Mayor Edward Koch Papers

Selected Documents
Volume II Part B: Fiscal Crisis

Prepared by:
Stephen Weinstein
Steven A. Levine
Marcos Tejeda

Richard K. Lieberman, Director
LaGuardia and Wagner Archives
LaGuardia Community College/CUNY
31-10 Thomson Avenue
Long Island City, NY 11101
Tel: 718/482-5065
www.laguardiawagnerarchive.lagcc.cuny.edu

In Cooperation with The New York City Department of Records and
Information Services/Municipal Archives, Brian G. Andersson, Commissioner
Mayor Edward Koch Papers

Selected Documents

Volume II Part B: Fiscal Crisis

From the Mayoral Collection of the New York City Department of Records and Information Services/

Municipal Archives

Brian G. Andersson, Commissioner
STATEMENT BY MAYOR EDWARD I. KOCH
BEFORE THE
JOINT HEARING OF
THE SENATE FINANCE AND ASSEMBLY WAYS AND MEANS COMMITTEES

Wednesday, February 4, 1981
Statement by Mayor Edward I. Koch
before the
Joint Hearing of
The Senate Finance and Assembly Ways and Means Committees

Wednesday, February 4, 1981

SENATOR MARCHI, ASSEMBLYMAN KREMER, MEMBERS OF THE SENATE
FINANCE AND ASSEMBLY WAYS AND MEANS COMMITTEES.

IT IS A PLEASURE TO APPEAR BEFORE YOU AGAIN TOGETHER WITH
THE MAYORS AND COUNTY EXECUTIVES FROM ACROSS THE STATE TO DISCUSS
THE GOVERNOR'S EXECUTIVE BUDGET PROPOSALS FOR THE STATE FISCAL YEAR
STARTING APRIL 1, 1981.

LAST YEAR WHEN I APPEARED BEFORE THIS BODY I OUTLINED MY
PLANS FOR THE CITY'S 1981 FISCAL YEAR. I TOLD YOU THEN THAT THE
CITY WOULD HAVE A TRULY BALANCED BUDGET, THE FIRST IN NEARLY
FIFTEEN YEARS, A YEAR AHEAD OF SCHEDULE. WE HAVE BEEN ABLE TO KEEP
THAT PROMISE, DESPITE REDUCTIONS IN ANTICIPATED STATE AID AND
CONTINUED INCREASES IN MANDATED EXPENSES.

THE FINANCIAL PLAN FOR FISCAL YEAR 1982 SETS FORTH THE CITY'S
SECOND CONSECUTIVE BALANCED BUDGET. THE 1982 PLAN PROVIDES FOR THE
IMPROVEMENT OF KEY MUNICIPAL SERVICES — POLICE, SANITATION,
TRANSIT AND EDUCATION. IN BALANCING THE 1982 BUDGET, THE CITY HAS
BENEFITED FROM THE RELATIVE STRENGTH OF THE LOCAL ECONOMY, WHICH
HAS SUCCESSFULLY RESISTED THE NATIONAL RECESSION. PROJECTED TAX
REVENUES IN FISCAL YEARS 1981 and 1982 HAVE INCREASED BY $520
MILLION SINCE THE FINANCIAL PLAN APPROVED IN SEPTEMBER, $252
MILLION IN 1981 AND $268 MILLION IN 1982. THE IMPROVEMENT IN 1982
ENABLES THE CITY TO CONFIDENTLY PREDICT A BALANCED BUDGET FOR
FISCAL YEAR 1981 WHILE ABSORBING THE DEFERRAL TO 1982 OF
POTENTIAL REVENUES THAT WILL HELP BALANCE THE 1982 BUDGET.

THE IMPROVEMENT IN THE OUTLOOK FOR REVENUES ALSO HAS ENABLED THE CITY TO ABSORB SUBSTANTIAL INCREASES IN THE COST OF CERTAIN MANDATED PROGRAMS, PARTICULARLY WELFARE AND MEDICAID, AS WELL AS CONTINUED ESCALATION OF THE COST OF PURCHASED GOODS AND SERVICES. IN ADDITION, THE PLAN REFLECTS A $38 MILLION COST FOR THE EXPECTED ELIMINATION OF THE FEDERAL CETA TITLE VI PUBLIC SERVICE EMPLOYMENT PROGRAM AND REDUCES FROM $200 MILLION TO $100 MILLION THE AMOUNT OF ANTICIPATED FEDERAL GAP CLOSING AID.

THE OVERALL IMPROVEMENT IS REFLECTED IN THE CITY'S ESTIMATE OF THE GAP TO BE CLOSED FOR 1982, WHICH HAS BEEN REDUCED BY $312 MILLION, FROM $733 MILLION PROJECTED IN THE SEPTEMBER PLAN TO $421 MILLION PROJECTED NOW.


PERSONAL INCOME IN NEW YORK CITY IS PROJECTED TO RISE ABOUT 10 PERCENT ANNUALLY IN 1981 AND 1982 AND THEN TO SLOW TO AN 8 PERCENT INCREASE BY 1984.
NEW YORK AREA MEDICAL COSTS, FUEL RELATED PRICES AND INTEREST RATES RECENTLY HAVE BECOME MORE VOLATILE THAN IN THE PAST, AND NOW APPEAR TO BE ESCALATING AT NATIONAL RATES. IT IS THEREFORE EXPECTED THAT THE CITY INFLATION RATE WILL BE CLOSER TO THE NATIONAL RATE DURING THE FORECAST PERIOD THAN IT HAS BEEN IN THE PAST SIX YEARS. THE LOCAL INFLATION RATE IS EXPECTED TO DECLINE TO 6.3 PERCENT BY 1984.

EMPLOYMENT IN THE CITY, WHICH ROSE BY MORE THAN ONE PERCENT ANNUALLY IN 1978 AND 1979, STABILIZED IN 1980 AND IS EXPECTED TO REMAIN AT THE PRESENT LEVEL THROUGH 1982. IN CONTRAST, IN THE LAST NATIONAL RECESSION FROM 1974 TO 1975 THE CITY LOST MORE THAN 150,000 JOBS.

CITY RETAIL SALES EXHIBITED SURPRISING STRENGTH IN 1979 AND 1980. DATA FOR THE FIRST NINE MONTHS OF 1980 SHOW LOCAL SALES GROWING AT MORE THAN DOUBLE THE SUBURBAN AND NATIONAL RATES. THE CITY'S STRONG PERFORMANCE IS PRIMARILY EXPLAINED BY ITS CONTINUED ATTRACTION FOR TOURISTS, ESPECIALLY FROM ABROAD, AND BY ITS PUBLIC TRANSPORTATION ACCESSIBILITY IN AN ERA OF HIGH FUEL PRICES.

THESE FAVORABLE ECONOMIC CONDITIONS WILL BENEFIT THE STATE AS WELL AS THE CITY.

WHILE THE CITY'S FISCAL AND ECONOMIC OUTLOOK HAS IMPROVED, WE MUST BE PREPARED FOR DIFFICULT TIMES AHEAD. I SPENT YESTERDAY IN THE WHITE HOUSE WITH SEVERAL OTHER MAYORS BEING BRIEFED BY THE
PRESIDENT AND HIS SENIOR STAFF ON THE OUTLOOK FOR THE U.S. ECONOMY AND FOR FEDERAL FISCAL POLICY. WE WERE TOLD THAT THE ECONOMY IS IN MUCH WORSE SHAPE THAN THE REAGAN ADMINISTRATION HAD ANTICIPATED BEFORE HE TOOK OFFICE. THE ADMINISTRATION FEELS IT MUST DEAL SIMULTANEOUSLY WITH BOTH HIGH INFLATION AND HIGH UNEMPLOYMENT. THIS WILL REQUIRE BUDGET CUTS TO REDUCE THE DEFICIT AS WELL AS TAX REDUCTIONS TO STIMULATE THE ECONOMY. THE BUDGET CUTS WILL BE IMPLEMENTED VIRTUALLY ACROSS THE BOARD, AND ONLY THE TRULY NEEDY WILL BE EXEMPTED FROM THE CUTS, ACCORDING TO THE CHAIRMAN OF THE PRESIDENT'S COUNCIL OF ECONOMIC ADVISORS.

CLEARLY THIS IS THE TIME TO TIGHTEN OUR BELTS, BECAUSE NO ONE BELIEVES THAT THESE NECESSARY FEDERAL ACTIONS WILL RESULT IN IMPROVED ECONOMIC CONDITIONS IN 1981. ON THE OTHER HAND THEY CERTAINLY MEAN REDUCED AID FOR NEW YORK AND OTHER CITIES.

VICE PRESIDENT BUSH WAS ENCOURAGING ABOUT THE POSSIBILITIES FOR REGULATORY RELIEF, INCLUDING THE LIFTING OF SOME MANDATED PROGRAMS AS WE HAVE BEEN URGING. WHILE THIS WOULD BE HELPFUL, THE CITY AND STATE MUST LOOK WITHIN THEMSELVES FOR THE MEANS TO ESTABLISH AND MAINTAIN A SOUND FISCAL AND ECONOMIC STRUCTURE.

LAST YEAR I EXAMINED THE COMMON BELIEF THAT WHAT THE STATE MANDATES IN LOCAL PUBLIC ASSISTANCE AND MEDICAID COSTS, IT REPAYS WITH REVENUE SHARING. IT IS NOT TRUE. NEW YORK STATE, WHEN COMPARED TO OTHER STATES ON A COMPOSITE BASIS, RANKS 40TH IN ITS SHARE OF STATE/LOCAL BURDENS. A STUDY COMPLETED FOR ME BY THE
OFFICE OF MANAGEMENT AND BUDGET INDICATES THAT THE CITY WOULD RECEIVE $914 MILLION OF ADDITIONAL STATE AID IF NEW YORK STATE WERE TO ADOPT THE PRACTICE OF THE MEDIAN STATE WITH RESPECT TO FOUR LOCAL PROGRAMS -- WELFARE, MEDICAID, EDUCATION AID, AND REVENUE SHARING.

THE GOVERNOR, IN HIS EXECUTIVE BUDGET MESSAGE, HAS TAKEN THE FIRST INITIATIVE TO REVITALIZE LOCAL GOVERNMENT. HIS PLEDGE TO "TAKE OVER" ALL LOCAL MEDICAID COSTS IS NOT ONLY COURAGEOUS LEADERSHIP BUT SOUND FISCAL POLICY AS WELL. THE GROWING COST OF MEDICAID TO THE CITY OF NEW YORK AND TO THE FIFTY-SEVEN COUNTIES IS AN ALBATROSS, AND THE GOVERNOR'S PROPOSAL RECOGNIZES THAT MEDICAID IS APPROPRIATELY A STATE RESPONSIBILITY. ONLY FIVE STATES REQUIRE ANY LOCAL SHARE OF MEDICAID. TO HAVE THIS BURDEN LIFTED WILL ENABLE NEW YORK CITY TO REALLOCATE RESOURCES TO ESSENTIAL SERVICES SUCH AS POLICE, FIRE AND SANITATION. THESE SERVICES ARE VITAL TO THE ECONOMIC VITALITY OF OUR CITY.

