerely,

Andrew Stein

[Signature]
June 19, 1979

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

Re: (St. Elizabeth's Hospital and)
(Jewish Memorial Hospital)

Dear Ed:

I have read with dismay that your Administration is recommending the closing of the above two voluntary hospitals, which are the only hospitals located within my Assembly District. These institutions, although not possessing all of the modern medical equipment employed by many of our large facilities, perform a most valuable service to our community. Since they are small, they have been capable of providing medical treatment at a cost lower than that prevailing in the larger institutions.

A major effort is being made by your Administration to preserve the northern Manhattan community that I represent. The closing of these institutions would have a disastrous effect on our joint preservation efforts.

I look forward to discussing this issue with members of your Administration and yourself so that all the facts on the matter may be known and I hope that thereafter there will be a reversal of the prior recommendation.

Sincerely yours,

EDWARD H. LEHNER
Member of Assembly

EHL:slk
CC: Commissioner James Capalino
    Honorable John LoCicero
    Dr. Reinaldo Ferrer
August 27, 1979

Honorable Edward I. Koch
Mayor of the City of New York
City Hall
New York, N. Y. 10007

Dear Mr. Mayor:

The enclosed is our response to the draft G.A.O. report entitled, "Report on New York City's Efforts to Deal With Its Fiscal Problems".

I will be available to discuss this further with you or with any member of your staff.

Kindest regards.

Sincerely,

Comer S. Coppie

Enclosure
State of New York
Financial Control Board

Chairman
Hugh L. Carey, Governor
Board Members
Edward V. Regan
Comptroller
Edward I. Koch
Mayor, City of New York
Harrison J. Goldin
Comptroller, City of New York
Glorya A. Griffin, Jr.
John C. Sawhill
Stanley S. Shuman

August 23, 1979

Mr. Allen R. Voss, Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Voss:

I and my staff have reviewed the revised draft of the proposed "Report on New York City's Efforts to Deal with its Fiscal Problems" prepared by the staff of the United States General Accounting Office. In general, we share many of the concerns regarding New York City's fiscal outlook identified in the draft report and are happy to have this opportunity to outline how these concerns are being dealt with through our monitoring and control process.

We concur with a number of the draft report's main observations, including the following: (1) that funding for future labor settlements and the state of the national economy comprise the two largest areas of uncertainty confronting the City's fiscal future (although we would suggest adding the fiscal outlook of the Health and Hospitals Corporation to that list); (2) that the re-institution of the milestone monitoring system pursuant to the Financial Control Board's February 1979 resolution can provide a useful tool for maintaining effective controls on the City's budgetary progress; (3) that economic development must play an important role in the City's fiscal recovery, in the absence of which the City will need ever-increasing levels of outside aid (or will be obliged to impose chronic reductions in the level of services it provides); and (4) that the City's recent pattern of capital underspending will have to be remedied if the City's capital plant is to be restored to a level which can help improve the City's economic development in the future.
In reviewing the draft report's specific recommendations, however, we would offer the following observations for your consideration:

(1) While we fully concur that future labor settlements and the current national economic downturn (as well as the outlook for the HHC) are serious potential hazards in the City's road to fiscal recovery, we believe that the four-year Financial Plan now in place, together with the quarterly Financial Plan modification process and the steps already undertaken or committed to by the City, provide us with the tools and the opportunity to enable the City to achieve its statutorily-required goal of a budget balanced in conformance with generally accepted accounting principles (GAAP) by fiscal year 1982. In addition, the Financial Emergency Act authorizes the Control Board to modify the Financial Plan at any time if it is necessary to carry out the purposes of the Act. We will not hesitate to recommend such action to the Board if adverse budgetary developments threaten the City's ability to balance its budget in a way that cannot be accommodated within the quarterly modification process.

In evaluating the viability of the City's current four-year Financial Plan, we have considered the City's pattern in recent years of consistently conservative revenue estimates, the Mayor's explicit commitment to continue the underspending of the expense budget which has characterized recent years, the additional $32 million incorporated in the City's general reserve for FY1980 (bringing that up to a level of $132 million), the contingency program amounting to $81 million in FY1980 and $106 million annualized thereafter (which was not formally incorporated into the Plan's aggregate expenditure and revenue limitations, but which will be available on an "as needed" basis for the future), the reinstatement of the milestone monitoring system, and an accelerated process for developing the "PEG" program, all of which augment the Control Board's quarterly review process to determine the extent to which the Financial Plan must be modified on a regular and ongoing basis.

We also agree that early negotiations between the City and its unions would give the City a more accurate assessment of how the settlement will impact its Financial Plan. We have serious doubts, however, as to whether it would be constructive too far in advance of the collective bargaining process to require the City to make its "best estimate" of the costs of a possible settlement in the Financial Plan and to demonstrate precisely how these costs would be funded. Such a requirement could adversely affect the collective bargaining process, particularly if imposed by third parties.
not directly involved in the negotiations. The Control Board, of course, has the ultimate responsibility of approving such collective bargaining agreements only if they are adequately provided for in the Financial Plan before us at that time.

(2) We share your concern that the "Level I" estimates projected for State and Federal aid in the Financial Plan may be too optimistic, although the State's track record during the past two budget cycles does provide a somewhat greater degree of confidence that the State is willing to provide the needed resources than do recent trends at the Federal level. Nevertheless, our concern in this area is precisely what has led the Control Board to require the City to identify in "Level II" the kinds of actions it could take in the event that the more optimistic projections of Federal and State aid are not forthcoming. It is our judgment that the amounts of additional State and Federal aid projected as needed after Level II is incorporated in the Financial Plan remain quite modest and should be attainable, particularly since the "baseline" estimates of projected State and Federal aid are generally conservative.

(3) As noted above, we also concur with the importance of economic development to provide the resources necessary for the City's long-range fiscal recovery. As the draft report correctly points out, absent real economic growth, the City will need ever-growing infusions of State and Federal aid in order to avoid chronic -- and potentially fatal -- reductions in the level of services delivered. This, of course, is a phenomenon which is not unique to New York City and is, in fact, common to most major, older industrial cities. As such, we would expect this problem to be deemed a worthy focus of national policy and Federal attention. By simply dismissing the possibility of a constructive Federal role in the face of the current "taxpayer dissatisfaction with increased governmental expenditures," the draft report reaches conclusions which do not fully consider the regional and national implications of a Federal refusal to provide assistance to areas where economic growth is insufficient to produce adequate resources for essential services.

Nevertheless, regardless of the role ultimately played by the Federal Government, we fully recognize that the City's efforts to promote real economic growth will play an important part in its long-range fiscal recovery, and that these efforts should include taxation policies which make the City more economically competitive. This is
particular importance since State and City taxes were driven to a dangerously high level in the effort to avoid a City bankruptcy in 1975.

In that regard, we believe that both the City and the State deserve substantial credit for the tax reductions which have already been enacted since that time, and during a period of continued fiscal stress. At the City level, this includes reductions in general business taxes and the commercial rent tax, a modest reduction in and cap on the real property tax, a four-year phase-out of the effects of the stock transfer tax, and selective tax incentives for certain kinds of economic development. The State has embarked on a policy of substantial reductions in the personal income tax, cuts in the corporate franchise tax, a four-year phase-out of the unincorporated business tax, increased sales tax exemptions, and a variety of investment tax credits.

While the overall level of City taxation still remains higher than that of the pre-1975 period, one important goal may already have been achieved: namely, a reversal of the perception that New York's tax levels are locked into an ever-increasing spiral and a recognition that the operative trend is toward a lower tax burden in the future.

The draft report's recommendation that the City undertake an even "more aggressive effort" to reduce taxes highlights a fundamental conflict in the near term: in the face of budget gaps such as those now reflected in the Financial Plan (to be compounded, as noted, by the cost of future collective bargaining agreements), it would be extremely difficult for the City to implement substantial additional tax reductions in the short run without drastically curtailing services in a way that could affect economic development just as adversely as high tax levels. Therefore, while acknowledging that substantial tax reductions could encourage economic development in the long run, we would note that it may not be feasible for the City to pursue such a course "more aggressively" until the period after it has achieved its GAAP-balanced budget as required by law.

I thank you again for the opportunity to comment on your draft report and hope that you will find our observations helpful.

Sincerely yours,

Comer S. Coppie
Executive Director
August 31, 1979

Hon. Edward I. Koch
Mayor, City of New York
City Hall
New York, New York 10007

Dear Mayor Koch:

I am writing to urge that you reconsider a proposed 1979-80 $5.7 million budget cut at Queens Hospital Center. Such a cut will necessarily result in the closing of the Hospital.

I have thoroughly reviewed the position paper on Queens Hospital Center which was submitted to me by a joint committee composed of members of Community Board #8 and members of the Hospital's Community Advisory Board.

I believe that there are fiscally viable alternatives for Queens Hospital Center. It is apparent that continuous budget cuts at the Hospital have created the deterioration, under-staffing and steady decline in services at this facility. The Hospital requires renovation and upgrading in order to provide quality health care for the residents of Queens County. It is essential that it remain open to service the people of Queens.

In view of the foregoing, I respectfully urge reconsideration of the proposed budget cut.

Sincerely yours,

[Signature]

ARThUR J. COOPERMAN
Member of Assembly
January 16, 1980

The Board of Estimate
The City Council
The Financial Control Board

Ladies and Gentlemen:

Today I am proposing a program to close the budget gaps for the next two years -- $677 million in 1981 and $1,139 million in 1982. Beyond that I am recommending that in fiscal year 1981 the City achieve a fully balanced budget in accordance with generally accepted accounting principles. In other words, I am saying the City should accomplish the principal goal of the Four Year Financial Plan one year early.

I am convinced that what I am proposing will begin to bring greater stability to New York's government, that it will help ease the City's return to the credit market, that it will allow us to escape from the fiscal bondage which has characterized the last five years.

My recommendations will mean additional service cutbacks. They will mean higher taxes. Every part of the City will feel their impact, and no group will find them easy to accept. But I believe the realities we face require them. Although today's plan gives me no pleasure, I believe I would not be carrying out my responsibility to propose anything less. It is not simply a matter of fiscal prudence but of the City's future.

During the past five years the City has shown progress in achieving fiscal solvency. This progress has been especially clear in the last two years. In each of those years there have been cash surpluses above what the budgets projected. These years have also seen the first employment increase in a decade, a reversal of property value declines, and, most important, a renewed sense of confidence by New Yorkers in their City. To achieve this has required the cooperation and courage of the people of this City and their elected officials.

What I am calling for today is that same spirit of cooperation and courage -- from the people, the members of the City Council, the Board of Estimate, the Legislature, and Congress and from the Governor, and the President -- to complete the task of bringing New York back to a position of financial independence.
For the last month I have been reviewing the problems of the next two years, consulting with Commissioners, talking to the financial community, and taking a hard look at the fiscal issues facing the state and the federal government.

As a result of this review, which looked at both years together, I concluded that the problems before the City have to be addressed in 1981 -- not put off until 1982 with its enormous deficit. To do otherwise would risk undermining much of what has been achieved and threaten the City with the possibility of massive service disruptions a year from now. I also concluded that the City should adopt a genuinely balanced budget, according to generally accepted accounting principles, in 1981, not, as the financial plan calls for, in 1982.

Anyone who has to keep a checkbook, pay a mortgage, or repay a loan can understand the reason for my decisions. It is better to deal early with a financial problem than put off its consequences. To begin to deal with the problems of 1982 in 1981 has that virtue, particularly given the uncertainties involved with federal and state aid and with labor negotiations.

In addition, conversations with the financial community underscored the importance of a balanced budget to regain access to the private credit markets. Moving to a balanced budget ahead of schedule will not guarantee re-entry, but all of those with whom I have consulted have agreed that it will improve our chances and, at a minimum, accelerate ultimate market re-entry.

A balanced budget also represents a major recognition of reality by this City; it is a dramatic statement that we are prepared to do all that is necessary to regain financial solvency and financial independence. And I believe that solvency and independence are critical to create stability in this City's government -- to stop the process of slow bleeding and to give us the chance to prevail over our problems.

In many ways it would have been easier to put off hard decisions in the hopes that something would happen to ease the City's problems over the next year. But to do that would risk a repeat of what took place in 1975 and could well undo all of the progress of the last five years.

The plan itself has two essential components -- a major expenditure reduction program and limited, though not insubstantial, tax increases.

I propose to cut back expenditures in 1981 by $299 million and in 1982 by $461 million. The 1981 cut will be twice 1980's, and, taken together, these reductions will be more difficult than any taken since 1975. Every agency will be cut. But we have attempted to target reductions to reflect basic City goals, and we have tried to make cuts in a way that reduces service delivery as little as possible.
The highest priority has gone to the provision of the most essential City services -- police, fire, sanitation, and education -- services which, because of the high local tax levy support they receive, have been more sharply reduced than others over the last five years. What this means, in police, for example, is that even with a smaller budget, the number of men on patrol will be only 161 less than today -- 6,100 as opposed to 6,261. Even in the area of education, where the cuts are substantial, the actual percentage decline will be less than 3 percent as compared to far sharper cuts in other agencies. Already complaints have surfaced in this area, but what they fail to consider is the increase of $90 million for education which was approved last fall and the better than $50 million increase in the education budget's base included in today's submission.

We have set other high priorities as well -- the maintenance and rebuilding of the City's life support systems, along with the importance of generating revenue.

To make clear our commitment to service delivery we have imposed, where possible, a 10 percent cut in administrative costs, even for the highest priority agencies. And we have imposed a dramatic reduction in Cultural Affairs, Consumer Affairs, and Buildings -- all important agencies but with lower priority than some others.

Beyond that, we have sought to eliminate functions and consolidate agencies where possible. I am recommending today, at the suggestion of Commissioner Heilbron, the abolition of the Department of Ports and Terminals, as well as elimination of the Mayor's Office of Midtown Planning and Development, and the Mayor's Community Board Assistance Unit. Their responsibilities will be merged with those of other agencies, and the number of employees will be significantly reduced. These eliminations and consolidations will result in real savings, not simply shifting personnel from one agency to another. This process of agency review will continue during the months between now and the submission of the expense budget.

As part of this package, I have found it necessary to propose certain local tax increases and have decided on a set of actions that will raise an additional $175 million annually in revenues for fiscal years 1981 and 1982. In reviewing the tax options, I rejected increases in the City personal income tax and corporate earnings tax because of their likely impact on the local economy; I believe the City was right in 1977 to have lowered taxes. Instead, I am seeking actions that are equitable, bring tax receipts in line with inflation, and establish user charges where appropriate.

No elected official, including myself, likes to support tax increases. But the choice here is between taxes and unacceptable service reductions -- additional teacher layoffs, full attrition in the Police Department, the closing of day care and senior citizen centers.
Even with all of the cuts and taxes proposed the City will still need the additional aid from Albany and Washington now in the Financial Plan. During the past two years the State has fulfilled its promises, and the Governor has pledged publicly to the Financial Control Board that over the next two years the State will continue to meet the goals set out in the plan. The proposed reduction in state revenue sharing, however, would work against that end and should be reconsidered. We are continuing to discuss with representatives of the Federal government ways in which they can fulfill President Carter’s commitment to be helpful to us in this process.

In submitting these proposals I want to emphasize some of the reasons why taxes and cuts are necessary. I want to talk to some of the underlying facts behind the City’s budget problems that severely limit where and to what extent the City can reduce expenditures. Most of these involve issues requiring federal and state actions -- actions for which I will fight but which cannot be reflected in today’s submissions, actions which, if taken, would significantly reduce the burden today’s plan imposes on all of this City’s residents.

New York pays for and administers countless programs which should be the responsibility of federal and state governments. This is particularly true in the area of Medicaid, Medicare, and Public Assistance which have shown the greatest growth in expenditure over the last decade. It is also true in areas where the federal government has imposed mandates -- Special Education, Access for the Handicapped, Sludge Disposal -- but has failed to provide the funds to see that those mandates can become real.

New York has a cumbersome, archaic civil service system which in all too many cases works against productivity, efficiency, and the merit it was supposed to guarantee. Reform of this system would allow the City to use its limited resources more effectively and minimize the pain of budget reductions.

These, along with rapidly rising fuel costs, the burden of In Rem properties -- properties that the City was forced to take over because of non-payment of taxes -- and the large share of the City’s budget that goes to debt service, force cuts in vital services and exacerbate the grim reality of New York’s fiscal condition.

Relief in all these areas is a fundamental goal of this administration. But the pursuit of that relief cannot be an alternative for the City to confront its problems directly.

Today’s budget submission is just that. It is not a pleasant or easy plan, but it is necessary. If enacted, it will be a major step in ensuring that New York does not simply survive but overcomes its present fiscal dependency.

Sincerely,

Edward I. Koch
Mayor
MEMORANDUM

To: Hon. Edward I. Koch
    Mayor

From: James R. Brigham, Jr.
    Director

Subject: Federal Actions

We have analyzed the various federal actions that have been under discussion with officials of the administration for the past few months. The results of our analysis are set forth in the attached schedules.

As you know, the means by which federal aid can be used to close our budget gap are limited to the following:

1. increased or new unrestricted aid programs, such as revenue sharing and countercyclical assistance
2. increased federal participation in such formula based grant programs as medicaid or welfare
3. greater flexibility to use block grant or categorical funds to supplant City funded expenditures in such areas as foreign dignitary protection, abandoned housing and reimbursement for indirect costs

While recent public reports indicate significant amounts of federal aid flowing to the City, the amount of such aid which meets the "gap closing" criteria is small.

Types of aid other than "gap closing" aid, are set out separately in the attached tables and comprise the vast bulk of federal aid identified by the administration. We have classified such aid as

1. cost avoidance - assistance provided to avoid a federal action that would otherwise cost the City money and increase our gap
service enhancement - aid that is restricted as to its use and therefore cannot close our gap but can be used to improve services, such as UDAG and PAUS grants

Within these classifications, we have developed three categories describing the status of federal actions:

- approved administrative actions that are entirely within the discretion of the agency and for which sufficient appropriations exist
- legislative actions that are supported by the administration but that require new federal legislation or new budget appropriations
- pending administrative actions in which the status of our discussions with the administration suggests that approval is likely and no new appropriation or legislation is required

The following table sets forth a summary of federal actions:

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<th>Fiscal Years Ending June 30</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>($) in millions</td>
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<tr>
<td><strong>Gap Closing</strong></td>
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</tr>
<tr>
<td>Approved Administrative</td>
<td>$ 8.1</td>
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<tr>
<td>Pending Administrative</td>
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<tr>
<td>Legislative</td>
<td>26.7</td>
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<tr>
<td></td>
<td>$39.8</td>
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<td><strong>Cost Avoidance</strong></td>
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<td>Approved Administrative</td>
<td>$106.6</td>
</tr>
<tr>
<td>Pending Administrative</td>
<td>52.0</td>
</tr>
<tr>
<td>Legislative</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$158.6</td>
</tr>
<tr>
<td><strong>Service Enhancements</strong></td>
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<tr>
<td>Approved Administrative</td>
<td>$ 70.5</td>
</tr>
<tr>
<td>Pending Administrative</td>
<td>35.0</td>
</tr>
<tr>
<td>Legislative</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$105.0</td>
</tr>
</tbody>
</table>
As you can see from the table, the gap closing administrative actions are minimal. Including new legislative actions supported by the administration, federal aid still would fall well short of the goals we have set of $100 million in 1981 and $200 million in 1982. To put these goals in perspective, you should know that even if they are met, total federal gap closing aid to the City from 1979 through 1982 would be $292 million short of the assumptions and commitments contained in the January 1978 financial plan.

In my view, the City's efforts to balance its budget and reach a reasonable labor settlement will be set back severely unless federal aid meets at least the reduced goals we have set in the financial plan. Since significant amounts of recurring aid can be obtained only by new legislation, we should seek and obtain the active support of the administration for the types of legislative initiatives set out in Table IV. These include a redress of the historically inequitable funding formulas for welfare and medicaid and appropriation to the full authorized level of certain types of education aid.
### FEDERAL ACTIONS

**TABLE 1**

**GAP CLOSING ITEMS**

($ Millions)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Approved Administrative Actions</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Urban Parks Grant, Indirect Costs</td>
<td>$ .1</td>
<td>$ .1</td>
<td>$ .1</td>
<td>$ .1</td>
</tr>
<tr>
<td>U.N. Police, Indirect Costs</td>
<td>1.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Dignitary Protection</td>
<td>3.1</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
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<tr>
<td>Acquisition, City/State Owned Housing</td>
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<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Total</td>
<td>$ 8.1</td>
<td>$ 3.8</td>
<td>$ 3.8</td>
<td>$ 3.8</td>
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<tr>
<td>Legislative Initiative</td>
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<tr>
<td>Countercyclical Assistance</td>
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<tr>
<td>General Revenue Sharing</td>
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<td>10.0</td>
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<td>Foreign Dignitary Protection</td>
<td>2.7</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Welfare</td>
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<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
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<tr>
<td>National Political Convention</td>
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<td>3.5</td>
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<tr>
<td>Total</td>
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<td>Pending Administrative Actions, Approval Expected</td>
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<td>Revenue Sharing, Revenues Dedicated to Education</td>
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OMB 2/21/80
## FEDERAL ACTIONS

**TABLE II**

**COST AVOIDANCE ITEMS**

($ in Millions)

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<tr>
<td><strong>Approved Administrative Actions</strong></td>
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<td>Bridge Repair</td>
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OMB 2/21/80
February 22, 1980

President Jimmy Carter
The White House
Washington, D.C. 20500

Dear Mr. President:

I wish to bring you up to date on the progress being made to close New York City's projected budget gap and to acknowledge the assistance being provided by your staff in identifying additional sources of federal aid. Orin Kramer of your Domestic Policy Staff and Jim Greenfield, his assistant, have expended a great deal of time and effort on behalf of our concerns and I am grateful for their assistance. Much progress has been made, and I remain hopeful that the planned City, State and federal contributions will be forthcoming.

As we discussed on a number of occasions, the federal aid to the City in our fiscal years 1979 and 1980 has fallen substantially short of the assumptions contained in the January 20, 1978 financial plan prepared with then Secretary of the Treasury W. Michael Blumenthal. The total shortfall in federal aid over the two years is $217 million, which the City has absorbed while still meeting its statutory budgetary requirements.

Last month, I proposed that the City would have a balanced budget under generally accepted accounting principles in our fiscal 1981, one year ahead of the schedule established under the financial plan and the federal loan guarantee legislation. To achieve a balanced budget, the City must have $100 million of additional federal aid by administrative actions and Congressional legislation. To sustain a balanced budget, this aid must be recurring and must increase to $200 million in fiscal year 1982.

I want to make it clear that I'm not asking anything additional for the City of New York that is not set forth in the 1978 financial plan. The federal assistance we are asking for in fiscal year 1981 is $93 million less than the total federal commitment assumed in the 1978 financial plan. Indeed, if the additional aid is provided, total federal gap closing aid to the City from 1979 through 1982 would be $292 million less than the assumptions contained in the 1978 financial plan.
In our discussions with members of your Administration, we have identified $4 million in administrative measures that would provide gap closing assistance to the City in our fiscal year 1981. In addition, federal actions that require Congressional legislation and that are supported actively by your administration would provide $68 million of assistance based on our current estimates. This includes $28 million for countercyclical and $25 million for partial assumption of local welfare costs. Also, we have identified $10 million of additional administrative actions, where federal approvals are pending. The total of the money so identified is $79 million, leaving a balance of $21 million for identification if we are to have a truly balanced budget which would be the hallmark of my first term in office and a fulfillment of the faith that you expressed in the City by your support of the loan guarantee act.

While we are reasonably close to our goal for fiscal year 1981, it is clear that we cannot meet the goal for 1982 without substantial new actions. Such actions are likely to be provided only by legislation and we are seeking your active support for three measures:

**MEDICAID:**

The City urges a change in the formula for calculating reimbursement rates for state participation in the Medicaid program. The formula was developed in the 1940's and establishes the federal share in each state on the basis of per capital income. As such, the formula fails to take account of regional differences in cost of living and therefore discriminates against states with a high cost of living. New York State receives the minimum federal share of 50%. Senator Moynihan has proposed a bill which would benefit 41 states and hold the remaining nine states harmless at a national cost of $2 million. The City estimates that it would save $238 million in 1981, $260 million in 1982 and $301 million in 1983.

**WELFARE:**

The Administration's proposal would save the City about $25 million annually. This is a modest first step. A change in the reimbursement formula similar to the proposed change for Medicaid could provide an additional $92 million annually.