I support the concept of an immediate phased takeover of the local costs of Medicaid. We have currently estimated our share of Medicaid costs at $812 million in 1982, $894 million in 1983, $992 million in 1984, and $1,100 million in 1985.

On the other hand, I can see that some of the smaller cities may have some concern for this approach since they will not directly benefit from the Medicaid takeover. For these smaller cities, I suggest modifying the cap to provide some additional per capita assistance or emergency aid for smaller cities.

I am glad that the governor recognizes the burden that state mental health policies have shifted to the localities in the past by proposing to assume the Medicaid cost of persons on SSI who are classified as disabled for mental health reasons. I realize that there are problems in identifying these individuals through SSI records. I am hopeful that the administration can overcome the technical impediments. I also support the governor's initiation of major cost savings proposals in Medicaid. Until I see the details of these proposals, however, I am concerned that the savings not increase the municipal hospitals' burden in caring for the indigent.

Another positive action in the Medicaid area is the proposal to create a bad debt and charity pool to help hospitals across the state recoup some of the cost of caring for charity cases,
NOT OTHERWISE COVERED BY THIRD PARTY REIMBURSEMENTS OR OF CARE GIVEN THE WORKING POOR WHO CANNOT AFFORD TO PAY.

I WOULD ALSO LIKE TO POINT OUT SEVERAL AREAS OF CONCERN.

AS YOU KNOW, I HAVE SUPPORTED AND CONTINUE TO SUPPORT VIGOROUSLY AN INCREASE IN THE BASIC ALLOWANCE FOR OUR PUBLIC ASSISTANCE RECIPIENTS, WHOSE LAST INCREASE WAS IN 1972. INFLATION HAS ERODED THE PURCHASE POWER OF THE STATE'S WELFARE RECIPIENTS MORE THAN ANY OTHER GROUP.

HOWEVER, I AM EQUALLY ADAMANT THAT THE COSTS OF THE INCREASE AND THE ASSOCIATED INCREASE IN MEDICAID COSTS MUST BE BORNE ENTIRELY BY THE STATE. AS YOU KNOW, NEW YORK STATE IS ONE OF ONLY NINE STATES WHICH REQUIRE LOCAL TAX LEVY PARTICIPATION IN DEFRAYING THE COSTS OF PUBLIC ASSISTANCE. HOLDING NEW YORK STATE LOCALITIES HARMLESS FOR THE COSTS OF THE GOVERNOR'S PROPOSED INCREASE WOULD BE BUT A FIRST STEP TOWARDS RECTIFYING THIS INEQUITY.

THE GOVERNOR INTENDS TO ENFORCE THE NEWLY PLACED CAP ON THE STATE SHARE FOR FOSTER CARE SERVICES AND MAINTENANCE BY REIMBURSING LOCALITIES ON A QUARTERLY BASIS. THIS IS A DRAMATIC DEPARTURE FROM THE CURRENT PRACTICE OF MONTHLY ADVANCE/SETTLEMENT PAYMENTS. THE STATE WILL SAVE MONEY BY DEFERRING ONE QUARTER PAYMENT TO FY 1983, BUT THE ACTION WILL RESULT IN AN UNACCEPTABLE CASH FLOW PROBLEM FOR LOCALITIES. IF THIS PROVISION IS SUSTAINED, THE CITY WILL HAVE NO ALTERNATIVE BUT TO EITHER
ADVANCE SUCH FUNDS WITH ITS ASSOCIATED COSTS ESTIMATED AT A MINIMUM OF $1 TO $2 MILLION YEARLY OR PASS THROUGH THE BURDEN OF THIS GIMMICK TO THE FOSTER CARE VOLUNTARY AGENCIES.

I AM FURTHER CONCERNED THAT IF THE PRINCIPLE OF QUARTERLY REIMBURSEMENT IS ACCEPTED IN THIS AREA, IT WILL SOON BE USED IN OTHER PROGRAMS AS WELL.

ONE MAJOR AREA WHERE THE STATE BUDGET FALLS SHORT OF OUR EXPECTATIONS IS IN THE FUNDING OF SOCIAL SERVICES UNDER TITLE XX. AS YOU KNOW, THE CITY'S EXTENSIVE NETWORK OF NEIGHBORHOOD DAY CARE AND SENIOR CITIZENS' CENTERS DEPENDS ALMOST ENTIRELY ON THESE FEDERAL FUNDS, MATCHED AT 25 PERCENT WITH STATE AND CITY TAX LEVY MONIES. IN FEDERAL FISCAL YEAR 1981 THE STATE WITHHELD $28 MILLION IN FEDERAL FUNDS FROM THE LOCALITIES. THE GOVERNOR'S BUDGET INDICATES THAT THE STATE WILL CONTINUE TO WITHHOLD THE TITLE XX FUNDS -- AS MUCH AS $32 MILLION -- EVEN THOUGH THE FEDERAL TITLE XX CEILING HAS BEEN RAISED TO $3.0 BILLION. CONTINUING FAILURE BY THE STATE TO PASS THROUGH ALL TITLE XX FUNDING WILL SEVERELY CONSTRAIN OUR ABILITY TO SERVE THE WORKING POOR AND THE ELDERLY IN COMMUNITIES THROUGHOUT THE STATE. IN NEW YORK CITY, WE MAY HAVE TO EITHER DEFER PAY INCREASES TO DAY CARE AND SENIOR CITIZEN CENTER WORKERS, DECREASE THE QUALITY AND QUANTITY OF SERVICES IN ALL NEIGHBORHOODS NOW SERVED, OR ACTUALLY CLOSE PROGRAMS IN SELECTED NEIGHBORHOODS. THESE ALTERNATIVES ARE ALL DEPLORABLE AND UNACCEPTABLE.
THIS YEAR, AS LAST YEAR, THE GOVERNOR PROPOSES A CAP ON LOCAL ADMINISTRATIVE EXPENSES FOR INCOME MAINTENANCE, CHILD SUPPORT AND MEDICAL ASSISTANCE. THIS YEAR, LIKE LAST YEAR, THE PROPOSAL SHOULD BE DEFEATED AS UNWISE AND COUNTERPRODUCTIVE.

OFTEN WHAT APPEARS TO BE AN IMMEDIATE SAVINGS IN PERSONNEL COSTS RESULTS IN INCREASED PROGRAMMATIC COSTS BECAUSE THE EFFICIENCY OF THE PROGRAM IS DIMINISHED. IN NEW YORK CITY, WE JUST ACHIEVED A REDUCTION TO 4.9 PERCENT IN THE AFDC INELIGIBILITY ERROR RATE, THE LOWEST EVER SINCE THE STATE STARTED SYSTEMATIC AUDITS. THIS WAS ACHIEVED BY TIGHTENING THE SUPERVISORY REVIEW OF ELIGIBILITY DETERMINATIONS, INCREASING THE NUMBER OF PERIODIC RECERTIFICATIONS, AND INCREASING THE MATCHING OF OUR PUB ASSISTANCE FILES WITH INCOME, TAX, AND ASSET RECORDS. THESE AND SIMILAR EXPENDITURE CONTROL EFFORTS IN THE AREAS OF HOME CARE AND MEDICAL ASSISTANCE WILL BE JEOPARDIZED IF THE GOVERNOR’S PROPOSAL IS ALLOWED TO PASS, AT A COST MANY TIMES HIGHER THAN THE PERSONNEL COST SAVINGS IT WOULD ACHIEVE. THE PROPOSAL WOULD ALSO MAKE IT DIFFICULT TO MEET OUR NEGOTIATED COMMITMENT FOR AN 8 PERCENT SALARY INCREASE FOR CITY WORKERS AND LIMIT MANAGERIAL FLEXIBILITY TO MEET CONTINUALLY SHIFTING PROGRAMMATIC REQUIREMENTS UNDER BOTH THE PUBLIC ASSISTANCE AND MEDICAID PROGRAMS.

I AM ALSO CONCERNED WITH THE STATE’S BACKING OUT OF THE COMMITMENT TO COVER THE FULL ADMINISTRATIVE COSTS OF FOOD STAMPS. MY STAFF WORKED CLOSELY WITH STATE BUDGET AND STATE DSS TO ACHIEV
A FAVORABLE RESULT WITH THE FEDERAL GOVERNMENT. NOW THE STATE SEeks TO BACK OUT OF ITS COMMITMENT AND LET THE LOCALITIES SHARE THESE COSTS WITH THE FEDERAL GOVERNMENT.

OVERALL, THE GOVERNOR'S BUDGET PROPOSALS FOR EDUCATION AID ARE DISAPPOINTING. WHILE I APPLAUD THE ACCELERATED PAYMENT SCHEDULES, THE ELIMINATION OF MAXIMUM AID RESTRICTIONS AND SOME OF THE OTHER PROPOSED FORMULA CHANGES, IT IS CLEAR THAT MORE COMPREHENSIVE REFORMS ARE NECESSARY TO CORRECT THE MAJOR DEFICIENCIES OF THE SCHOOL AID SYSTEM.

THE PROPOSED AID CEILINGS, FOR EXAMPLE, DO NOT REFLECT SCHOOL DISTRICTS' ACTUAL COSTS. IN FACT, THE AVERAGE STATE-WIDE EXPENDITURE LEVEL EXCEEDS THE $1800 TIER II GUARANTEE BY MORE THAN 40 PERCENT. A PRELIMINARY ANALYSIS OF THE PROPOSED TRANSPORTATION AID FORMULA INDICATES THAT IT WILL NOT HELP THE CITY.

BUT PERHAPS THE MOST SIGNIFICANT SHORTCOMING OF THE GOVERNOR'S PROPOSAL IS THAT THE STATE DOES NOT ASSUME A GREATER SHARE OF THE COSTS OF EDUCATING THE HANDICAPPED AND OTHER STUDENTS WITH SPECIAL EDUCATIONAL NEEDS.