**EDUCATION AID:**

Your proposed budget seeks to eliminate a major portion of the Impact Aid. This will have an immediate impact of an $18 million cut in our 1981 budget. On the other hand a modest increase of $200 million or full funding of the Section 238(a) assistance would increase the City's share by $22 million annually.
EDUCATION AID (Cont'd)

You also propose an increase of $100 million in Title I, Concentration Aid. This would increase the City's share by $10 million annually. Full funding to the authorized level, an additional $100 million, would add another $10 million annually. Because this program is forward funded the impact will not be felt until our fiscal year 1982.

Finally, I am enclosing a copy of a memorandum prepared by the City's Budget Director, James Brigham, which more fully addresses the issues I have raised above. The City of New York needs your active support on these matters to ensure its fiscal recovery. I appreciate your giving these matters your attention and look forward to hearing from you soon.

All the best.

Sincerely,

Edward I. Koch
MAYOR

Encl:
May 9, 1980

TO THE BOARD OF ESTIMATE AND CITY COUNCIL

Ladies and Gentlemen:

I am pleased to submit to you the Executive Budget for the 1981 fiscal year. This budget presents a program to achieve the first truly balanced budget for the City of New York in more than a decade. Accomplishing this essential goal will be extraordinarily difficult and will involve great uncertainty. Yet I am convinced more than ever that we must address now the fundamental fiscal issues facing the City.

A balanced budget is not an abstraction sought for the sake of fiscal purity. Rather, it provides a discipline, a measure of our ability to deal honestly with ourselves and our fellow citizens and City workers about the limits of our resources and the cost of services demanded. We cannot spend money that we don't have. We cannot deliver services that are not paid for.

The reasons for supporting a balanced budget are at least as compelling today as they were when I proposed it in January. The constraints of our capital budget this year underscore the importance of the City's return to the public credit markets. Our capital needs far exceed our financing resources, and our financing agreements will expire in just two years. A balanced budget is the cornerstone of the City's financial self-sufficiency.

Balancing the budget in 1982, as the law requires, presents problems more severe than we anticipated in January. We must deal with these problems in 1981 to avoid unmanageable problems the following year.

Achieving a balanced budget will require that we implement the City actions proposed in January. The Executive Budget reflects almost all the expenditure reductions and tax and revenue increases set forth in the program to eliminate the gap. There is one significant change, however. Based on all the information provided to me, I have decided to propose that $13 million of the planned $111 million cut in the Board of Education's budget be restored in order to maintain basic instructional services. Approximately $82 million of the remaining $98 million in cuts will be in administrative and support functions or will reflect savings from declining enrollment. In addition, since the financial plan in January, we have added $69 million to the Board's budget to cover the costs of mandated special education programs and a special State remedial instruction program, and to cover a loss of $15 million in Federal aid. In all, the Board of Education's total budget for 1981 will increase by $148 million above its modified condition for 1980. This increase exceeds the net increase to the budgets of all other City agencies combined. An increase of City funds and of State education aid has provided the necessary funding. The entire increase of $120 million in State education aid has been added to the Board's budget. Since the Executive Budget was completed, the State has indicated that up to $9 million of additional education aid will be paid to the City in 1981. If the aid is forthcoming, I will propose that it be used to restore a portion of funds cut from the Board's budget.
In addition to education, I have placed highest priority on the maintenance of essential City services—police, fire, and sanitation. The reductions proposed in these agencies include administrative economies and centralization, but with proper management and improvements in productivity we will be able to deliver substantially the same level of services as in 1980.

Since the financial plan was approved in February, additional expenditures have been identified and other reductions have been made. Taking into account these reductions and additions, the net increase in expenditures will be $372 million, 2.8 percent higher than the 1980 modified budget.

We must recognize the possible need to reduce City expenditures further during 1981. Such reductions, which would necessarily affect essential City services, may be required to accommodate shortfalls of Federal aid, as well as the possible effect on our tax revenues of a deeper recession than is now forecast.

Given these uncertainties, implementation of an increase of $1.75 million in local taxes and user charges, as proposed in the budget, is essential. I am pleased that the City Council this week took the next step and approved home rule measures for those increases requiring State enabling legislation. I expect to work actively with both the State and local legislative bodies to assure approval of this program. We cannot expect to be successful in our pursuit of State and Federal aid if the City has not taken actions within its control to increase revenue.

The Executive Budget anticipates that both the State and Federal governments will provide the level of gap-closing aid assumed in the financial plan submitted in January 1980. The State commitment can be met by the restoration of revenue sharing funds cut from the budget adopted by the State last month. With respect to Federal aid, the Carter administration has given its assurance that it will use its best efforts to provide $100 million of gap-closing aid to the City.

The need for this aid is clear. The City continues to pay for and administer countless programs that are mandated by the State and Federal governments and should be their responsibility. The City provides more than $1 billion in locally-raised funds for its share of Medicaid and public assistance. Special education for handicapped children, a Federal mandate administered by the State, will cost the City nearly $300 million in 1981. From 1979 to 1981, the cost to the City of these three programs—medical assistance, public assistance, and special education—will have increased by $904 million, raising their proportion of total City-fund expenditures from 12.7 percent in 1979 to 15.5 percent in 1981. As a result, essential City services continue to be cut back to pay for these mandates.

In 1981 alone, the local cost of these mandated programs will increase by $257 million, far exceeding the amount of Federal aid we are seeking. The $100 million in Federal aid included in the Executive Budget, if provided, would nevertheless leave total Federal gap-closing aid to the City $112 million short of the assumptions in the 1978 financial plan, which formed the basis of the Federal loan guarantee program. We must begin to address these fundamental inequities if the City is to regain its fiscal health.

The Executive Budget provides for a collective bargaining agreement comparable to the agreement reached in 1978. In addition to a four percent increase payable October 1, 1980, we have allocated funds in the 1981 financial plan sufficient to continue the non-pensionable cash payment for two more years. I recognize the severe impact inflation has had on City workers and other public- and private-sector employees. None of us—government, labor, or business—can keep up with inflation; a testament to its evil nature. If we are to increase the funds available for collective bargaining, such funds can be provided only by revenue increases beyond those now anticipated further reductions in expenditures, greater productivity or other savings.

The 1981 capital budget marks two important milestones for the City. For the first time in more than a decade, the capital budget will be devoted exclusively to capital projects. And for the first time since 1978, when we completed agreements to provide $2.5 billion in capital financing, the capital program will be constrained more by the availability of financing than by the City’s capacity to proceed with capital projects.
The capital budget and the four-year plan focus on two areas of critical need: rehabilitation and reconstruction of the City's infrastructure and other physical assets instead of new construction; and investments to support and reduce the cost of City operations. In addition to continuing highway and sewer improvements, major infrastructure investments include $150 million to advance the Third Water Tunnel and reconstruction over a four-year period of all bridges whose condition is rated less than fair. Investments in City operations include maintenance of rational replacement cycles for sanitation and fire equipment, major investments in the waste disposal system, construction of correction facilities to replace Rikers Island in the event that we go forward with its transfer to the State, and investments to promote energy conservation.

I am particularly proud that the City's capital program has begun to move forward. New commitments of City funds are projected at $1 billion in 1981, more than two-and-a-half times the level of commitments in 1979. This growing pipeline of projects assures that the City will spend the full amount of capital funds available to it through the 1982 fiscal year. And on the basis of the priorities set forth in the capital budget I am submitting to you, I am confident that the monies will be well spent.

How do we sum up the two years that have gone by?

I think we can say that we have come a long way, and we can be very proud of what this City has accomplished with the help of the people who live and work here and with the dedication of the municipal workers. It has not been easy for our citizens. They have been asked to sacrifice, and those sacrifices continue, but this City is worth sacrificing for.

We are the world's capital, the capital of commerce, communications and culture. In their heart of hearts, millions of people around the world would, if given the option, choose to live in the City of New York. We who live and work here are lucky.

Sincerely,

[Signature]

EDWARD I. KOCH, Mayor
May 13, 1980

TO: Augustus Beekman, Commissioner
    Fire Department
FROM: Julius Spiegel, Assistant Director
SUBJECT: Overtime

At the direction of Nat Leventhal a task force has been formed to look into overtime abuses. The task force consists of representatives from the Department of Personnel, OMB, OMLR, and the Office of Operations; it is chaired by Brendan Sexton, Deputy Director of the Office of Operations. Representatives of operating agencies will be invited to serve on an ad hoc basis.

At this point the task force is trying to familiarize itself with all aspects of overtime; actually all additions to normal gross, because we will also be looking at things such as shift differentials. We will be looking at areas such as:

- Padding prior to retirement.
- Excessive use of overtime.
- Inequitable distribution of overtime.

The main problems seem to be in the uniform forces. The Fire Department, however, seems to have made major progress in controlling its use of overtime. While we recognize that overtime issues are often unique to agencies and are sometimes influenced by contractual conditions, I think a presentation by the Fire Department on how you've achieved progress would be very useful to the task force.

I'd appreciate your having your secretary call me at 566-6388 and tell me when you or your representative can meet with us.

JS:da

cc: N. Leventhal
    B. Sexton
June 5, 1980

Hon. Hugh L. Carey
Governor of the State of New York
State Capitol
Albany, New York 12224

Dear Governor Carey:

My enclosed letter of May 30 expressed the belief that current discussion of long-term financing arrangements for the City of New York lacks sufficient emphasis upon re-establishment of the City's own capability for capital borrowing. I fear that through inertia we could drift into a situation in which the Municipal Assistance Corporation, with its reliance on State credit, becomes the ongoing financing agent for the City. That situation would be regrettable in terms of the potential impairment to both the City's municipal autonomy and the credit of State government.

To address the problem, I recommend certain additions to the legislation for the extension of the Municipal Assistance Corporation. My proposed additions, as they would be incorporated in your Program Bill, are enclosed and I respectfully urge your serious consideration. This letter and the enclosed legislative proposals are also being forwarded to the Legislative leaders.

As you know, the MAC board of directors has now advanced a plan to meet the City's financing needs through fiscal year 1984. The MAC plan calls for use of the $900 million in standby Federal guarantees during fiscal years 1981 and 1982. Most of the MAC public sales during those years, an amount planned for $800 million, would be placed in reserve to prefund City needs in fiscal years 1983 and 1984. The remaining capital requirement in those two later years, an estimated balance of $1.4 billion, would come from a combination of subsequent MAC and City borrowing.

While constituting a sensible approach overall, I believe the MAC framework must include a stronger emphasis upon development of the City's own financing capability. There has been a
suggestion from the MAC staff that of the amounts to be raised in fiscal 1983 and 1984, an estimated $700 million in each year, $500 million could come from MAC sales and $200 million from city borrowing. It is premature to suggest such numbers. Rather, we should do everything possible, starting now, to maximize the ability of the City to finance its capital needs through issuance of its own obligations.

As indicated in the May 30 letter, my initial inclination was to suggest that we impose restrictions upon the use of any new MAC capacity in fiscal years 1983 and 1984. Such restrictions would allow MAC borrowing only after proposals for city borrowing had been planned and tested. A further review, however, has revealed legal and practical complications to such an approach.

Nevertheless, I believe that we have formulated satisfactory means to assure that every conceivable opportunity for independent City financing is pursued. The most important need is for the City to develop an aggressive and unified program to restore its credit rating for traditional securities and to explore new borrowing approaches. The best means to encourage such an effort is through the established processes of the Financial Control Board. This oversight mechanism, despite certain problems, has proved successful in helping to bring the City to the point where a truly balanced budget now seems achievable. With this track record, the Control Board should be a suitable entity through which to conduct a new process of State oversight for specific City plans to obtain renewed access to the public credit markets.

Under my proposal, the City would be required by December 31, 1980, to prepare and submit to the Financial Control Board a program for restoration of financing capability. This program would outline specific steps to be pursued in order to make City borrowing possible. The City would be required to thereafter report periodically to the Control Board on the progress of its financing efforts and the accomplishments of its plan. The Board could require revisions in the program as necessary. The goal would be to reduce the reliance upon MAC in fiscal years 1983 and 1984 and, hopefully, to restore full market access by fiscal year 1985.
The approach I suggest would provide an appropriate framework for an extension of the MAC authority. As indicated in the enclosed material, the enactment of this method will require that amendments to the Financial Emergency Act accompany Legislative adoption of the MAC bill. In addition, I have included proposed language for a section on Legislative Purpose in which the intent that there be no further extension of MAC borrowing authority after fiscal year 1984 is clearly stated.