I AM DISAPPOINTED THAT ADDITIONAL FUNDING WAS NOT MADE AVAILABLE FOR STUDENTS WITH LIMITED ENGLISH PROFICIENCY. THE ADDITIONAL WEIGHTINGS FOR PSEN STUDENTS, THOUGH HELPFUL, STILL DO NOT REFLECT THE TRUE COSTS OF PROVIDING REMEDIAL EDUCATION. FINALLY, IT DOES NOT APPEAR THAT THE EXCESS COST AID FORMULA ADEQUATELY COMPENSATES THE CITY FOR THE COSTS OF EDUCATING ITS HANDICAPPED STUDENTS.
FEDERAL AND STATE MANDATES HAVE DRIVEN UP SPECIAL EDUCATION COSTS DRAMATICALLY. UNFORTUNATELY, THE BURDEN OF FINANCING THESE MANDATES HAS FALLEN PRIMARILY ON LOCAL SCHOOL DISTRICTS. IN NEW YORK CITY ALONE THE COST OF SPECIAL EDUCATION AND RELATED SERVICES ROSE 116 PERCENT BETWEEN 1975 AND 1981. BECAUSE FEDERAL AND STATE ASSISTANCE HAS NOT KEPT PACE WITH THE SPIRALING COSTS OF EDUCATING HANDICAPPED CHILDREN, THE CITY HAS HAD TO RELY HEAVILY ON LOCAL REVENUES TO FUND SPECIAL EDUCATION PROGRAMS.

TO REDRESS THE INEQUITIES OF THE CURRENT AID SYSTEM AND TO ENABLE THE CITY TO MEET MANDATED PROGRAM COSTS, THE OFFICE OF MANAGEMENT AND BUDGET HAS PREPARED A SERIES OF LEGISLATIVE CHANGES THAT WE WILL BE DISCUSSING WITH YOU IN THE NEXT FEW WEEKS.

NOTWITHSTANDING THE LACK OF A FINAL RULING IN THE LEVITTOWN CASE, I WOULD STRONGLY URGE THE LEGISLATURE TO MODIFY ITS AID SYSTEM IN ACCORDANCE WITH THE STATE SUPREME COURT RULING WHICH FOUND THAT SYSTEM UNCONSTITUTIONAL AND DISCRIMINATORY.

I WOULD ALSO LIKE TO ADD MY SUPPORT TO THE CRIMINAL JUSTICE PROPOSALS SET FORTH IN THE GOVERNOR'S PROPOSAL TO COMBAT CRIME.

THE BUDGET WAS SILENT ON ANY IMPLICATIONS AS TO WHAT WILL BE DONE IF THE GROSS RECEIPTS TAX IS DECLARED INVALID. WHILE THE ISSUE IS STILL IN COURT, THE OUTLOOK FOR THE PROVISION AGAINST THE PASS-ALONG RESTRICTION IS NOT FAVORABLE. THE LEGISLATURE SHOULD CONSIDER ALTERNATIVES THAT WILL MAINTAIN THE CURRENT FARE BEFORE
A FUNDING CRISIS DEVELOPS. WHILE I AM AWARE THAT THE PRESIDENT'S ACTION TO DEREGLATE OIL MAY MAKE THE ISSUE MOOT, WE SHOULD BE PREPARED FOR ANY CONTINGENCIES THAT MIGHT DEVELOP.

THANK YOU.
I have been a member of the Board of Estimate for a little more than four years. During that time, the City of New York has been under siege - not military, but financial. And as a member of this Board, I have been acutely aware of - and a regretful, but willing participant in - many, many difficult decisions which had to be made for New York to regain its fiscal and economic vitality.

These tough decisions have paid off for the first time in recent memory, the City has a truly balanced budget, and I commend Mayor Koch for his vigorous leadership in this achievement. Nevertheless, we have all witnessed the deterioration of City services, knowing that we simply did not have the money to maintain and deliver them at the level we would have liked. But the City's fiscal integrity must be restored, and so we have all endured the consequences which our financial situation inflicted.

During my four years as Borough President, I have found the budget negotiating season to be extremely painful, because the needs have always been so much greater than the resources available to meet them.

Last year's budget sessions were no exception to the rule. We passed stringent - and responsible budgets which reflected, to the best of our ability, the ways in which we could most fairly and effectively use our limited resources.

In September, responding to the revised financial plan which incorporated new wage settlements, and so further strained our depleted revenues, the Board of Estimate passed a series of modifications to an already austere budget. I voted for those modifications, as did my colleagues on the Board and the members of the City Council, because we all knew that it was imperative to balance the budget. And we did.
GOLDEN/BUDGET MODIFICATIONS

But as the revenues were reported for the first quarter of the current fiscal year, things seemed a bit brighter. Tax revenues were higher than projected, and after almost six years of fiscal restraints and generally bad news, it was the first indication that our revenue projections had been conservative.

When the second quarter revenue reports came in, it became clear that we had turned a very important corner. Our real - not projected - but our real revenues exceeded even the most optimistic projections. In fact, the Comptroller has now estimated that our fiscal year 81 surplus - in real - GAAP - dollars, will be in excess of $200 million.

It is this real surplus of at least $200 million which calls into question the budget modifications which have come before this Board on previous occasions, and the same kind of which are before us today.

The modifications which we are being asked to approve today represent, in the aggregate, the kind of piecemeal approach to financial management which was part of the City's past and which we certainly do not want to be part of its present or future. We are being asked to transfer new moneys, via the General Fund, from those agencies which at the moment have surpluses, to those which now have deficits.

At long last, we have real dollars - above and beyond that which we expected - to spend. Unfortunately, these very real dollars have yet to become part of the City's budget. Because this unexpected revenue has not been officially identified as part of our revenue base, we are basically being asked to shuffle, haphazardly, moneys from our general reserve rather than having the opportunity to examine the total resources available to us, and on that basis, determine the most socially and fiscally responsible expenditure of that revenue, in light of the compelling and sometimes competing demands for services.

Rather than allocating our resources within this narrow context, let the Mayor formally introduce our new-found and genuine surplus into the budget, as the Charter provides. Let all of us - and that, of course, includes the Mayor - on the Board of Estimate, and the members of the City Council, be able to make those positive choices - those services or agencies which we may now be able to enhance - with the complete

- more -
picture in mind. Let us make our decisions responsibly, with the confidence that we
are not participating in the old fiscal sleight of hand game. We know where that
approach took us.

Now that the resources are available to restore some of the damage, let
us use them. Let's stop shuffling our money, switching it from one agency, through
our general fund middleman, to another. The needs of my Borough - the needs of
this City - are great. I want to be able to evaluate those needs from a full and
realistic perspective, and so I feel it is essential that we end this stop-gap method of
balancing the budget.

At this juncture, not only have I not had the opportunity to review the
total revenue picture, but I have also not yet had the input from the agency hearings
on the latest financial plan which are the basis for the modifications presented
today.

Let's put our cards - or, in this case - our money, on the table. Let the
Office of Management and Budget come before this Board with its revenue
modification. At that point, I will feel prepared to make a responsible decision on
any modification.

For me to vote affirmatively on these budget modifications, I want the
people of this City to have the chance to hear the respective agencies' positions on
these items. And as a responsible public official, I personally must examine the
complete revenue position of the City before I can, in good conscience, act on these
items.
THANK YOU, MAGGIE WEISS.
PETER ESCHEWEILER, JACK DOYLE, ED CRAWFORD, LADIES AND GENTLEMEN:

TODAY I'D LIKE TO SPEAK TO YOU ABOUT SOME OF MY LEGISLATIVE PRIORITIES FOR THE 1981 SESSION, THE FIRST OF WHICH IS THE IMPORTANCE OF EXTENDING AND EXPANDING LEGISLATION PERTAINING TO COMPULSORY ARBITRATION.

LET ME GO BACK A FEW YEARS TO SET THE STAGE. WHEN I TOOK OFFICE IN JANUARY 1978, NEW YORK CITY WAS STILL ON THE BRINK OF FISCAL CALAMITY. I SAY "FISCAL CALAMITY" BECAUSE FORMER MAYOR BEAME, IN A RECENT LETTER TO THE NEW YORK TIMES, EXPRESSED THE OPINION THAT NEW YORK WAS NOT ON THE BRINK OF BANKRUPTCY WHEN HE LEFT OFFICE. I LIKE MAYOR BEAME, SO LET ME JUST SAY THAT IF NEW YORK WAS NOT ON THE BRINK OF BANKRUPTCY, WE WERE ON THE BRINK OF SOMETHING EXACTLY LIKE IT.

BUT, AS I HOPE YOU'VE HEARD, THE CITY HAS MADE TREMENDOUS PROGRESS IN ITS FINANCIAL RECOVERY. WE HAVE A TRULY BALANCED BUDGET, WHICH WAS DONE WITHOUT THE AID OF THOSE MAGIC ADDING MACHINES WHICH USED TO BE SO IMPORTANT TO THE BUDGET PROCESS IN NEW YORK CITY.

( more )
ONE OF THE MAJOR REASONS WHY THE CITY HAS BEEN DOING BETTER WAS OUR ABILITY TO ARRIVE AT FAIR AND REASONABLE LABOR CONTRACTS IN 1978 AND 1980. AND I BELIEVE THAT ONE OF THE KEY INGREDIENTS IN OUR ABILITY TO REACH THOSE LABOR SETTLEMENTS WAS THE EXISTENCE OF COMPULSORY ARBITRATION LEGISLATION, LEGISLATION WHICH IS DUE TO EXPIRE THIS YEAR.

NEW YORK CITY HAS HAD IMPASSE PROCEDURES IN ITS COLLECTIVE BARGAINING PROCESS FOR THE PAST 14 YEARS. IN GENERAL, THEY WORKED WELL, BUT COLLECTIVE BARGAINING WAS DRAMATICALLY ALTERED IN 1975 WHEN THE FINANCIAL EMERGENCY ACT LEGISLATION WAS PASSED TO DEAL WITH THE FISCAL CRISIS IN THE CITY. THE LEGISLATION PROVIDED THAT THERE WOULD BE NO WAGE INCREASES IN NEW YORK CITY EXCEPT AS PART OF A CORRESPONDING INCREASE IN PRODUCTIVITY. IN 1978, THIS WAGE FREEZE WAS REMOVED, ALLOWING FOR WAGE INCREASES, BUT WITH THE CONDITION THAT THE IMPASSE PANEL, IF INVOKED, WOULD MAKE A THRESHOLD DETERMINATION OF THE CITY'S ABILITY TO PAY. AND THAT ABILITY TO PAY WAS DEFINED NARROWLY. IT MEANT "ABILITY TO PAY WITHOUT THE IMPOSITION OF NEW TAXES."

( more )
THE ISSUE OF ABILITY TO PAY CAN BE APPEALED, AS CAN OTHER DECISIONS BY THE IMPASSE PANEL, BUT WHAT WE HAVE FOUND SINCE 1978 IS THAT NEW YORK CITY'S COLLECTIVE BARGAINING HAS PROVEN TO BE BOTH EFFECTIVE AND RELATIVELY PEACEFUL. THE CITY HAS BEEN ABLE TO NEGOTIATE REASONABLE CONTRACTS. THE LAW HAS WORKED. SINCE 1975, WHENEVER THE IMPASSE PANEL'S PROPOSED SETTLEMENTS WENT BEYOND THE GENERAL PATTERN OF LABOR SETTLEMENTS, THE INCREASE WAS CUT BACK BY THE BOARD OF COLLECTIVE BARGAINING, AND UPHELD IN COURT. THE CITY'S ABILITY TO PAY CAN NOW BE EASILY DETERMINED, SINCE OUR BOOKS GET A THOROUGH GOING OVER AND ARE KEPT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRACTICES.

IN THE PAST, COLLECTIVE BARGAINING IN NEW YORK CITY HAS BEEN WITHIN THE CONTEXT OF ONE SIDE OR THE OTHER REFUSING TO REACH AN AGREEMENT, WITH ALL THE AGGRAVATION AND SABER-RATTLING THAT IMPLIES. BUT WITH THE PRESENT COMPULSORY ARBITRATION LEGISLATION IN PLACE, I BELIEVE THERE HAS BEEN A STRONG DOWNWARD PRESSURE EXERTED, WHICH HAS INDUCED LABOR UNIONS AND THE CITY TO CONCLUDE FAIR AND REASONABLE SETTLEMENTS. A KEY RESULT HAS BEEN A GREATLY IMPROVED FISCAL PICTURE FOR THE CITY.
TODAY, HOWEVER, WE FACE THE EXPIRATION OF THIS IMPORTANT LEGISLATION. THE PATIENT SITS UP IN BED AND THE DOCTORS IMMEDIATELY THINK ABOUT CUTTING OFF HIS MEDICINE. I FEEL VERY STRONGLY THAT THIS LEGISLATION NOT ONLY SHOULD BE EXTENDED FOR THE CITY, BUT SHOULD BE EXPANDED THROUGHOUT THE STATE. WE HAVE A PROCESS THAT WORKS, THAT HELPS TO KEEP EXPENDITURES WITHIN THE LIMITS OF ABILITY TO PAY, AND I ASK YOUR ASSISTANCE IN MAKING THIS PROCESS WORK FOR THE ENTIRE STATE OF NEW YORK.

NOW LET ME TURN TO ANOTHER AREA IN WHICH I AM MAKING LEGISLATIVE PROPOSALS THIS SESSION: CRIMINAL JUSTICE. MY ENTIRE PACKAGE INCLUDES 33 SEPARATE ITEMS, BUT I WILL ONLY DISCUSS SEVERAL OF THE MORE IMPORTANT SUGGESTIONS TODAY.

CRIME IS ON THE INCREASE THROUGHOUT OUR STATE, AND THROUGHOUT OUR NATION. IN SOME COMMUNITIES OUR CITIZENS NO LONGER THINK IT STRANGE OR UNUSUAL TO LIVE BEHIND THREE OR FOUR LOCKS, COMPLETE WITH ELECTRONIC SURVEILLANCE DEVICES AND METAL GATES ON THE WINDOWS.

( more )
THE COLLAPSE OF OUR PUBLIC SAFETY HAS COME ABOUT SO GRADUALLY, AND PIECEMEAL CONCESSIONS TO A SOCIETY RULED BY FEAR HAVE ACCUMULATED SO QUIETLY, THAT MANY YOUNG PEOPLE TODAY DON'T EVEN KNOW WHAT IT WAS LIKE TO FEEL SAFE WALKING IN THE PARK AT NIGHT. THEY DON'T REMEMBER WHEN THERE WAS NO NEED TO PROTECT STOREFRONT WINDOWS WITH ROLL-DOWN ARMOR.

HOW MANY OF US REMEMBER THE YEAR 1960? THAT WAS A YEAR WHEN 390 HOMICIDES WERE COMMITTED IN NEW YORK CITY. IN 1980, WE HAD OVER 1,800 HOMICIDES, AN INCREASE OF MORE THAN 450 PERCENT. IF THIS SAME RATE OF INCREASE CONTINUES FOR THE NEXT 20 YEARS, NEW YORK CITY IN THE YEAR 2000 WILL HAVE MORE THAN 8,000 HOMICIDES.

WHAT I AM SAYING IS THAT A CRIMINAL JUSTICE SYSTEM WHICH WORKED REASONABLY WELL AT A TIME WHEN THERE WERE LESS THAN 100,000 FELONY COMPLAINTS A YEAR IN NEW YORK CITY CANNOT BE EXPECTED TO DO AS WELL TODAY, WHEN THERE ARE MORE THAN 550,000 FELONY COMPLAINTS A YEAR, AND WHICH THE POLICE DEPARTMENT ESTIMATES TO BE ONLY ABOUT HALF THE NUMBER OF FELONIES ACTUALLY COMMITTED.
ADD TO THIS FRIGHTENING TOTAL THE MORE THAN ONE MILLION MISDEMEANOR VIOLATIONS OF OUR PERSONS AND PROPERTY WHICH OCCUR ANNUALLY AND THE GRIM REALITY OF OUR CRIME PROBLEM IN NEW YORK CITY BEGINS TO BECOME APPARENT.

I DON'T THINK IT'S ANY SECRET THAT I HAVE BECOME INCREASINGLY FRUSTRATED -- AS MANY OF US HAVE -- WITH THE FAILURES OF OUR CRIMINAL JUSTICE SYSTEM. THIS IS WHY, ON OCCASION, I HAVE FELT IT TO BE BOTH NECESSARY AND IMPORTANT TO ISSUE PUBLIC STATEMENTS CRITICAL OF SPECIFIC ACTIONS TAKEN BY JUDGES IN NEW YORK CITY.

HOWEVER, IT IS NOT CRITICISM, BUT COOPERATION, THAT IS THE OBJECT OF WHATEVER COMMENTS I MAKE ON THE JUDICIARY. COOPERATION WAS ALSO THE REASON WHY I DECIDED TO ASK THE FRONT-LINE MEMBERS OF OUR CRIMINAL JUSTICE SYSTEM -- JUDGES, PROSECUTORS, DEFENSE ATTORNEYS AND VARIOUS OFFICIALS OF THE OTHER AGENCIES -- TO SHARE WITH ME THEIR SUGGESTIONS AND IDEAS ABOUT WHAT CAN BE DONE TO HELP OUR SYSTEM ADAPT TO HANDLE A CRIME PROBLEM WHICH THREATENS TO OVERWHELM US. LAST OCTOBER AND NOVEMBER, I SENT OUT 232 LETTERS OF INQUIRY. SO FAR, I HAVE RECEIVED MORE THAN 120 REPLIES, A GRATIFYING RESPONSE.
THE REPLIES WERE CAREFULLY ANALYZED BY THE CITY'S CRIMINAL JUSTICE COORDINATOR, BOB KEATING, AND HIS STAFF. I DON'T CLAIM THAT THIS SURVEY WAS SCIENTIFICALLY OR STATISTICALLY VALID, AND SOME OF THE SUGGESTIONS HAVE BEEN HEARD BEFORE, BUT ALL IN ALL THE RESULTS HAVE PROVED ENORMOUSLY USEFUL IN HELPING ME SHAPE A PRACTICAL PROGRAM OF WHAT CAN BE DONE TO COMBAT CRIME AND IMPROVE THE SYSTEM.

AFTER READING THE REPLIES TO MY REQUEST FOR SUGGESTIONS, AND AFTER CONSULTING WITH BOB KEATING AND HIS STAFF, I PUT TOGETHER MY PACKAGE OF 33 LEGISLATIVE PROPOSALS, AS WELL AS SEVERAL RECOMMENDATIONS FOR ADMINISTRATIVE REFORM. BEFORE I TAKE YOUR QUESTIONS, I WOULD LIKE TO OUTLINE BRIEFLY SOME OF THE PROPOSALS AND GIVE YOU MY REASONS WHY I THINK THEY'RE IMPORTANT IF WE ARE TO HAVE A MODERN CRIMINAL JUSTICE SYSTEM IN NEW YORK.

FIRST, PROPOSALS FOR ACCELERATING THE CRIMINAL JUSTICE PROCESS:

( more )
(1) JUDICIAL RESOURCES. JUDICIAL RESOURCES HAVE NOT KEPT PACE WITH THE INCREASE IN CRIME. IT'S SHOCKING TO NOTE THAT IN SPITE OF THE CRIME WAVE THAT HAS STRUCK OUR CITY, THERE HAS NOT BEEN AN INCREASE IN THE NUMBER OF CRIMINAL JUDGES IN THE LAST 12 YEARS. I AM THEREFORE PROPOSING THAT THE STATE ADD 20 CRIMINAL COURT JUDGES AND FIVE FAMILY COURT JUDGES IN NEW YORK CITY AND THAT IT MAINTAIN THE 68 COURT CLAIMS JUDGES THROUGHOUT THE STATE.

(2) PRE-ARRAIGNMENT. MUCH TIME IS CURRENTLY WASTED BETWEEN THE ARREST AND ARRAIGNMENT OF A SUSPECT, COSTING THE CITY MILLIONS OF DOLLAR IN OVERTIME PAYMENTS TO POLICE OFFICERS WHO MAKE ARRESTS AND THEN MUST BE PRESENT AT THE ARRAIGNMENT. I WILL SEEK THE CITYWIDE ADOPTIC OF THE PRE-ARRAIGNMENT PROCESS, WHICH HAS BEEN TRIED SUCCESSFULLY IN SOME COUNTIES.
(3) **SENTENCING DELAY.** THE PRE-SENTENCE REPORT SHOULD BE ABOLISHED IN CASES WHERE ALL PARTIES TO THE ACTION AGREE ON THE SENTENCE. THIS WILL SAVE MONEY AND WILL ALLOW PRISONERS TO BE SENTENCED AND TURNED OVER TO THE STATE MORE QUICKLY, THEREBY OPENING UP MORE SPACE IN LOCAL DETENTION FACILITIES.

(4) **JURY SELECTION.** THE PRIMARY RESPONSIBILITY FOR QUESTIONING PROSPECTIVE JURORS SHOULD BE GIVEN TO THE JUDGE, INSTEAD OF THE LAWYERS. LAWYERS SHOULD BE PERMITTED FEWER PREEMPTORY CHALLENGES -- CHALLENGES THAT AUTOMATICALLY REMOVE JURORS WITHOUT THE NEED TO GIVE ANY REASONS.