My staff and I are available to discuss this proposal with all the parties involved.

Sincerely,

Edward V. Regan
State Comptroller

cc: Hon. Edward I. Koch
    Hon. Felix G. Rohatyn
    Hon. Harrison J. Goldin
June 24, 1980

The Honorable Edward I. Koch
Mayor of the City of New York
City Hall
New York, NY 10007

Dear Mayor Koch:

Attached you will find our review of the City's budget for the 1981 fiscal year, as well as our assessment of the outlook for fiscal year 1982. The budget which you submitted, as modified in the adoption process, represents the most significant advance made by the City since this period began in 1975. That the budget is balanced according to generally accepted accounting principles a year before it is statutorily required is vital to obtaining access to the debt markets. The process of achieving full credit market acceptance will require a succession of such balanced budgets.

While we applaud its intent and believe that it can be implemented as adopted, there are several potentialities which place this ambitious plan squarely in jeopardy. One of these is the tentative labor settlement announced last week which includes wage increases at a level likely to match the rate of inflation over the term of the contract. While this agreement may in fact represent as reasonable a rate increase as could be negotiated, and while it may be a fair settlement given the level of the last two contracts, one thing is certain--the cost is clearly more than the City can afford, given the resources presently available.

In 1976 we started with a no-cost labor contract, moved to a limited-cost contract with productivity goals—in 1978, and have now reached a full-cost contract with no productivity in 1980. The reality of the situation is a City still far from fiscal strength whose recovery will be hurt, not helped, by the trend of these settlements.
As it now stands, the tentative labor settlement and other expenditure decisions made by the City have resulted in a projected FY 1982 gap of $1 billion. That year has the clear potential for the kind of drastic actions not required since FY 1976, and there is an urgent need for a plan to deal with it.

The situation is exacerbated by the lack of any agreement on labor productivity measures in the proposed contract. If an impoverished city agrees to increase the wages of its employees at full market-rate levels, it requires a demonstrable increase in efficiency. The efforts of both the City and the Unions to date have not been successful in identifying areas of real savings and meeting productivity goals measured in dollars. For New York City, increased productivity is no longer a matter of choice, it is a matter of survival. It is a challenge which both the City managers and Union leaders should be expected to meet. The Productivity Council should be called upon immediately to develop a plan on an agency by agency basis.

Yet another threat to stability and balance over the next two years is the possible lack of Federal Guarantees. Should the Department of the Treasury fail to issue Guarantees in fiscal years 1981 and 1982, as outlined in our proposal to the Treasury dated June 6, additional costs in the range of $60 to $90 million will have to be borne by the City. In addition, without Guarantees, more of MAC's borrowing authority will be exhausted, making post 1984 financing more difficult.

These items, when added to the problems of intergovernmental aid which lags the Plan, expenditure reductions which have proven difficult to implement, and the effects of the recession on the City's revenues, creates a risk for FY 1981 balance, and reaffirm our deep concern about FY 1982. Indeed, as the Special State Deputy Comptroller pointed out, had the City adhered to its February Financial Plan, it would now be almost $200 million closer to true balance in 1982.

However, there is evidence that the City is moving in the opposite direction. A year ago this Corporation recommended a resumption of the attrition program as one way to gradually pare baseline costs. Instead, the City predicts that by the close of FY 1981, it will have 4000 more employees than were projected in its February Financial Plan. While externally imposed mandates may demand additional staff in selected areas, the idea of a larger overall workforce is not realistic.
The solution to this problem cannot await the arrival of the 1982 budget. In order to avoid substantial layoffs, significant new taxes and service cuts which further erode the quality of life, a plan of action must be chosen soon. No doubt it will require reliance on each of these to some degree but only by beginning now will it stay within tolerable limits.

The course which the City has chosen is clearly fraught with risk for FY 1981 as well as FY 1982. It is our judgement that it requires frequent review and early action should the City's assumptions fail to materialize. For this reason we will ask the Special State Deputy Comptroller to report to this Board at the close of the first quarter of fiscal 1981. We will then be able to assess more completely the operating results to that date, the provision by the Federal budget as adopted of funds for the City, the decision by the Department of the Treasury with regard to issuing Guarantees in FY 1981 and 1982, and the final labor settlements. By that time the City should adopt and the Control Board should approve a plan which assures budget balance in FY 1981 and completely funds the $1 billion imbalance which it currently projects for FY 1982. We would expect the Financial Control Board to assist the City in the formulation of any new actions which may be decided upon, and to provide support and direction as the City carries out any such plans.

Sincerely,

Felix G. Rohatyn
The Municipal Assistance Corporation
For The City of New York

ANNUAL BUDGET REPORT: June 25, 1980

SUMMARY

The City's submission on May 11, 1980 of the 1981 Executive Budget is balanced according to generally accepted accounting principles (GAAP). Although the City is not legally required to balance its budget according to GAAP until 1982, the decision to accelerate this timetable to include fiscal 1981 is a positive step toward reentry to the long-term credit markets.

From FY 1976-1979 the City steadily reduced the accounting deficit from $1.8 billion in FY 1976 to $422 million in FY 1979. The City's greatest success during this period was in controlling its expenditure growth. It is commendable that the net expenditures for City operations only grew approximately 3% during fiscal years 1976 through 1979. In addition, there have been external factors which MAC has cited in previous reports which contributed to the City's accomplishments during this period, including significant growth in City tax revenues, increased Federal and State budget-balancing aid, nonrecurring revenues, reduced debt service costs and the availability of financing. These events combined to provide the City with a foundation for meeting its fiscal as well as statutory goals.
The budget for FY 1981 reflects a departure from the trends evidenced in budgets since 1976 in that those resources and events which have assisted the City in the past appear to be largely exhausted. The economic growth in City tax revenues will be restricted during the current recession and the upcoming years of recovery through 1983. Federal and State budget-balancing aid has been reduced from prior years' levels and remains constant throughout the financial plan period. The FY 1981 budget contains about $204 million of nonrecurring revenues, some of which are not even assured for that year, and there are few prospects for other such revenues to be identified for succeeding years. In addition, the use of year-end cash to prefund a portion of the labor settlement perpetuates the illusion that the City's revenue base can support these higher expenditure levels on an ongoing basis.

* * *

Based on our review of the FY 1981 budget we have concluded the following:

--The City has reduced the impact of expenditure reductions proposed in the February Plan by allocating increased revenues to fund greater expenditures. In some areas, expenditure cuts were actually restored. The use of greater-than-anticipated revenues and other available funds to offset expenditure increases may be a short-term expedient, but this practice only exacerbates the problem of a balanced budget in FY 1982 and beyond. As funds to offset new expenditures become more scarce, the City will not be prepared to address the reality of basic expenditure levels which exceed recurring revenue sources.

--The budget provides little margin to cover the potential revenue shortfalls and expenditure overruns that appear imminent. Indeed, the City will be several months into the 1981 fiscal year before the impact of these uncertainties can be accurately measured. Meanwhile, the City has no contingency plan to offset the substantial uncertainties already identified. The City's general reserve of $100 million may be depleted early in the year leaving the City to look elsewhere for savings.
--The City's financial plan already reflects the fact that the recurring value of its FY 1981 budget-balancing actions, even with the addition of planned incremental actions, will not balance FY 1982. Further, even the estimated FY 1982 deficit assumes the receipt of Federal and State aid which is far from certain, and the attainability of savings from expenditure programs which have yet to be tested.

--The tentative agreement recently reached by the City and the municipal unions adds substantially more costs than those provided for in FYs 1981 and 1982, without providing any savings from productivity measures. Assuming that the uniformed coalition, which is still in the process of negotiating, reaches a similar settlement, we estimate that approximately $141 million in additional costs will have to be funded in FY 1981, and over $459 million will be added to the gap in FY 1982. This tentative settlement, therefore, threatens the projected budget balance in FY 1981 and creates a gap in FY 1982 which now totals nearly $1 billion.

--In the absence of increasing Federal and State aid, significant local revenue growth and debt service decline, which have contributed to the City's progress in the past five years, the City must take steps to reduce its expenditure base. The tentative labor settlement, coupled with the dwindling alternatives for closing the budget gap, may force the City to take drastic actions to balance its FY 1982 budget. The need for such additional fiscal retrenchment while continuing to provide services to the people of the City of New York will be extremely difficult and will require structural and institutional reforms that enable the City to maintain essential programs while achieving new levels of productivity.

Thus, the budget for FY 1981 aspires to, but does not guarantee, the goal of a GAAP-balanced budget. The City's operations must be closely monitored on a timely basis by the Financial Control Board. New programs must be designed in FY 1981 to strengthen the City's position for FY 1982. We look to the Financial Control Board to assist the City in the formulation of these plans, and to provide support and direction as the City carries out these actions.
July 1, 1980

Honorable Edward I. Koch
Mayor, City of New York
City Hall
New York, New York 10007

Dear Mayor Koch:

I have had an opportunity to review the proposal which would convert Sydenham Hospital into a facility for drug addicts, alcoholics and the mentally ill.

Since this proposal has been made public I have had an opportunity to speak with literally hundreds of my constituents about the said proposal. The overwhelming view of these constituents is that to convert Sydenham Hospital to such a proposed use would have an inevitably adverse and detrimental effect upon the quality of life of the members of our community. That this institution continues to have an occupancy rate of close to eighty percent during a period when it is being harassed and when there are daily reports that it would soon close, is clear and convincing evidence of the real need for its existence as an acute-care facility. My conversations with present and former patients of Sydenham reflect an expressed satisfaction with the high quality of care they have received at this institution.

I have been intimately involved in the efforts to keep Sydenham Hospital open as a viable institution for the past ten years - long before I was accorded the honor of representing the Harlem community in the City Council. I am intimately familiar with all of the fiscal, political, social and other arguments, on both sides. I truly believe that I am knowledgeable about the needs, the aspirations, the hopes and the frustrations of the deprived community which I represent. I am absolutely convinced that the need for Sydenham to be continued as an acute-care facility has been adequately demonstrated. There is no issue that so stirs the emotions of my constituents as this one, and I personally and sincerely appeal to you to reconsider your decision to close this institution.

We anxiously await early word from you in this regard.

Very truly yours,

Fred Samuel
City Councilman
MEMORANDUM

TO: Robert Wagner, Jr.
FROM: Edward I. Koch
DATE: July 11, 1980

See the enclosed. It should be answered immediately so that Fred Samuel won’t be able to say we have ignored his letters.

mg
encl.

cc: Victor Botnick

exclude this page?
Fred Samuel  
Council Member  
City of New York  
City Hall  
New York, New York  10007  

July 15, 1980  

Dear Fred:  

I have received your letter of July 1st regarding Sydenham Hospital.  

As I have said on many previous occasions, I believe that the Health and Hospitals Corporation is in dire need of reform. There are too many unused hospital beds (2,000 empty beds each night) which drain our resources while there are too few neighborhood clinics that should be providing the preventive and primary medical services that are better for the patient and more cost effective.  

As you know this was the background that led the Health Policy Task Force to recommend the closing of Sydenham Hospital - a recommendation that has been upheld by the Federal District Court and the Court of Appeals.  

It was and is my belief that by closing Sydenham Hospital which is an old inefficient and expensive facility, the City would achieve the savings needed to reduce the Corporation's deficit and provide for cheaper and more effective services. The City has in fact embarked on a program to increase services by expanding the hours at the Sydenham Neighborhood Family Care Center, by leasing the Lower Washington Heights N.F.C.C to a community organization, and by implementing the program that will add four satellite ambulatory care clinics in Harlem.  

Due to my sincere concern that the availability of health services to the residents of Harlem be expanded, I instructed my staff to include in our discussions with the Federal and State Governments regarding Metropolitan, the need to use the Sydenham facility as a health related facility. Available health statistics suggest that there is a significant need in Harlem for alcohol and drug abuse related services.
1. The death rate from drug dependence in 1976 in central Harlem was 32.2 per 100,000 compared to a Manhattan rate of 11.9 and a New York City rate of 6.0 per 100,000.

2. In 1975 cirrhosis of the liver was the third leading cause of death in central Harlem, where the rate was 126.3 per 100,000 compared with the rate of 56.7 in Manhattan and 29.5 for New York City.