NEXT, LET ME TELL YOU HOW I FEEL ABOUT AN IMPORTANT CHANGE IN THE CRIMINAL LAW:

**CAPITAL PUNISHMENT.** THE DEATH PENALTY SHOULD BE RESTORED AS AN OPTION IN CASES OF FIRST DEGREE MURDER, INCLUDING THE INTENTIONAL KILLING OF POLICE OFFICERS AND CORRECTION OFFICERS, THE MURDER OF WITNESSES TO CRIMES, MURDERS FOR HIRE AND FELONY MURDERS.
I AM WELL AWARE THAT THERE ARE THOSE WHO OPOSE THE DEATH PENALTY FOR REASONS OF PERSONAL CONSCIENCE OR ON GROUNDS OF MORALITY. I UNDERSTAND THE DIFFICULTY OF THIS ISSUE, BUT I FEEL WE MUST COME TO CERTAIN CONCLUSIONS ABOUT IT. FIRST, THE DEATH PENALTY IS CONSTITUTIONAL. THE UNITED STATES SUPREME COURT HAS REPEATEDLY HELD THAT IT IS A LEGITIMATE SANCTION WHEN APPLIED UNDER APPROPRIATE CIRCUMSTANCES. JUSTICE STEWART EXPLAINS THAT CAPITAL PUNISHMENT, AS AN EXPRESSION OF SOCIETY'S JUSTIFIABLE INDIGNATION AND CONCERN AT PARTICULARLY HEINOUS CRIMES, "MAY BE UNAPPEALING TO MANY, BUT IT IS ESSENTIAL IN AN ORDERED SOCIETY THAT ASKS ITS CITIZENS TO RELY ON LEGAL PROCESSES RATHER THAN SELF-HELP TO VINDICATE THEIR WRONGS." CERTAINLY, THE DETERRENT VALUE OF THIS SANCTION IS AT LEAST A MATTER OF CONSIDERABLE CONTINUING DEBATE. MOREOVER, OUR HIGHEST COURT RECOGNIZES THAT DETERRENCE IS NOT THE SOLE JUSTIFICATION FOR CRIMINAL PENALTIES AND THAT ADEQUATE SOCIETAL RETRIBUTION IS APPROPRIATE AND NECESSARY FOR THE MOST ATROCIOUS CRIMES. HOW LONG MUST WE ENDURE THE CONTINUED SLAUGHTER OF INNOCENT CITIZENS BY KILLERS LIKE NATHAN GILES, THE MURDERER OF AN ELDERLY WOMAN AND A YOUNG NURSE, WHO WAS PAROLED AFTER ONE MURDER ONLY TO KILL AGAIN? (more)
THOSE WHO OPPOSE CAPITAL PUNISHMENT ARE WRONG TO IMPLY THAT THE ADVOCATES OF ITS LIMITED AND CONSTITUTIONAL APPLICATIONS ARE IMMORAL. THERE ARE MANY RESPONSIBLE THEOLOGIANS WHO FIRMLY BELIEVE THAT THE VALUE OF HUMAN LIFE IS CHEAPENED WHEN SOCIETY FAILS TO IMPOSE THE MOST SEVERE PENALTY UPON CRIMINALS WHO VIOLENTLY TAKE THE LIVES OF OTHERS. THIS POSITION IS CONSISTENT WITH THE OLD TESTAMENT AND WITH A RECENT STATEMENT BY POPE JOHN PAUL II, WHO SAID: "THE RIGHT OF ALL PERSONS TO LIFE IS PROTECTED BY THE LAW. DEATH CANNOT BE INFICTED INTENTIONALLY ON ANYONE EXCEPT IN CARRYING OUT A CAPITAL SENTENCE PRONOUNCED BY A COURT, IN CASES WHERE A CRIME IS PUNISHED WITH THIS PENALTY BY LAW." I THINK IT SHOULD BE POINTED OUT THAT BEING ON THE SAME SIDE OF THIS ISSUE AS THE OLD TESTAMENT, POPE JOHN PAUL II AND THE SUPREME COURT, THAT'S GOOD GOVERNMENT. NEW YORK STATE SHOULD HAVE A DEATH PENALTY PROVISION, AND WE SHOULD HAVE IT THIS YEAR.

IF WE CAN MAKE LEGISLATIVE PROGRESS THIS YEAR IN CRIMINAL JUSTICE, THE RESULT WILL BE FEWER INNOCENT LIVES DISRUPTED OR DESTROYED BY CRIME AND A SAFER, MORE DECENT SOCIETY FOR EVERYONE. I AGAIN ASK YOUR HELP IN GETTING THESE PROPOSALS PASSED.

( more )
THERE ARE OTHER IMPORTANT AREAS OF CONCERN TO US ALL -- ESPECIALLY CIVIL SERVICE REFORM -- BUT PERHAPS WE WILL HAVE MORE TIME AT A LATER DATE TO DISCUSS THIS SUBJECT MORE FULLY.
For Release: Thursday, March 5, 1981

STATEMENT BY MAYOR KOCH AND COMPTROLLER GOLDIN
ON THE CITY'S BOND RATING

Mayor Edward I. Koch and Comptroller Harrison J. Goldin today announced that Standard & Poor's Corporation has given the city an investment grade rating of BBB on its general obligation bonds.

Mayor Koch said, "We are gratified that Standard & Poor's has acknowledged the progress that New York City has made since 1975 in tackling its financial problems. Both Standard & Poor's and we recognize that problems remain, but this rating indicates the confidence that Standard & Poor's has in the city's financial and budgeting controls and its management are capable of addressing these problems, and that long-term structural changes have been implemented to insure that the city will continue its improved financial performance. This has been a long and detailed review by Standard & Poor's, and I am very appreciative of the professional manner in which they have approached this rating. In many respects, this is only the first step of a long-term process for restoring investor confidence in New York City. But New York City has proved that it is a long distance runner."

Comptroller Goldin said, "The investment grade rating by Standard & Poor's shows that the patient is on the road to full recovery. It is an important milestone for the city and is vital to the city's ability to meet its capital needs over the long-term. We will be meeting with our underwriting group over the next several days to complete our preparation for the bond offering now underway. Clearly, the rating will facilitate our efforts to market city bonds. We are delighted with today's announcement from Standard & Poor's; our efforts to enhance our position in the public credit markets will continue."
STATEMENT BY MAYOR KOCH ON PRESIDENT REAGAN'S BUDGET PROPOSALS

I am releasing today an analysis of the impact of the proposed federal budget reductions on New York City. I want to emphasize at the outset that there is no danger to our balanced budget. The city's budget will be balanced in 1982 and will remain in balance. But there will be pain. The federal cuts will be deep and will require service reductions in virtually all programs now funded by the federal government.

On February 19, when I gave our first reaction to the Reagan proposals, I indicated that the budget reductions must be balanced and equitable, and must not shift to states and localities the burdens now borne by the federal government. I continue to support the overall objectives of the President's economic program, but I know, better than most people, that executive budgets are not written in stone. Federal taxes and expenditures should be cut. The President clearly has a mandate to do that. It would be foolish and counterproductive for me to oppose every reduction that affects New York City. And it would be hypocritical of me to suggest that the federal government should not do what New York City and State have struggled to do the past six years -- slow the growth in government spending. The President's mandate cannot be accomplished if everyone says: "cut that program, not my program." It is my responsibility, however, to propose modifications to the President's plan. These modifications address some of the most serious problems created by the proposed cuts and still meet the President's goal of significantly reducing the size of the federal budget.

Our analysis is not as specific as we would like, because for virtually all of the proposed budget cuts there has been no specific language for legislation or regulations
that would indicate how the reductions would be implemented. So we have been forced to make some assumptions, which are stated in the analysis. As set forth on Table 1 of the analysis, in fiscal year 1982 the city stands to lose $353 million in federal categorical aid included in its financial plan. In addition, we anticipate a reduction of $104 million in the federal contribution toward Medicaid costs, which would affect both voluntary and public hospitals, and a loss of $118 million worth of food stamps for low-income families in New York City. The impact of these reductions grows in future years, particularly in Medicaid and mass transit operating assistance. We project that in 1984 the city stands to lose $405 million in projected federal funding for Medicaid. New York City would lose $122 million in operating subsidies for mass transit in 1985.

Nationwide, the federal savings in the programs that most significantly affect New York are projected to be $15.6 billion in 1982, rising to $21.6 billion in 1985. (See document Table 2, Page 3) We have proposed alternative spending reductions and revenue increases that total $37 billion in 1982, increasing to $202 billion in 1985. We believe these alternatives are responsible and equitable and can be accommodated within the President's overall fiscal, economic and programmatic objectives. The alternatives are summarized in Table 3 and discussed in greater detail in Section III, Page 34.

While I won't comment on all the reductions in this statement, I will discuss some of the most critical.

My top priority for restoration in the proposed cut is mass transit operating assistance. (See Page 9 for a detailed discussion) In our view, the proposed cut will be counterproductive to the Administration's intention to encourage economic growth. In New York City, 85 percent of the persons entering Manhattan's central business district during morning rush hours use some form of public

(more)
transportation, and more than 50 percent ride the subway. The use of our transit system contributes significantly to New York City's energy efficiency. The annual per-capita consumption of gasoline by New Yorkers in 1979 was 151 gallons, according to the New York State Energy Office. This was less than half the state per-capita consumption of 332 gallons, and less than a third of the national average of 490 gallons. Other cities may suffer even more than New York.

Last week, the city of Birmingham, Alabama, shut down its mass transit system. Birmingham and other cities are even more dependent on federal operating assistance than New York, which of 14 major cities covers the highest proportion of its expenditures with fares. Reductions in this area will force further fare increases and increase expenses to low-income people who rely on mass transit to get to work.

The federal Title XX program is scheduled to be cut by 25 percent next year. This program provides funding for needed social services, principally for children and the elderly, such as day care centers, senior citizen centers, and foster care for children. These indeed are services that go to those described by the President as "truly needy." The federal cut, if implemented across the board, would result in the closing of 48 senior citizen centers and 96 day care centers in New York City and it is unthinkable that services to this population could be reduced so drastically.

Food stamps provide subsistence for many low-income families. The scope of the proposed reductions in this program, which amount to $118 million in the city in 1982, threatens to rip the safety net that this program provides.

The federal proposals would sharply reduce many other programs, including education aid, and would virtually eliminate the CETA program. The proposed rescission of EDA grant authority will have a particularly severe impact.
because it would cut off a pipeline of about 20 projects, requiring only $65 million in federal funds to leverage millions more in private investment that would create new jobs. The impact of these reductions is described in the accompanying analysis.