3. The 1975 neonatal non-white deaths, under 28 days per live births, was 25.0 for central Harlem, 17.7 for Manhattan and 16.6 for New York City. The non-white infant mortality rate for the same year was 31.7 for central Harlem compared to 22.8 for the borough and 22.5 for the City. Drug addiction and alcoholism are risks in pregnancy.

4. In 1975 Sydenham Hospital discharge planning study showed that 70% of the medical patients admitted to Sydenham suffered from alcoholism or drug dependent related illness.

The proposal to establish Sydenham as a facility to care for the multiply disabled is a unique and innovative one. The implementation of the proposal would remove one of the barriers to health care services for those afflicted with drug and alcohol abuse illness. Through the lack of such attention, many difficult to treat multiply disabled clients have slipped between the more narrowly defined charges of different treatment agencies and, therefore, never receive the appropriate, if any, treatment.

As you know the proposal calls for Sydenham's facility to be operated by a community group and for funding to be provided by the Federal and State Governments with the City to continue meeting its statutorily mandated obligations under Federal and State law. It is my hope that you will work with us to identify such a group so that we can move ahead within the next sixty days to submit formal applications for funding to the Federal and State Governments.

I believe that the agreement that I signed in Washington with Secretary Harris and with Richard Berman on behalf of the Governor, is a reasonable and rational approach in attempting to address the health care needs of the people of Harlem and East Harlem. It is my hope that after reviewing the proposal we can discuss this issue and gain your support for the approach that has been agreed upon.

All the best.

Sincerely,

[Signature]

Edward I. Koch
Mayor
Honoruable G. William Miller
The Secretary of the Treasury
U.S. Department of the Treasury
15th Street and Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Secretary:

Pursuant to Section 6.21 of the Agreement to Guarantee, dated as of November 15, 1978, by and among the United States of America, the Financial Control Board and various other parties, please be advised that it currently appears that projected real estate tax receipts to be retained in the General Debt Service Fund established pursuant to Section 9-a of the Financial Emergency Act will be sufficient to make the scheduled debt service payment of $39,749,109.95 on Guaranteed City Indebtedness due on August 15, 1980, without requiring the deposit of additional monies in the Fund.

The City currently projects that approximately $773 million of receipts from real estate taxes will be deposited in the General Debt Service Fund during July, of which approximately $299 million must be retained to pay monthly debt service (including debt service on Guaranteed City Indebtedness) during the months of August and September. The amounts projected to be retained in the Fund during the period beginning with the fifth banking day prior to the payment date for Guaranteed City Indebtedness and continuing through the payment date appear sufficient to provide for the payment of all principal and interest on all outstanding notes or bonds of the city, including Guaranteed City Indebtedness, that is due during such period.
Copies of this notice have been sent to each of the parties specified by Article 9 of the Agreement to Guarantee.

Very truly yours,

FINANCIAL CONTROL BOARD

By: Comer S. Coppie
   Executive Director
THE CITY OF NEW YORK

July 23, 1980

Hon. Joseph Barkan
President
Board of Education
110 Livingston Street
Brooklyn, New York

Dear President Barkan:

As you know, the City's financial plan is being revised to demonstrate to the Financial Control Board by August 15 that the City can overcome the $1.2 billion 1982 budget gap and keep its 1981 Plan in balance. The Executive Director of the Financial Control Board has echoed our concerns that an adequate fiscal monitoring system for the Board of Education must be in place if the revised plan is to be approved. Therefore, it is necessary that the Board of Education give its commitment by July 30 to implement the system.

In fiscal year 1980 the Board of Education is estimated to have spent $97 million more than was appropriated for it in the adopted budget. These over-expenditures, attributable in large part to programs that were difficult to contain, precipitated a mid-year fiscal crisis that required major budget revisions. The effort to determine the causes of the Board's financial problems in order to fashion a responsible solution was hampered by the absence of consistent financial systems in the City and the Board. Inevitably, the resolution of the Board's budgetary problems raised questions about the Board's ability to control expenses and live within its own budget as well as the City's ability to monitor and project educational expenses.

The development of accurate financial management systems is also needed to fulfill the commitment to public education that we all share. Such systems are essential to assure the Board that program expenditures are consistent with educational policy, that the funding exists to support program allocations,
and that there will be no disruption of services during the year. Similarly, it is important to the City Administration, the Board of Estimate and the City Council that the City's financial system reliably record Board of Education expenses, since adequate financial and resource use information is essential for assessing educational funding needs for budget preparation and adoption. The City's elected officials and the City's fiscal monitors must be assured that in establishing its budget and incurring expenses, the Board will not exceed its own budget and thereby create a need for additional City funds, requiring reductions in other City services.

In the past several months progress has been made in upgrading the Board's fiscal monitoring system to meet these general goals and, more specifically, to provide increased assurance to the City's fiscal monitors that the Board of Education, and therefore the City, will be able to live within its financial plan, both in the current and future years.

In April, we received a letter from you outlining the Board's commitment to improved monitoring practices. Since April the Board has taken several steps in that direction, including providing OME with computer access to the Board's internal budget system and has begun preparing a quarterly allocation system obligation plan containing projections of monthly expenditures and personnel levels. Board of Education staff have completed preparation of the OTPS obligation plan and are in the process of preparing the personal services obligation plan.

The Board has also stated (in your letter of April 10, 1980), that Board staff will identify the proper payroll status for all employees who have been allocated to default codes by the City's IFMS system, prepare monthly reports on expenditures by unit of appropriation and on personnel levels by responsibility centers, and provide explanations of variances between these actual monthly data and values projected in the quarterly allocation system plan. Finally, and of critical importance, the Board has also committed itself to taking corrective action to curtail expenditures should the monitoring system indicate such action is required.

Fulfillment of these commitments will increase the City's capability to monitor the Board's expenditures. So that the City can maintain the integrity of its 1981 plan, however, these elements of the monitoring system must be in place as soon as possible: the preparation of the quarterly allocation system plan must be completed by July 30, and the first expenditure, personnel level, and variance reports must be submitted by August 22.
Hon. Joseph Borkan

There has been less progress toward implementing two necessary additional components of a monitoring system for Board expenditures: the maintenance of budget data in the City's IFMS system and the Board's BACIS system which is consistent and timely, and the provision of timely summaries for entry into IFMS of all encumbrances in the BACIS system. During 1980 significant discrepancies between budget data in BACIS and IFMS were allowed to develop which made the reconciling of Board expenditures recorded in each system extremely difficult. Procedures must be implemented to insure that the two systems are modified on a consistent basis. Specifically, no modification should be entered into BACIS before the parallel modification has been submitted to IFMS, and no modifications should be given final effect in BACIS until the necessary approvals within IFMS have been given. To ensure that unnecessary delays are not encountered in the processing of IFMS modifications, the Office of Management and Budget has committed itself to completing its review of all modifications within 20 working days of their receipt from FISA, and only 10 days in the month preceding the Board's fall semester and the month preceding the spring semester.

As to the entering of Board encumbrance data into IFMS, discussions between our agencies on the staff level have indicated that the Board would be able to provide regular and timely encumbrance information to IFMS early in FY 1981. To set a clear target for implementing such a system we request that the first 1981 encumbrance summaries be provided for IFMS input no later than September 1, 1980.

We appreciate the efforts the Board has made in the past several months to upgrade its fiscal monitoring system. To help protect the integrity of the City's financial plan for 1981 and future years it is essential, however, that the components of a complete monitoring system for the Board of Education be put in place and their benefits realized as soon as possible. We look forward to your cooperation in meeting the monitoring target we have outlined.

Sincerely,

Edward L. Koch
Mayor

Harrison J. Goldin
Comptroller
August 4, 1980

Dr. Frank Macchiarola
Chancellor
Board of Education
110 Livingston Street
Brooklyn, New York 11201

Dear Frank,

Thank you for your July 11 letter regarding your plans to use Federal Impact Aid funds and any State aid above budgeted levels.

You are correct that I promised the Board and the City Council that Impact Aid, if passed by Congress, would be used in support of educational programs. I am in agreement with your plan to use this aid to fill a $5 million potential shortfall caused by the P.S.E.N. program and a $2 million gap caused by unbudgeted fringe benefits associated with Special Education reimbursable programs. The only caution here is to avoid using these dollars for salaries in a way that will incur 1982 expenses not covered by annualized revenues.

With regard to your expectation that State operating aid will yield approximately $8 million more than is currently budgeted, I understand that those funds will be needed to cover a shortfall in excess cost aid for Special Education of about the same amount and therefore will not be available to plug the $3 million hole attributable to matron services that you mention.

I understand that your requests of the State Education Department for variances permitting increases in class size for Special Education programs have been denied. I further understand, however, that many of the class size increases can be achieved by requesting waivers on a class by class basis and that much and perhaps all of the projected $7.8 million can be saved in this manner.
As to your final point concerning plans to have $5 million dollars of OTPS cuts unscheduled as below-the-line savings, we support your use of this procedure.

I am greatly appreciative of your cooperation and support of our efforts to maintain City services while sustaining deep budget cuts.

Warm regards,

Edward I. Koch  
MAYOR
TO: Robert Wagner, Jr.

FROM: Edward I. Koch

DATE: July 17, 1980

See the enclosed letter from Frank Macchiarola, and in particular his reference to assurances of tax levy restorations.

I am not sure of what assurances have been provided to him either by you or me, but that should be a matter of written record so there is no confusion at a later time. There should also be a statement that with our need to reduce expenditures, the Board of Education will not be exempt from those reductions. Do please prepare an appropriate response.

mg
July 11, 1980

Honorable Edward I. Koch
Mayor
City Hall
New York, New York 10007

Dear Ed:

I am now reviewing budget allocations for the division of the Board of Education, and I wanted you to know what I am planning to do with Federal Impact Aid funds and any State aid above budgeted levels. You promised to the Board and to the City Council that Impact Aid, if passed by Congress, would be used in support of educational programs. One gap those revenues should fill is a potential shortfall of about $5 million funds withdrawn for PSEN programs. Another gap represents about $2 million in unbudgeted fringe benefits costs associated with Special Education reimbursable programs. Finally, any additional impact aid will be used to restore some of the cuts in the basic instructional program in local schools.

We also believe that State operating aid will yield about $8 million more than budgeted. Those funds should be used to plug the $3 million hole in the Bureau of Pupil Transportation that will exist until the City Council passes legislation reducing mandated matron service. The remainder will be used to offset unachivable cuts in central and support units.

As required by the adopted budget, I have requested variances from the State Department of Education permitting increases in class size for special education programs. We should know in two weeks whether those variances have been granted and I will press to have them granted. If they are not, we will rely on your assurance that those $7.8 million in tax-levy funds will be restored if needed.
Finally, as proposed by OMB and the Council and Board of Estimate, I am leaving $5 million in OTPS cuts unscheduled as below-the-line savings, and will permit managers to encumber those funds. We are in effect, anticipating encumbrance write-offs through this unusual and experimental procedure. In the event that those write-offs do not materialize and OTPS overspending results in a potential deficit for the Board of Education, I will work with Bob Wagner to resolve that difficulty.

Yours is an enormously difficult job and you have my pledge for continued support in your efforts to maintain city services in the face of the most trying of circumstances.

Warm regards,

Sincerely,

[Signature]

Frank J. Macchiarola
Chancellor

cc: Deputy Mayor Robert F. Wagner
    Honorable James R. Brigham
    Dall W. Foraythe
    Dale K. McArthur
    Leonard Mellenbrand
August 8, 1980

Dr. Frank Macchiarola
Chancellor
Board of Education
110 Livingston Street
Brooklyn, New York 11201

Dear Frank:

An overriding concern of this Administration is the enhancement of revenues wherever possible. To this end, I asked the Department of General Services (DGS) to delineate revenue opportunities in the City's real estate holdings. DGS has completed its review and concluded that major opportunities exist among the numerous properties being held for planned but now unfunded public improvements. Included among these properties are a number of sites held by the Board of Education for new school construction or expansion for which funding or project status is not included or is uncertain in the FY 81 four year capital program as adopted.

DGS has prepared the attached inventory of sites being held for school construction and has identified the capital funding status of each. DGS reports that of 40 sites being held for capital construction by the Board of Education, 31 have no identified capital budget status and that the development feasibility of another five sites is questionable in light of current capital constraints. The total assessed value of these inactive
sites exceeds $10 million; and DGS estimates that, if returned to private ownership, these sites would yield taxes of nearly $1 million annually.