Most of the programs that the President wants to reduce will receive support from their natural constituencies. We will be working with these groups as the federal budget process unfolds.

It is vital that federal budget reductions be accompanied by relief for mandated programs. Included in the attached analysis is a memo from the Corporation Counsel summarizing principal legal issues with respect to four mandates affecting sludge dumping, secondary sewage treatment, transit access for the handicapped and special education. While the President has indicated his intention to relieve such mandates, very little has been translated into specific legislation or changes in regulation. We are particularly concerned about the proposed reduction in capital grants for water treatment plants. This reduction could result in the loss of more than $1.5 billion in federal reimbursement for capital budget expenditures in fiscal years 1982, 1983 and 1984. The city would actually realize savings if this reduction were accompanied by relief from the mandate for waste water treatment. In the absence of such relief, however, the city would be forced to commit a substantial portion of its limited capital dollars for this one mandated program.

Some of the President's tax proposals discriminate unfairly against urban areas. The proposals provide accelerated tax depreciation for owner-occupied new construction for manufacturing. No provision is made to provide incentives for rehabilitation of the older manufacturing space that exists in many cities, particularly in the northeast. Also, no incentive is provided for
capital investment by the service sector of the economy, which in many cities is the only major area of growth in employment. New construction for rental or lease purposes, which represents the bulk of new construction in many cities, is also excluded from the President's tax-incentive program. We believe the depreciation incentives ought to apply to the economic structures of older cities, and we have proposed certain alternatives to that end. (See Page 43)

We have proposed a series of alternatives for increasing revenues and reducing federal expenses. The total of such proposals, which is nearly $37 billion in 1982, is more than sufficient to fund the changes that we believe are important. Many of the proposals have been taken from recommendations of the Congressional Budget Office and the General Accounting Office.

Spending for indexed income-transfer payments, such as retirement benefits for federal employees and Social Security payments, has increased more than any area of the federal budget.

The Congressional Budget Office has proposed that Social Security payments be indexed to either the change in average wages or the change in consumer prices, whichever is lower. This approach recognizes that Social Security recipients should not receive a larger increase than wage earners, who support the Social Security system. The Congressional Budget Office estimates that this change would result in savings of $3.8 billion in 1982, and total savings of more than $23 billion over the next five years. I understand that, in some cases, the base level of Social Security benefits is not adequate; perhaps a portion of the $3.8 billion saved by reforming the system of indexing could be plowed back into the program to raise the base level for the benefits. The important thing, now and for the future, is that future increases in benefit levels would be tied to a more realistic and fair level.
The General Accounting Office and the Congressional Budget Office have proposed reductions in certain categories of military spending. While there is a general consensus that defense spending should be increased, increases in the defense budget, which accounts for 27 percent of total outlays projected for 1982, can and should be reduced without threatening our national security. The attached analysis summarizes several proposals, totalling $3.4 billion. (See Page 36)

We also have listed for elimination a number of water projects for savings of $7 billion over the next five years. This country has survived, and in fact thrived, for more than two centuries without these projects. In a period of national belt-tightening, these pork-barrel projects must be eliminated if the burden is to be spread equitably.

President Reagan, in his address to a joint session of Congress, challenged those of us who differ with some of his proposals to come up with alternatives. We have done that, and we are asking the President and the Congress to respond to them.

###
TO: Edward I. Koch  
FROM: Karen N. Gerard  
DATE: October 9, 1981  
SUBJECT: World Trade Center Sale and a Consultants' Contract

The sale of the World Trade Center will benefit the City by placing the WTC on the tax roles and by providing profits from the sale that can be used for projects in the Port Authority region. The question for the City is: how can the City maximize its total return? The higher the taxes levied, the lower the sales price and the capital gain; the lower the taxes, the higher the profit and potential funds to be divided between New York and New Jersey.

The City believes it needs the technical advice of a real estate consultant to help assess what the "maximum" return would be and to help develop a strategy for achieving that return.

BACKGROUND

The sale of the World Trade Center differs from ordinary private transactions because of the multitude of interests involved:

1. Port Authority -- sale is in its interest only if the PANY is "kept whole". The price must be high enough to provide a capital gain which will yield an income stream equivalent to what the PANY now projects for the property under its ownership.

2. Relocation of New York State Offices -- it is not clear why NYS wants the sale since relocation will entail higher operating costs for the State. However, freeing up the 22 million square feet now occupied by the State is essential if the property is to reach market rents. Timing
of the relocation must be known before the City can make its tax determination and before sale can be consummated. From the City's point of view, where the NYS offices are relocated to is also of primary interest.

3. Allocation of proceeds of sale -- the use of the proceeds must be agreed upon by New Jersey and New York governors. How much will New York City get; in what form (capital project or income stream). Sale is of no interest to New Jersey unless it receives an "appropriate" share of the pot.

4. Real Estate Taxes -- Payments in lieu of taxes currently come to $4.3 million a year (and these payments are currently $12 million in arrears?). Full taxes at the property's current A.V. would come to about $65 million. How do we bring the property to full taxation? over what period of time? What are the trade-offs between tax revenues and sales price?

CITY STRATEGY FOR MAXIMIZING ITS RETURN

The City's determination of the future tax situation of the WTC under private ownership is an essential ingredient to a WTC sale. The PANY requests that the City make that determination prior to the sale; the NYC Comptroller believes that the City should wait until sales offers have been made and let the competitive market determine the appropriate tax level.

' The Port Authority maintains that prospective buyers need the "certainty" of knowing what the tax situation will be. Without this "certainty," the pool of buyers may shrink, the sales price will be less than otherwise, and an acceptable tax proposal may not be offered. The certainty of our tax position is an important ingredient to a successful sale.

' The Comptroller argues that we should let the market decide the price and let purchasers propose the tax package that is consistent with their purchase offer. If the City shows its position early, it is in danger of giving up more than if we let competitive forces make the decisions. Furthermore, we weaken our bargaining position with the Port Authority and the States on the capital proceeds division and relocation of State facilities.

The City feels that engaging a consultant would assist it in determining what our optimum return could be and in deciding what strategy to follow to achieve that return. The role of the consultant would be to work with us in the analysis of the market place and the specifics of the WTC deal to reach a judgment as to:
World Trade Center Sale and a Consultants' Contract

October 9, 1981

1. What the trade-offs are between tax receipts and capital gains.

2. Alternative real estate tax formulations. How quickly should the property go to full taxation?

3. What is the best strategy for the City to pursue to maximize these trade-offs: the "certainty" afforded buyers by setting forth the City's position now or the wait and see position, letting the market place set sales price and real estate tax payments.

In evaluating an appropriate strategy the City has to consider how much "leverage" our tax determination will give us in influencing our other key areas of interest: the division between New York and New Jersey of the sales proceeds and the timing and sites chosen for the relocation of NYS offices presently located in the WTC.

KNG: sb
TO: Allen G. Schwartz
FROM: Edward I. Koch
DATE: October 13, 1981
RE: World Trade Center Sale and a Consultants' Contract

See the enclosed memo which I received from Karen Gerardi regarding the sale of the World Trade Center.

You mentioned your conversation with Peter Goldmark to me. You should discuss with Karen the various options and then you and she should decide which option should go forward. I think appointments are now being set up with members of the Board of Estimate to acquaint them with the background material so you should talk to Karen as quickly as possible.

mg
encl.
Memorandum from:
Alair A. Townsend
Director

To: [Redacted]

This is the latest news re. '83 that we'll be discussing tomorrow. There's zero for 3+% collective bargaining. '82 is 5%. With tight it squeezes -- with tight it squeezes. I can spot nothing that I can spot to roll until '83 for collective bargaining or budget relief. Hence my concern on polic.

Alair
### Reestimate of Gap to be closed

<table>
<thead>
<tr>
<th>Description</th>
<th>11/13/81</th>
<th>12/11/81</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAP to be closed per Financial Plan</td>
<td>(803)</td>
<td>(803)</td>
</tr>
<tr>
<td>Unidentified State Actions in Baseline</td>
<td>(75)</td>
<td>(75)</td>
</tr>
<tr>
<td>Loss in Tax Revenues</td>
<td>(36)</td>
<td>(36 – 100)</td>
</tr>
<tr>
<td>Higher baseline spending/new needs</td>
<td>(22)</td>
<td>(41 – 52)</td>
</tr>
<tr>
<td><strong>Reestimate of Gap to be Closed</strong></td>
<td><strong>(936)</strong></td>
<td><strong>(955 – 1030)</strong></td>
</tr>
</tbody>
</table>

#### PEGs

**A. Revenue Enhancements**

<table>
<thead>
<tr>
<th>Description</th>
<th>11/13/81</th>
<th>12/11/81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and Sewer Revenues</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Further Growth in assessed values</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Accelerated payments of real estate taxes</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Mortgage &amp; real property conveyance tax</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Increased CUNY Tuition (10%)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Increased user charges and rentals</td>
<td>10</td>
<td>10- 15</td>
</tr>
<tr>
<td>Finance Department collection improvements</td>
<td>-</td>
<td>40- 55</td>
</tr>
<tr>
<td>Other new taxes</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td><strong>Total Revenue Enhancements</strong></td>
<td><strong>323</strong></td>
<td><strong>363-383</strong></td>
</tr>
</tbody>
</table>

**B. City Expenditure Reductions**

<table>
<thead>
<tr>
<th>Description</th>
<th>11/13/81</th>
<th>12/11/81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings in Debt Service</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>Productivity and Management Improvements</td>
<td>80) PEGs Without</td>
<td>70) State Costs</td>
</tr>
<tr>
<td>Reduction in the Board of Education</td>
<td>60) A's</td>
<td>199</td>
</tr>
<tr>
<td>Reduction in Subsidy to HHC</td>
<td>20) A's&amp;B's</td>
<td>280</td>
</tr>
<tr>
<td>Administrative OTPS Cost Containment</td>
<td>50) A's-C's</td>
<td>348</td>
</tr>
<tr>
<td>Cost Containment-PA, MA &amp; Other Social Welfare</td>
<td>6) A's-D's</td>
<td>366</td>
</tr>
<tr>
<td>In Rem Consolidation &amp; Sales</td>
<td>368</td>
<td>299- 466</td>
</tr>
</tbody>
</table>

#### C. State Actions

- PEGs 35
- Education 245
- Aid 100
- Medicaid & Other 110
- **Total Program** 245 245

Given the size of the gap to be closed and the program that has been identified to accomplish this - a rollover of the 1982 surplus if one is available would have to be used to increase the labor reserve.
Overview of FY 83 GAF
(As of 12/14/81)

- In mid October we estimated the FY 83 gap at $803 million. One month later we increased our gap estimate to $936 million. This increase was based primarily on three factors.
  - Eliminating $75 million in State aid from the base line, largely the Medicaid takeover.
  - A conservative reduction of our forecast of FY 83 revenues from economically-sensitive taxes of $36 million based on the first quarter report from Wharton.
  - Results of first quarter Surplus/(Needs) analysis which increased baseline spending in FY 83 by $22 million.