I would like DGS to be in a position to dispose of unneeded City property as expeditiously as possible. To this end, I would appreciate your comments on DGS' preliminary findings and, more importantly, your cooperation in reevaluating the planning and fiscal justifications for continuing to hold these sites which have no status or questionable status in the four year capital program. DGS Commissioner Capalino is available to answer any questions you may have about the inventory and to provide any assistance you may want in conducting this review.

You and I know that the necessity and degree of overall Expense Budget reductions are directly linked to our success in tapping new revenue sources. Therefore, I look forward to a timely review of these sites and the formulation of a plan for expedited disposition of properties found to be needed no longer.

Sincerely,

[Signature]

Edward I. Koch
MAYOR
August 27, 1980

Comer Coppie, Executive Director
Financial Control Board
270 Broadway
New York, N.Y. 10007

Dear Comer:

Please be advised that I hereby designate Alexandra Altman to vote as my representative at the Financial Control Board meeting to be held August 28, 1980.

Very truly yours,

Edward I. Koch
Mayor
Copies of this notice have been sent to each of the parties specified by Article 9 of the Agreement to Guarantee.

Very truly yours,

FINANCIAL CONTROL BOARD

By: Comer S. Copple
   Executive Director
Office of Management and Budget

Memorandum from:
James R. Brigham Jr.
Director

9/2/80

To: Mayor Koch
Nat Leventhal ✓
Robert Wagner
Tom Goldstein
Allen Schwartz

Attached is a revised draft of our reply to The Wall Street Journal editorial.

Jim

Excellet Nat
To the Editor
The Wall Street Journal

Your editorial page article "New York's Permanent Crisis" (August 25) fails to give full measure to the substantial fiscal and economic accomplishments New York City has made since 1975. Indeed, New York City must tackle difficult problems in future years - problems faced by most older cities in this country - but it would be helpful to review the steps the City has taken to cure the fiscal disease that brought the City to the edge of bankruptcy in 1975. These fall into four categories:

- budget and accounting reform producing a balanced budget in fiscal 1981, a year ahead of the schedule required by the federal loan guarantee act
- strengthened financial position, including reduced seasonal borrowing, elimination of the roll-over of short-term debt, and operating cash balances of more than $600 million
- management improvements, enabling the city to absorb the effects of a 20 percent reduction in workforce since 1975
- a stronger City economy, evidenced by increasing employment in the last two years, a lower rate of inflation and higher growth of retail sales than the national average, and a strong real estate market.

1. Budget and Accounting Reform. New York has eliminated all budgetary and accounting abuses that characterized its practices prior to 1975. In fiscal 1981 which started last July 1, the City will have a balanced
budget in accordance with generally accepted accounting principles, the first in more than a decade. In eliminating a deficit that was nearly $2 billion in 1975, the City has held total budgetary outlays at less than 2.5 percent annual growth for the last five years. (In contrast, the federal budget has grown by more than 10 percent annually, and consumer prices by almost 10 percent annually, over the same period). A significant element contributing to this low rate of growth has been the moderate level of collective bargaining settlements entered into by the City with its labor unions since 1975. As a result, New York no longer ranks at the top of the wage scale for principal classes of municipal employees.

In 1977 New York installed an integrated financial management system (IFMS) that integrates all budgeting, accounting, purchasing, and payroll systems into a single data base and computer network. Certainly among the most sophisticated financial control systems employed by any government entity in the U.S., IFMS enables the City to publish detailed monthly reports, within thirty days of the end of the month, analyzing actual versus budgeted revenues and expenditures agency-by-agency for the City's $13.5 billion budget. Because of this close monitoring, the City has finished each fiscal year since 1976 with revenues ahead of plan and expenditures below plan. In 1980, for the third consecutive year, the City's financial statements will be audited by a nationally recognized firm of certified public accountants.

2. Financing. With the assistance of the Municipal Assistance Corporation (MAC), the City has strengthened its financial position. By June 30, 1978, MAC and the City had completely redeemed or refinanced the $4.5 billion of short-term debt outstanding in 1975 that precipitated the fiscal crisis. On June 30, 1980, as at the end of
each of the two prior fiscal years, the City had repaid all seasonal borrowings and had no short-term debt outstanding. Peak seasonal borrowing requirements have been reduced by three-quarters from a high of $2.1 billion in fiscal 1977 to $525 million in fiscal 1980. Total debt outstanding at the end of the fiscal year, including MAC debt, actually declined from 1976 to 1980 by $460 million to $11.8 billion, while year-end operating cash balances increased from $158 million to more than $600 million.

Federal loan guarantees are a keystone to the City's long-term financing program. The City plans to utilize the full $1.65 billion of federal guarantees authorized under the four year plan. The guarantees will partly finance a $2.3 billion capital program for essential investment in the City's bridges, highways, water supply and sewer systems, transit facilities, schools, and parks. Federal interests are well protected under this program. The guarantees, of course, involve no direct outlay of federal funds. In addition, revenues pledged to pay guaranteed and other general obligation City debt cover debt service requirements by more than two times, and the City's balanced budget in 1981 is a full year ahead of the schedule required under the federal loan guarantee act. MAC has also assisted in financing the City's capital program, and the City plans a public issue of long-term debt this year for the first time since 1974.

3. Management Improvements. In addition to vast improvements in the City's financial management, New York has moved to improve the operations of its agencies. Most notably, over the past two and a half years, the City has replaced more than 2,000 uniformed personnel with less costly civilians in the Police and
Sanitation departments; implemented a no-voice no-response policy in the Fire Department, reducing response to false alarms by two-thirds; improved purchasing procedures, the vendor payment system and accounts receivable management system throughout City agencies; established procedures to evaluate and implement worthwhile audit recommendations of the City and State Comptrollers; reduced error rates in welfare administration from 12 percent in 1975 to 5 percent in 1980 and over the same period reduced welfare rolls by 28 percent from 1.2 million to 870,000; and others. Plans are currently underway to reduce required manning in the Fire and Correction departments and introduce two-man collection trucks in Sanitation. Substantial further improvements must be made, and the City is emphasizing labor-management cooperation through a Productivity Council established pursuant to the federal loan guarantee act.

4. A stronger City economy. In 1978 and 1979 the City gained more than 80,000 jobs, reversing an eight year decline which saw the City lose 600,000 jobs from 1969 to 1977. During the current recession, City employment has been in line with the national averages, showing relative strength in construction and manufacturing. Retail sales in New York were up 9.9 percent in the first quarter of 1980 over the last quarter of 1979, compared with a 2.1 percent increase nationally. Inflation in New York has been consistently about 80 percent of the national rate over the last five years. The CPI increased by 8.7 percent in New York in 1979 compared with 11.5 percent nationally. Manufacturing wages in New York are now lower than the national average.
The real estate market in the City reflects high demand for space and renewed confidence by investors in the City. Five new hotels are under construction and five more are undergoing substantial renovation. Six new office buildings with 1.8 million square feet of space are under construction and expected to be completed in 1980. Nine additional buildings with 5.7 million square feet are expected to be completed in 1982. A $375 million convention center also is under construction, expected to be ready for occupancy in 1984.

New York State and City have implemented substantial tax reductions. In 1978 and 1979, the State cut personal and corporate income taxes by more than $1.8 billion. In 1977 and 1979, the City cut personal and business taxes by $280 million. Increases in minor taxes on beer and liquor, parking garages, hotels, and taxi medallion transfers have been implemented in fiscal 1981 to produce $102 million. In addition, a 2.5 percent increase in the real estate tax rate for fiscal 1981 is pending, the first rate increase since 1977. The tax reductions implemented in 1977 and 1979, however, substantially exceed these increases.

New York City's fiscal progress has been achieved in the face of increasing burdens placed on our taxpayers by forces outside the City's immediate control. The City's local share of welfare and medicaid costs is $1.1 billion, more than 12 percent of our local taxes and unrestricted funds. Medicaid costs alone have increased by $181 million to $742 million from fiscal 1979 to 1981. The cost of special education for handicapped students, a federal mandate, has nearly doubled in the same two years, increasing by $143 million to more than $300 million. Energy costs have increased by $178 million in the same period. Yet the City has absorbed these costs and balanced its budget a year ahead of schedule.
Similar forces, however, create a budget gap for fiscal 1982 of $733 million. The City has presented a plan to the Financial Control Board to close this gap and balance its budget in 1982. The principal uncertainty in this plan is $200 million of increased federal aid, an amount that virtually all involved with the City's finances believe is fully justified based on previous commitments and the burden of federal mandates under which the City must struggle. Federal aid is not included in the plan as a matter of wishful thinking but as an appropriate and responsible goal in the political setting in which the City exists. The plan indicates that the City itself will take additional actions if the federal aid is not forthcoming. We are preparing plans now for that possibility.

New York's political leadership at all levels has demonstrated consistently the willingness and capacity to take the difficult steps necessary to address the City's fiscal problems. The State has provided increased aid to the City. Each year since 1975 City budgets have passed with almost unanimous support of the local legislative bodies, the City Council and the Board of Estimate. Every budgetary goal set for the City since 1975 has been met and improved upon. Problems have been are being addressed in a rational, businesslike manner.

Persistent problems? Unquestionably. They are similar to those faced by all levels of government. But a "permanent crisis" it is not -- except in the minds of those who have consistently and wrongly overstated the scope of the problems and understated the City's ability to prevail.

Very truly yours,
September 25, 1980

Hon. Hamilton Jordan
Assistant to the President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Hamilton:

At our meeting this month on the porch of Gracie Mansion, you mentioned that the President and others whom you have spoken to don't understand my comments about the failures by the Federal Government to provide aid to New York City. The President, you said, has been told by members of the Cabinet that New York City has in fact received large sums of money as a result of the Administration's efforts.

I told you then that we were talking about apples and oranges and that they cannot be compared. My references concern unrestricted, or gap closing, budgetary support. I am comparing commitments for gap closing aid made in connection with the 1978 financial plan that formed the basis for the Loan Guarantee Act to what actually has been received. Comments made to the President by some of his advisers relate to programmatic support or "categorical" aid, of which there has been a substantial amount. You will recall that I told you I would trade categorical aid for unrestricted support because the programs funded by categorical aid do not allow me to keep cops, firemen, teachers and sanitation men working. As beneficial as many of these programs are, if we did not receive federal support for them, we would simply reduce or discontinue them.
So that you have the relevant figures before you, I asked Jim Brigham, the City's budget director, to prepare a memo which outlines the net federal gap closing aid to New York City as well as the increases for categorical programs. I emphasize that these categorical programs have no impact on closing the gap. In some instances, they help widen the gaps. Do have the memo examined by Stu Eizenstat, and if I am wrong and if Jim Brigham's analysis is incorrect, I will be happy to admit my error publicly.

I am also enclosing prior correspondence and a memo which I provided to the President on this subject.

I enjoyed our brief meeting, and I look forward to more of them.

All the best.

Sincerely,

Edward I. Koch
Mayor

mg
enclosures
A detailed analysis of the City's finances over the past decade, issued today by Comptroller Harrison J. Goldin, demonstrates New York's dramatic progress in overcoming the impact of the 1975 fiscal crisis and the effectiveness of its fiscal reforms.

The review, which includes graphic displays, is designed to keep the investment community and the general public informed of the City's financial and economic condition and trends. Much of the data is being used by the City in its nationwide marketing campaign to regain full entry to the public credit market.

The multi-dimensional view of the City includes illustrations of the favorable trend of revenues and expenditures, the City's improved short- and long-term debt position, the substantial reductions in the municipal workforce and the steady climb in real estate tax assessments and collection rates.

Also explained are the causes of periodic revisions in City budgetary projections as part of New York's four-year financial planning; specific examples are revisions made for fiscal years 1980, 1981 and 1982.

A comparative economic section of the report shows the past decade's trends in the local economy, and measures them against those of Chicago, Detroit, Los Angeles, Philadelphia and the nation as a whole; this data indicates that the City is now better able to weather recessionary trends in the national economy than it was during the 1974-75 recession.

Comptroller Goldin called the analysis "a very important tool for informing and educating the investment community and the general public about the City's financial condition. I have found that investors and bankers in other parts of the State and country are tremendously interested in knowing more about the City's financial condition and its future outlook. I am confident that this analysis, updated periodically, will play an important role in the City's effort..."
Among the highlights of the Goldin report are the following:

--Since fiscal year 1976, City revenues on a Financial Plan basis have increased 15.6%, while expenditures increased only 5.9%; when adjusted for inflation, "real" expenditures actually decreased 23.3%.