- Within the last week we have come to the conclusion that a combination of unabated spending pressures and further decline in the economy warrant still another reestimate of the FY 83 gap. We now estimate the FY 83 gap to be between $955 and $1030 million. Highlights of this new estimate follow:
  - Spending pressures will cause an increase in baseline expenditures of from $41 to $52 million instead of the $22 million we had earlier estimated.
  - Based upon a preliminary review of Wharton's second quarter report of economic indicators, it now appears that revenues from economically-sensitive taxes may be between $36 to $100 million lower than Financial Plan levels. While it will take another week to produce more detailed projections, it is already clear that the direction of change is down and that the magnitude of change could be great.

- There are some sources of modest potential relief:
  - Improved collection of taxes and other revenues of between $40 and $55 million.
  - Increased user charges, fees and rentals of between $10 and $15 million.
  - Additional savings in debt service of $25 million over our earlier estimate of $75 million.

- This reestimate continues to assume $180 million in new tax increases as well as a $30 million increase in the mortgage and Real Property Conveyance Tax.
This latest reestimate also continues to assume $245 million in State aid, of which $100 million is from Education Aid and $73 million is from Medicaid. An additional $72 million in City funds would be saved if the State implemented the various State Action options identified as part of this review process. However, these actions would cost the State only $55 million. Moreover, several of the City PEG options also save the State money -- a total of $19 million. As such, exclusive of Education aid and a Medicaid takeover, this package of PEG options would cost the State only $36 million.

Even assuming that the State will provide the full $245 million in aid, the City may still have to cut expenditures from approximately $300 to $450 million. The PEG options that involve no cost to the State would save:

- All options rated A would save $199 million.
- All options rated A & B would save $285 million.
- All options rated A through C would save $352 million.
- All options rated A through D would save $371 million.

This analysis assumes only a 3 percent wage increase to fund a collective bargaining settlement. Every additional percentage point will cost the City an additional $55 million in FY 83.

No provision has been made in this analysis for funding the wage deferral which could cost from $300-$400 million.

No provision has been made for any service enhancements in FY 83.
<table>
<thead>
<tr>
<th>Estimate of GAP to be Closed 12/16/81</th>
<th>11/13/81</th>
<th>12/16/81</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAP to be closed per Financial Plan</td>
<td>(803)</td>
<td>(803)</td>
</tr>
<tr>
<td>Unidentified State Actions in Baseline</td>
<td>(75)</td>
<td>(75)</td>
</tr>
<tr>
<td>Loss in Tax Revenues</td>
<td>(36)</td>
<td>(36 - 100)</td>
</tr>
<tr>
<td>Higher baseline spending/new needs</td>
<td>(22)</td>
<td>(41 - 52)</td>
</tr>
<tr>
<td>Reestimate of Gap to be Closed</td>
<td>(936)</td>
<td>(955 - 1030)</td>
</tr>
</tbody>
</table>

**PEGs**

**A. Revenue Enhancements**

<table>
<thead>
<tr>
<th>Description</th>
<th>11/13/81</th>
<th>12/16/81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and Sewer Revenues</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Further Growth in assessed values</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Accelerated payments of real estate taxes</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Mortgage &amp; real property conveyance tax</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Increased CUNY Tuition (10%)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Increased user charges and rentals</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Finance Department collection improvements</td>
<td>-</td>
<td>55</td>
</tr>
<tr>
<td>Other new taxes</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td><strong>Total Revenue Enhancements</strong></td>
<td>323</td>
<td>363 - 383</td>
</tr>
</tbody>
</table>

**B. State Actions**

<table>
<thead>
<tr>
<th>State Action PEGs</th>
<th>Education Aid</th>
<th>Medicaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>72*</td>
<td>100</td>
<td>73</td>
</tr>
</tbody>
</table>

245

| C. City Expenditure Reductions                  | 75  | 100 |

<table>
<thead>
<tr>
<th>Description</th>
<th>11/13/81</th>
<th>12/16/81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings in Debt Service</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>Productivity and Management Improvements</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Reduction in the Board of Education</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Reduction in Subsidy to HHC</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Administrative OTPS Cost Containment</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Cost Containment - PA, MA &amp; Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Welfare</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>In Rem Consolidation &amp; Sales</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Total Program</strong></td>
<td>936</td>
<td>907 - 1099</td>
</tr>
</tbody>
</table>

* City PEG actions of $72 million have been identified which if implemented would cost the State $55 million. However, if all the City expenditure reductions were implemented the State would save $19 million. Thus if the total program were implemented the cost to the State would be $36 million.
<table>
<thead>
<tr>
<th>ITEM DESCRIPTION</th>
<th># Pos.</th>
<th>City Fund Savings</th>
<th>State (Cost)/Saving</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Productivity &amp; Mgt. Impro.</td>
<td>-</td>
<td>$842</td>
<td>$3,340</td>
<td>$2,479</td>
</tr>
<tr>
<td>2. Program Reduction</td>
<td>-</td>
<td>-</td>
<td>756</td>
<td>816</td>
</tr>
<tr>
<td>3. State Regulations</td>
<td>-</td>
<td>-</td>
<td>2,800</td>
<td>4,590</td>
</tr>
<tr>
<td>4. Miscellaneous Revenue Enhancements</td>
<td>-</td>
<td>-</td>
<td>3,647-</td>
<td>3,647-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5,210</td>
<td>5,210</td>
</tr>
<tr>
<td>5. New Needs</td>
<td>-</td>
<td>(650)</td>
<td>(1,826)</td>
<td>(2,081)</td>
</tr>
<tr>
<td>Sub-Total, Service Reductions</td>
<td>-</td>
<td>$-</td>
<td>$1,894</td>
<td>$1,933</td>
</tr>
<tr>
<td>Sub-Total, Non-Service Reductions</td>
<td>-</td>
<td>-</td>
<td>8,649-</td>
<td>9,599-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-Total, New Needs</td>
<td>-</td>
<td>(650)</td>
<td>(1,826)</td>
<td>(2,081)</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>$192</td>
<td>$8,717-</td>
<td>$9,451-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>16,160</td>
<td>16,894</td>
</tr>
</tbody>
</table>
An Overview of City University Tuition

An annual tuition of $775 was first imposed in CUNY in FY1977. This only affected full-time, lower division students (i.e., freshman and sophomores in the senior colleges and all of the community colleges) and part-time students, who were charged $35 per credit. In FY1980, annual tuition was raised by $150 per full-time student to $925. The imposition of tuition and its subsequent increase seemed the most feasible way for CUNY to meet its gap-closing contribution as an alternative to severe expenditure reductions.

There are approximately 170,000 (headcount) students currently enrolled in CUNY senior and community colleges. Roughly two-thirds of these attend senior colleges which, under legislation passed in FY's 1980 and 1981, were transferred to the State. The balance of one-third, or approximately 40,000 FTE students, attend seven community colleges. CUNY estimates that 84 percent of its full-time students receive tuition assistance through the Tuition Assistance program (TAP). The high percentage of students receiving TAP is indicative of CUNY's student population which is predominately educationally and economically disadvantaged. In the 1980-81 school year, 51 percent of students filing for TAP received the maximum award. The current ceiling on TAP is $2,000 per annum and far exceeds any of the three options proposed for a tuition increase in FY1983.

In addition, other forms of financial assistance available are the Pell Grants (formerly EEOG), the Supplemental Tuition Assistance program (STAP) and the City University Supplemental Tuition Assistance program (CUSTA).

Students receiving full or partial assistance through TAP, as well as students who are not eligible for TAP and other types of financial assistance targeted for the disadvantaged may be eligible for federally guaranteed student loans through the Guaranteed Student Loan and National Direct Student Loan programs. Part-time students are also eligible for student loans provided that they pursue a minimum of six credits per semester.

CUNY contends that over 50,000 students have been lost since the imposition of tuition. However, enrollments have been relatively stable since tuition was raised in FY1980. A loss of students in FY1983 translates into a loss in tuition and State aid revenues of approximately $1,125 per student. However, a reduction in faculty and support staff to maintain the current student/faculty ratio with a smaller enrollment, would offset this revenue loss for a net decrease of $214 per student.
The following outline provides a rationale for the various levels of tuition increases recommended:

Option I - An increase of $90 for full-time students was originally proposed for FY1982. This recommendation was deferred by the Mayor to FY1983. The plan assumes that a saving of $3.0 million can be achieved. Revised enrollment estimates indicate a potential saving of $3.6 million.

Option II - The State University of New York (SUNY) raised its maximum allowable tuition rate to $1,050 per year in FY1982. SUNY and CUNY have traditionally maintained a coordinated tuition schedule. This option continues this relationship. Applying an increase of $125 to full-time students only results in a City saving of $3.7 million. If part-time students were to share the tuition increase at a $5 charge per credit, the saving would be $5.3 million. This $40 per credit charge is equal to current per credit rates of upper division students in CUNY. If per credit charges were to increase by $9 to $44 per credit, the total saving would be $6.6 million.

Option III - Based on the City's Financial Plan, the total appropriation for community colleges increases by 31.1% from FY1980 to FY1983. If students were to share proportionately in the planned increase, tuition would increase to $1,200 per year for full-time students. A variety of strategies are proposed for part-time students as follows:

a. Part-time students would share less of a burden, recognizing that fewer financial aid resources are available to part-time students. Increasing per credit tuition to $38 equals the per credit charge for full-time and part-time students for the 64 credits needed for an Associate degree. The City saving would amount to $9.2 million.

b. An increase of $5 per credit, from $35 to $40, would create an incentive for students to maintain a full-time status. Credits earned generate a number for full-time equated students, on which State Aid is based. The $40 per credit charge is currently in effect for the upper division students in CUNY. Savings on this option are $9.8.

c. An increase of $9 per credit, from $35 to $44, maintains the current ratio between full-time and part-time costs per credit and further emphasizes the value of full-time status. City savings would amount to $11.1.
The proposed tuition increases are also in line with recent experience in the private universities in New York State. The maximum option represents an average annual increase of 9.1% from FY1980 to FY1983, well below the average of six major universities sampled.