--Budget gaps on a GAAP (generally accepted accounting principles) basis have declined from $1.870 million in 1976 to $422 million in 1979 enabling the City to adopt a GAAP-balanced budget in the current fiscal year, a year earlier than required by law;

--Short-term borrowings declined from $2.6 billion in fiscal year 1976 to $525 million in 1980; the City raised $650 million of its seasonal needs during 1979 and 1980 in the public credit market;

--Net City debt has declined by more than $1 billion since fiscal 1976;

--Real estate tax collections in the year of levy have shown a dramatic turnaround; the rate reached 94.14% in 1980, after declining steadily from 94.25% in 1971 to 89.11% in 1976;

--Since 1975, the number of full-time City employees has decreased approximately 25%, from more than 253,000 to just under 190,000 in 1980.

In discussing economic trends and comparing New York with other U.S. cities, the survey shows:

--The City's employment count has grown since 1977, notably in the service sector, despite a continuing decline in population. The City had approximately 3.296 million job holders as of June, 1980, the highest for the month since June, 1976.

--The City's unemployment rate has been declining since 1976, when it peaked at 11%. Unemployment in New York City averaged 8.4% during the period January-June, 1980.

--In 1979, New York City had the lowest public assistance caseload as a percent of population (12.5%) among the five largest cities in the country. The others: Philadelphia, 19%; Chicago, 18.5%; Los Angeles 19.5%; Detroit, 24%. New York City's public assistance caseload continued to trend downward (12.3%) during the first half of 1980.

(MORE)
Retail sales in the City have been growing on both an actual and constant dollar basis since 1977, including the first part of 1980. Using current dollars as an example, New York's 47.8% growth rate from 1972 through 1979 compares favorably with the four other cities: Los Angeles, 63.4%; Chicago, 38.9%; Philadelphia, 35.8%; and Detroit, 30%.

The City's per capita money income growth is lagging behind that of the other four largest cities; a 57-city comparison shows New York dropped from 18th in per capita money income in 1974 to 36th in 1977.

Another measure of New York vis-a-vis other U.S. cities, shows that the City ranked 12th among 57 American cities in the percent of general revenues (47.38%) derived from Federal and State sources in fiscal year 1977. This ranking, among cities with a population of 250,000 or more, shows New York trailing Buffalo, Baltimore, Memphis, Newark, Rochester, Norfolk, Albuquerque, Milwaukee, Detroit, St. Paul and Indianapolis, in that order.

The City had the smallest increase (73.5%) among six cities with over one million population in per capita combined expenditures for police, fire and sanitation between 1970 and 1978. As a result, the City dropped from first to second during the period; the other five cities are Chicago, Detroit, Houston, Los Angeles and Philadelphia.

During the same period, New York was the only one of the six cities to experience a decline (16.9%) in combined employees per capita for the same three services. In 1970, New York led in this category with 86 police, fire and sanitation employees per 10,000 population; by 1978, it had dropped to fourth, with 72 employees per 10,000 population. Since the City experienced a population decline during this period, the decline in the number of employees per capita is even more significant.

Among the six cities, New York had the highest hourly total compensation in 1979 for policemen, firemen or refuse collectors in the fifth year of service; but its entry level salaries for the three positions showed the lowest average annual percentage increase (under 4.7%) between 1973 and 1979. Pay levels for policemen and firemen were higher in Los Angeles than in New York City (without considering number of hours worked).
Data for the City finance section of the report derived from the Comptroller's Annual Reports and the City's Financial Plans. Data from the U.S. Department of Labor, U.S. Department of Health, Education and Welfare, U.S. Department of Commerce, the U.S. Office of Revenue Sharing and other sources were used for the other sections of the report.
MEMORANDUM

To: Hon. Edward I. Koch
Mayor

From: James R. Brigham, Jr.
Director

Subject: Op-Ed draft regarding State Aid

Attached is a draft of the Op-Ed article you requested. It is derived largely from your Sterling Forest speech.

Att.
cc: Leventhal
    Wagner
    Goldstein
On Friday, November 7, Governor Carey was quoted by the Times as saying New York City's $14 billion budget should be more than adequate for the essential needs of the City. Indeed, the City's budget would be adequate if it were not struggling under the burden of mandated programs heaped on the City by the State of New York.

The truth is that Albany is the source of many of the City's problems and is the place where many of those problems can be solved.

The truth is that over the years -- because of politics, practice, and outmoded aid formulas -- New York City, and other cities across the state, have not been treated fairly.

The truth is that Albany has been nearly as guilty as Washington of mandating programs and not paying for them.

The traditional view has been that what Albany fails to pay for in Medicaid and Welfare it makes up for in other forms of aid.

The truth is more disturbing.

Let me take you through the four main forms of state aid to localities -- general revenue sharing, public assistance, medical assistance, and education -- and show how New York compares with other states.

In the area of general revenue sharing New York does well. It provides $57.26 per capita and ranks ninth among all states in terms of aid. But in the other three areas New York's record is substantially less admirable.
In public assistance only nine states require local governments to put up a share, with New York requiring the largest amount -- $23.92 per capita statewide, and, because of the larger caseload burden in the City, $35.07 for every New York City resident. There is no other state which is close, and the only one which had been comparable -- California -- no longer requires local governments to contribute to public assistance.

With Medicaid, New York's position is even worse. Only five states now require a local share (California and Nevada have both eliminated their requirements over the last couple of years), with New York State collecting an average of $31.71 from its local governments for every citizen, and $60.63 from residents of New York City, again because of the higher caseload in the City. There is no other state which even approaches this level of burden on local government for medicaid costs.

Education presents a somewhat more complicated situation. In terms of total dollars spent per student, New York ranks second among the states, with an average expenditure of $2,465 per student. But, in terms of the cost assumed by the State, it ranks 34th among the states. It contributes only 39 percent.

Taken together this is far from an impressive record. Indeed, according to an analysis by the City's Office of Management and Budget, if New York State simply made the median contribution of all states in each of these four areas, New York City would receive $914 million more in aid this fiscal year.
Equally disturbing evidence exists of the State's failure to deal fairly with the problems of local governments. The Advisory Commission on Intergovernmental Relations has just completed a review of the effect of state mandates on local governments. It looked at 77 different mandates, and it found that New York imposed more of them than any other state in the country. It also found that New York ranked 47th in terms of funding the local cost of state-imposed mandates.

Obviously the burdens New York State has placed on its local governments cannot be removed immediately. But just as obviously removal of these burdens should not be deferred indefinitely.

I would like to see the State take six basic steps to reform its relationship to local governments in general, and New York City in particular. These are:

-- A cap on the local share of Welfare and Medicaid at once, and the absorption of the local share over the next five years. I would hope that federal assumption of most of these costs could occur over the same time frame.

-- A major revision of the State education aid formula to reflect the concept of municipal overburden -- in line with the Levittown decision and the recent report of the Rubin Task Force.

-- A thorough review of mandates, in addition to Medicaid and Welfare, which the State imposes but does not fund.
-- Reform of the Medicaid reimbursement formula, similar to what has been done in Maryland and New Jersey, to more adequately cover the cost of the medically indigent.

-- Gradual assumption of the local share of community college funding over the next five years.

-- Continuing on the precedent it set in taking over the courts, the State should assume an increasing role in funding and operating corrections facilities now run by localities.

I know none of this would be easy to achieve, nor could it be done without rethinking general revenue sharing. But I believe it would lead to a more equitable and more rational division of responsibility between the City and the State.

I'm not trying to pass the buck. There is no question that New York City can, should and will do more on its own -- in economic development, in generating revenue, in productivity. But there are limits. Further tax increases could undercut the economic progress the City has made. Further, larger workforce reductions -- even with greatly increased productivity, even with meaningful civil service reform -- could endanger the quality of the City's life. Just remember that by the end of 1981 New York will have 8,000 fewer policemen than it had in 1975, 4,000 fewer sanitationmen, 2,000 fewer firemen, and 15,500 fewer teachers. What I am advocating is the need to form a new
partnership which has all the strength of the coalition that pulled the City through in 1975, but which now will focus on the structural changes needed for the future. Surely, in its $15 billion budget the State can find sufficient resources to live up to its responsibilities to the cities, towns and counties of this State.
December 3, 1980

Congressman-elect John LeBoutillier  
U.S. House of Representatives  
Washington, D.C.  
20515

Dear John:

It was a pleasure to meet with you at City Hall last week and I do 
look forward to working with you during the 97th Congress. Please 
feel free to call upon me at any time.

As we discussed one issue of critical importance to the City is the 
amount of tax levy dollars spent on welfare and Medicaid. I thought 
you would like to have a detailed memo on our preliminary analysis of 
a pending proposal seeking to change the existing welfare payments 
made by the federal government. The memo was written by Administrator 
Stanley Brazenoff of the Human Resources Administration and points out 
the pitfalls of Block Grants rather than federalization of welfare. 
Our position is that federalization is to be preferred and the memo 
gives the reason why.

You should know that our local tax levy share of welfare is $386 million 
and for Medicaid it is $712 million with the latter growing at a rate 
of 11 percent per year. I sum up our dilemma on these two bills on our 
local tax levy budget by saying that if we did not have to pay this 
amount -- a total of more than $1 billion -- we could lend money to 
Chrysler.

All the best.

Sincerely,

Edward I. Koch  
MAYOR

EIK:peh  
Encl:
MEMORANDUM

To: Hon. Edward I. Koch
Mayor

From: James R. Brigham, Jr.
Director

As you have requested, we have prepared an analysis showing the breakdown of the City's budget as it relates to the poor. As in the previous analysis of the 1979 budget submitted to you in my memorandum of January 30, 1979, several different data sources and assumptions have been used in preparing this analysis. They are discussed in greater detail below, along with references to the areas where assumptions may have changed from the previous analysis.

Findings

As can be seen from the summary table below, the City allocates about 56% of its total expenditures or $7,834 million to the poor. Of this amount, city fund expenditures allocated to the poor are approximately $4,196 million, or 46% of total city fund expenditures.*

* The memorandum of January 30, 1979 reported that 60% of total funds and 45% of city funds in FY 1979 were allocated to the poor. That figure includes state and federal medicaid funds now excluded from the city budget because the state has assumed responsibility for medicaid payments through the Medicaid Management Information System (MMIS). Accordingly, the 1979 figures have been restated to be comparable with 1981. In addition, the allocation of resources to the poor for the Board of Education was determined by first identifying the programs which are specifically directed to the poor, such as Title I and free school lunch programs, and allocating them entirely to that group. This is consistent with the approach used in 1979. In allocating the remainder of the Board's costs, however, we have used a different assumption with respect to the proportion of expenditures going to the poor in 1981. In 1979, the allocation was derived on the basis of the percentage of Title I schools (56%) represented within the system and assumed that total remaining education resources were allocated to the poor in roughly the same percentage. In 1981, the allocation resources to the poor were based on the percentage of low income children (45%) in the system. Accordingly, the 1979 figures have been restated to be comparable with 1981.
The percentage of total and city funds allocated to the poor in 1981 is the same as in 1979, suggesting that budget reductions over the past two years have not had a disproportionate impact in the aggregate on allocations for services directed to the poor. Other significant findings are:

- In both years, a higher proportion of total funds was allocated to the poor than of city funds because of the large federal and state share of the costs of health and social services programs, substantially all of which is allocated to the poor.

- The percentage of resources allocated to the poor has increased in both total funds and city funds in all categories except for Health and Social Services where it is almost identical to 1979.

### Summary of Resources Allocated to the Poor

($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>1979*</th>
<th></th>
<th>1981</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Expenditures for the Poor</td>
<td>Percent of Total Budget</td>
<td>Expenditures for the Poor</td>
<td>Percent of Total Budget</td>
</tr>
<tr>
<td></td>
<td>All Funds</td>
<td>City Funds</td>
<td>All Funds</td>
<td>City Funds</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>$3,642</td>
<td>$1,583</td>
<td>98%</td>
<td>99%</td>
</tr>
<tr>
<td>Education</td>
<td>1,494</td>
<td>710</td>
<td>49%</td>
<td>45%</td>
</tr>
<tr>
<td>Essential Services**</td>
<td>589</td>
<td>472</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Other **</td>
<td>1,357</td>
<td>1,186</td>
<td>34%</td>
<td>32%</td>
</tr>
<tr>
<td>Total</td>
<td>$7,082</td>
<td>$3,951</td>
<td>.56%</td>
<td>46%</td>
</tr>
</tbody>
</table>

* As restated for Medical Assistance and the Board of Education.

** Police, Fire, Sanitation, Transportation, Environmental Protection, Parks and Recreation and Housing Preservation and Development.

*** Includes all Mayoral agencies not included above plus the Pension Agency, Miscellaneous Budget and Debt Service. See Exhibit I for assumptions as to the allocation of these costs.
January 2, 1981

Honorable Hugh L. Carey
Governor of the State of New York
The Executive Chamber, Capitol
Albany, New York 12224

Dear Governor Carey,

I have seen a copy of Ned Regan's December 30 letter to you, and there are a few comments I would like to make on its contents.

My own view is that the Financial Control Board has played, and should continue to play, a vital role in monitoring the City's fiscal performance and in suggesting management improvements which can impact the City's fiscal condition. For example, as I'm sure you know, the Board has taken a very strong role in the area of revenue production in the Health and Hospitals Corporation and a number of other areas of equally vital concern.

At the same time, I have resisted, and will continue to resist, attempts to link in any formal way, approval of the City's financial plan and the management of City operations. While the two subjects are, of course, related to each other, only one is within the direct purview of the Financial Control Board. There are other forums for management oversight which both your office and that of the State Comptroller have at your disposal -- and have used in a vigorous and productive way over the past few years. But to attempt to convert the Financial Control Board into a vehicle for exercising State control over the City's management perogative would, in my judgment, be a serious error. There can be only one entity responsible for management of the City -- and that is the Mayor. As you know, I gladly take full responsibility for the City's successes and for our occasional errors; I would resist most strongly any effort to have the City's management policies directed in any way by the Financial Control Board.
I would hope that, as a Chief Executive of a governmental entity, you would understand and agree with my views. I would certainly welcome an opportunity to discuss these issues in detail with you and with Comptroller Regan at your convenience.

All the best.

Sincerely,

Edward I. Koch
Mayor

cc: Hon. Edward V. Regan
January 2, 1981

Mr. Edward V. Regan  
State Comptroller  
Gov. A.E. Smith State Office Building  
Albany, New York 12236

Dear Comptroller Regan:

I have your letter of December 19 concerning the City's efforts to improve essential services.

I certainly share your view that the infusion of additional funds should not be our sole method of enhancing services for the people of this City. I was somewhat surprised that you appear to believe that anything I've said implies the contrary. To be sure, I am a pragmatist, and I do not believe that there can be massive improvements in essential services without some additional resources. At the same time, we have demonstrated our commitment to search out all areas where application of new techniques can lead to service enhancement without budgetary augmentation -- and, indeed, with budgetary savings.

Such an area, as you know, is the implementation this past week of the side-loading, two-man collection vehicles in the Sanitation Department. As you have recognized, this program constitutes a major step forward for the City, which will be able to collect, in many districts, refuse now collected by three-men crews with only two men to a crew, thus generating substantial savings in cash and in resources freed to enhance cleaning efforts throughout the City. I hope you would agree, with me, that implementation of this program constitutes precisely the kind of program you are urging in your letter that "services . . . be improved within existing budget levels."

Similarly, in the area of police civilianization, we are moving far more aggressively to meet our target this year of an additional 500 positions civilianized. Obviously, however, such a program cannot by itself completely satisfy the need for increased police presence on our street, and that is why the civilianization program must be coupled with a program to increase the number of uniformed officers in the Department.
I know that Nat Leventhal is keeping your office regularly apprised of the progress of our PEG program and productivity efforts, as well as our enhanced system of insuring that recommendations of our auditors are implemented promptly and effectively. At any time that you desire an update by Nat or myself, I'd be happy to arrange it.

All the best.

Sincerely,

Edward I. Koch
MAYOR

EIK/n1
DEPARTMENT OF AUDIT AND CONTROL
INTER-OFFICE MEMORANDUM

To: Comptroller Regan
From: Sidney Schwartz
Date: January 16, 1981
Subject: Recent Real Estate Tax Developments and Their Potential Impact on New York City's Financial Plan

A major reason for New York City's recurring fiscal problems has been the absence of growth in its major revenue source, the real estate tax. If the City is to achieve recurring budgetary balance it must have stable sources of local revenue which will keep up with the inflationary pressures on costs. From fiscal 1977 to fiscal 1981, however, real estate tax revenues are projected to grow by less than one percent while inflation is projected to total 38 percent and personal income in the City is projected to rise by 36 percent. Because of stagnation in the real estate tax levy, collections from the major local tax sources are projected to grow at less than half the projected rate of inflation. This would occur in spite of the recent strength of the City's major economically sensitive taxes (the sales, personal income and general business taxes).

As noted in our recent reports, the lack of growth in the real estate tax can be attributed to poor administrative practices by the City's assessment office as well as delays in the market surveys performed by the State Board of Equalization and Assessment (SBEA). Property values grew by 48 percent over the last four years, some $38 billion, but because of delays in completing its surveys SBEA has not reflected this

Dear Nat:

With the exception of the seventy million dollar loss of revenue sharing, the 1980 Session of the New York State Legislature has been a successful one for New York City. More than twice the number of City program bills have been signed into law as in 1979. While this session has not dealt with a large number of spectacular capital projects as was the case last year, many significant issues deeply affecting the quality of life for New Yorkers have been addressed.

Amongst the most significant New York program bills signed into law this year were those dealing with gun control, resource recovery, the P.E.G. tax package, several highly technical tax issues, the annual extension of City sales and income taxes, arson control, and housing. In all, sixty-four program bills were signed into law, one was vetoed and three bills which passed both houses of the legislature were recalled from the Governor prior to executive action.

The gun control legislation which was signed into law was made possible only by the Mayor's personal interest in the concept. Although the law is not as tough as requested by the Mayor, it creates in New York the most stringent criminal penalties available in the United States for crimes committed with guns. Equally significant was the showing that the citizenry can beat the organized gun lobby. A complete description of the legislation can be found on page 120.

Our resource recovery legislation enables the City to contract for the design, construction and operation of resource recovery facilities by a single system vendor. New York City produces in excess of 20,000 tons of solid waste daily. This legislation allows the City to develop a cost effective and environmentally safe waste disposal system. Due to the highly technical nature of the subject matter and the potentially vast impact the project could have on the private construction and service industries, this bill was politically one of the City's hardest fought for achievements in Albany this year. This bill is described on page 128.
The P.E.G. tax program which was signed into law consists of an increase in the hotel room occupancy tax, increased sidewalk vault charges, and a tax on taxi medallion transfers. The four bills accomplishing these increases account for twenty-three million dollars in projected revenue. Also part of the P.E.G. program and signed into law was legislation including the College of Staten Island and N.Y.C. Technical College within the state funding program of the City University of New York. This bill (see page 9) accounts for a 3.6 million dollar savings in 1981, and a recurring 8.9 million annually.

Despite this success with the above P.E.G. bills, two other portions of the package which were within reach did not pass. A proposed tax on coin operated amusement devices was defeated in the Senate due to a well prepared lobbying effort by industry representatives. The P.E.G. proposal to allow the City to increase the current tax on parking garages in half percent intervals failed to pass both houses for purely technical parliamentary reasons. In Albany parlance, the parking garage bill "crossed" meaning that there was a failure at the Senate desk to substitute the Assembly bill onto the Senate calendar. While the loss of the coin-operated bill meant a loss of two million dollars, the parking garage bill's loss had no negative impact since it was designed to enable imposition of a lesser tax. Both measures are still being worked on by this office and should the session resume, the parking garage bill will be "uncrossed."

Among the twenty City sponsored laws relating to housing was one authorizing three hundred fifty million dollars in additional bonding to be issued by the N.Y.C. Housing Development Corporation. These bonds, which are secured by mortgages, FHA insurance and other Federal subsidy contracts enable the HDC to finance sorely needed housing in the City at no fiscal risk to the City (see page 75). Also signed into law was a bill designed to allow for the protection and rehabilitation of single room occupancy (SRO) housing. The law (see page 99) provides beneficial tax treatment due to the rehabilitation of and preservation of S.R.O.'s commenced prior to December 31, 1984.

Other City bills signed into law included one allowing the City to enter into an agreement with the New York Zoological Society, allowing the Society to manage zoos owned by the City. The legislation will remove a great burden from the Parks Department while affording the City with the best available zoo management (see page 113). Also signed was a law allowing the Parking Violation Bureau and car rental companies to fully cooperate in the pursuit of renters accumulating parking tickets. The bill calls for the registration of rental cars with P.V.B. and allows the rental companies to escape fiscal liability as long as the company can provide sufficient information concerning the renter to P.V.B. The registration fees alone are predicated to be in excess of two million dollars annually.
The above mentioned bills are merely highlights of the City's package. Attached is an index of all City program bills which passed both houses of the Legislature. The index lists the bills by sponsoring Agency. A short description, legislative reference and the final executive action are included along with the page number in this volume at which a more detailed memorandum may be found. The memoranda are, for the most part, those sent to the Governor on behalf of the Mayor and are included in the permanent record of legislative history regarding each bill.

Please note that since the session has not adjourned sine die that this must be considered an interim report. At the end of the year, bound volumes containing information about the entire City legislative program in Albany will be prepared as per the custom of this office.

Margaret L. Weiss
February 2, 1981

Hon. Stanley Fink  
Speaker  
New York State Assembly  
The Capitol  
Albany, New York  12224

Dear Stanley:

I asked Jim Brigham of the Office of Management and Budget to examine your tax proposals. I incorporated his comments into this letter so the balance of this missive is somewhat more formal than the kind of correspondence you and I generally have.

As outlined in your "Blueprint for Economic Survival," New York State has indeed taken great strides over the past three years in decreasing personal and business tax burdens. During this time, New York City, too, has reduced taxes on its residents and businesses. We have reduced our General Corporation Tax from 10.05 percent to 9 percent, phased in a reduction of the Commercial Rent Tax, are phasing out the Stock Transfer Tax, and have eliminated the City Sales Tax on the purchase of equipment and machinery used in the production process. Even after the combined State and City reductions, however, City taxpayers continue to pay a high tax bill. In fact, in a recent study prepared by the New York City Business Tax Task Force, a copy of which was forwarded to you earlier this month, it was shown that New York City businesses pay a larger tax bill than they would if they were located in most any other U.S. city.

Because we are a high tax jurisdiction, we are aware of the importance of tax stabilization, at minimum, and tax reduction if possible. We have included a number of tax reductions in the City's January 1981 Financial Plan submission. They are:
Eliminate the general occupancy tax;
Reduce or eliminate the sales tax on energy used in the production process;
Exempt business with annual rents less than $5000 from the Commercial Rent Tax.

Thus, any additional State actions which will reduce City tax burdens are most welcome. Your tax policy agenda, which is indeed consistent with the realities of the 1981-1982 fiscal year, represents a comprehensive set of tax relief proposals which are of great interest to us. A number of your proposals are quite similar to those under study by the City's Office of Management and Budget; however, while such an item as pension exclusion may be a State priority, it may not necessarily rank quite so high on a list that the City would prepare for State tax related actions. In this regard, Jim Brigham, New York City's Budget Director, and his staff are developing tax policy issues for the City and would welcome an opportunity to work along with you to accomplish our mutual goals.

I am also interested in your discussion of the relationship between infrastructure and economic development. We, too, have become increasingly aware of the importance of a viable infrastructure and are hoping to implement a number of strategies suggested in a report submitted to me in the Spring of 1980 by then Deputy Mayor Peter Solomon and by Herbert Sturz, Chairman of the City Planning Commission, entitled "A Capital Improvement Program for New York City's Rail Freight System, 1980." In addition, our capital budgets for fiscal years 1981 and 1982 reflect the importance I place upon revitalization of the City's infrastructure. But, here too, we still have far to go before the City's capital plant is operating at top capacity. In general I think that infrastructure revitalization represents a primary area for not only State and City cooperation, but also for Federal assistance.

All the best. You are a good man.

Sincerely,

Edward I. Koch
Mayor

mg

bcc: Nat Leventhal, Tom Goldstein, Pete Piscitelli, Maggie Weiss, John Fava, Jim Brenner