The outline shown on the attached sheet provides a rationale for the various levels of tuition increases highlighted above.
Tuition Increase At City University

Currently the Board of Trustees of the State University of New York has a $1,050 ceiling on the full-time student tuition that can be charged by community colleges under their jurisdiction. At this time, no community college within New York State has imposed this ceiling amount. However, one college, Orange County Community College, has voted to increase tuition starting in the fall to the State maximum, representing a $150 increase (16%) from their current $900 level.

The following listing shows the ten SUNY community colleges which charge the highest tuition rates and the ten who charge the lowest. The average tuition rate across New York State is $845 at present with CUNY set at $925.

Highest

<table>
<thead>
<tr>
<th>College</th>
<th>Tuition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corning</td>
<td>$980</td>
</tr>
<tr>
<td>Onondago</td>
<td>976</td>
</tr>
<tr>
<td>Finger Lakes</td>
<td>912</td>
</tr>
<tr>
<td>Cayuga</td>
<td>900</td>
</tr>
<tr>
<td>P.I.T.</td>
<td>900</td>
</tr>
<tr>
<td>Jefferson</td>
<td>900</td>
</tr>
<tr>
<td>Monroe</td>
<td>900</td>
</tr>
<tr>
<td>Nassau</td>
<td>900</td>
</tr>
<tr>
<td>Orange</td>
<td>900</td>
</tr>
<tr>
<td>Ulster</td>
<td>900</td>
</tr>
</tbody>
</table>

Lowest

<table>
<thead>
<tr>
<th>College</th>
<th>Tuition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broome</td>
<td>$800</td>
</tr>
<tr>
<td>Dutchess</td>
<td>800</td>
</tr>
<tr>
<td>Erie</td>
<td>800</td>
</tr>
<tr>
<td>Genesee</td>
<td>800</td>
</tr>
<tr>
<td>Niagara</td>
<td>800</td>
</tr>
<tr>
<td>Westchester</td>
<td>800</td>
</tr>
<tr>
<td>Clinton</td>
<td>780</td>
</tr>
<tr>
<td>Hudson Valley</td>
<td>750</td>
</tr>
<tr>
<td>Adirondack</td>
<td>700</td>
</tr>
<tr>
<td>Herkimer</td>
<td>600</td>
</tr>
</tbody>
</table>

Insofar as the private colleges are concerned, the following listing shows the percentage increase from FY80 to FY82 for each along with the average annual rate of increase.

<table>
<thead>
<tr>
<th>University</th>
<th>FY80</th>
<th>FY82</th>
<th>Total % Increase</th>
<th>% Average Annual Rate of Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. John's</td>
<td>$3,467</td>
<td>$3,867</td>
<td>11.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Fordham</td>
<td>3,296</td>
<td>3,776</td>
<td>14.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Pace</td>
<td>3,097</td>
<td>3,648</td>
<td>17.8%</td>
<td>8.5%</td>
</tr>
<tr>
<td>L.I.U.</td>
<td>3,424</td>
<td>4,480</td>
<td>30.8%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Columbia</td>
<td>5,120</td>
<td>6,700</td>
<td>30.8%</td>
<td>14.4%</td>
</tr>
<tr>
<td>N.Y.U.</td>
<td>4,150</td>
<td>5,820</td>
<td>40.2%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Average</td>
<td>$3,759</td>
<td>$4,715</td>
<td>25.4%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>
FLUSHING MEADOW ZOO CLOSING
PRELIMINARY COST ESTIMATES

<table>
<thead>
<tr>
<th>Option I: Close down zoo and secure site (20.63 acres)</th>
<th>Expense</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Close up and secure site</td>
<td>$250,000</td>
<td></td>
</tr>
<tr>
<td>2. Watchman services</td>
<td>$203,000</td>
<td></td>
</tr>
<tr>
<td>3. Zoo animal relocation</td>
<td>D.N.A.*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$453,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option II: Close zoo, demolish structures and level site, providing minimal surface treatment and no improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Demolition and site clearance</td>
</tr>
<tr>
<td>2. Zoo animal relocation</td>
</tr>
<tr>
<td>3. Watchman services (until demolition is complete)</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option III: Close zoo, demolish structures and redevelop as passive landscaped area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Close up and secure facility until designs are prepared</td>
</tr>
<tr>
<td>2. Watchman services</td>
</tr>
<tr>
<td>3. Consultant design</td>
</tr>
<tr>
<td>4. Redevelopment cost</td>
</tr>
<tr>
<td>5. Zoo animal relocation</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

* It is anticipated that relocation and transfer of the animal population (342 animals) may take from 6 to 9 months, during which time most operating costs would continue to be incurred.

** Watchman service costs may be lower depending on length of time required to complete demolition. Estimate assumes a one-year period to allow time for animal relocation, preparation of demolition contracts, and demolition to be accomplished.
MEMORANDUM

TO: Hon. Edward I. Koch
    Mayor

FROM: Alair A. Townsend
    Director

RE: Police Department PEG and Other Issues

I am writing to you as a follow-up to issues raised in your office concerning the PEG review of the Police Department. We are presenting the new PEG options which you and Nat had requested as well as summary issues that were raised but were not directly related to the PEG: precinct closings, consolidation of the Housing Authority Police with the NYPD, productivity measures, evaluating the robbery program and the status of the planned January class for new police recruits.

Additional PEG Options

We have attached the two options you had requested be analyzed: Option A, which provides for no reduction in FY 1982 hiring with full uniformed attrition in FY 1983 and no civilianization; and Option B, which provides for no reduction in FY 1982 hiring with full uniformed attrition in FY 1983 plus the civilianization program presented by OMB (1,348 positions).

In order to provide you with additional alternatives, we have added two new options to Option A and one to Option B, all variations intended to produce similar FY 1983 savings but with improved operational results.

Precinct Closings

When we had discussed the issue of closing police precincts, it was suggested that a study be conducted of the impact of precinct closings. We have initiated discussions with Mr. Richard Larson, President of Public Systems Evaluation, Inc., a firm which has conducted studies of police departments across the country. Mr. Larson proposes to conduct both a quantitative and qualitative study to focus on the impact in the specific communities affected by the precinct closings, as well as recommending which and how many
precincts could be closed. His study will offer implementation strategies geared to the unique needs of the neighborhoods and will present timetables for accomplishing the consolidation. This study could take as long as 12 months. If you wish to proceed, discussions with Commissioner McGuire and hopefully contract preparation should begin immediately.

Consolidation of the HAPD into the NYPD

This proposal may be attractive from the standpoint of improving police service to the community served by the HAPD. At the present time, NYPD resources are apparently deployed citywide on the basis of two basic criteria: 1) a base number of police officers to manage the operations of each precinct, 2) an allocation of officers based on service demand which is determined by the number of 911 calls received in a district.

Currently, residents of housing projects have the option of calling 911 or the HAPD emergency number. Existing data reveals that only one of three calls goes to the 911 number reducing NYPD resources allocated to precincts with housing projects. Consolidation would increase 911 calls from these areas, increase service demands, and, if no changes were made in deployment policies, cause additional resources to be deployed in precincts with housing projects. A study should be undertaken to determine the advantages and impediments to implementing the consolidation:

- Understand and define the likely level of police services that would be provided to Housing Authority projects as compared to the level of services that would be provided in the absence of a merger.

- Define the legal or financial problems that would result, i.e. the problem, if any, associated with two different pension systems.

- The best way to merge the two forces, that is, what function and supervisory roles would the current Housing Authority police be given.

- The process that would best enable the two forces to consolidate.

We believe the best route to be taken on this issue is the formation of a committee, comprised of all interested parties (OMB, Operations, Criminal Justice Coordinator, and the appropriate police forces).

Increased Patrol Productivity

As we had indicated in our discussions, there may be existing opportunities to substantially increase the effectiveness of police patrol. Based on November data, 42 percent of available patrol time is spent on unstructured activities, i.e., random patrol.
<table>
<thead>
<tr>
<th>CITY</th>
<th>1979 POPULATION</th>
<th>POLICE OFFICERS</th>
<th>CIVILIANS % OF TOTAL HEADCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>N.Y.C.</td>
<td>7,109,420</td>
<td>23,310</td>
<td>16.7 %</td>
</tr>
<tr>
<td>Chicago</td>
<td>1,060,801</td>
<td>13,293</td>
<td>12.7 %</td>
</tr>
<tr>
<td>L.A.</td>
<td>2,863,412</td>
<td>6,699</td>
<td>25.5 %</td>
</tr>
<tr>
<td>Phil.</td>
<td>1,757,368</td>
<td>7,903</td>
<td>9.7 %</td>
</tr>
<tr>
<td>Houston</td>
<td>1,619,644</td>
<td>3,012</td>
<td>21.4 %</td>
</tr>
<tr>
<td>Detroit</td>
<td>1,258,924</td>
<td>5,005</td>
<td>10.8 %</td>
</tr>
<tr>
<td>Dallas</td>
<td>822,225</td>
<td>2,031</td>
<td>21.7 %</td>
</tr>
<tr>
<td>San Diego</td>
<td>829,312</td>
<td>1,506</td>
<td>21.4 %</td>
</tr>
<tr>
<td>San Antonio</td>
<td>829,138</td>
<td>1,139</td>
<td>16.9 %</td>
</tr>
<tr>
<td>Baltimore</td>
<td>790,901</td>
<td>3,171</td>
<td>14.9 %</td>
</tr>
</tbody>
</table>

**AVERAGE % OF ALL TEN CITIES**

19.3 %

---

NYC June 30, 1981: 22,721, 5,239, 18.7 %

NYC Projected June 30, 1982: 24,095, 5,726, 19.2 %

NYC PEG Option III Impact: 23,095, 6,226, 21.2 %

Source: FBI Uniform Crime Reports - Crime in U.S. 1979
January 4, 1982

TO: Nat Leventhal
FROM: Monte Kurs
SUBJECT: Sanitation Budget Meetings

On December 30, 1981 Alair Townsend held a meeting with Norman Steisel on the Department of Sanitation PEG; also present were several members of their staffs, Bruce McIver and myself.

The meeting can best be described as unproductive: OMB had intended to review and negotiate their PEG proposals with the Department but Steisel's position, endorsed by McIver, made that very difficult.

- If compelled to cut his budget, he would implement service cuts; first the cleaning force, and then collections (areas currently receiving pickups twice a week would be reduced to once a week).
- Budget cuts like those OMB is recommending ultimately result in service reduction by destroying the Department's infrastructure, hurting productivity and undermining staff morale. Down the road, when additional resources may be available, the rebuilding effort is complicated and prolonged.
- To the extent that pockets of 2/3 "excess personnel" may still be in the Department, finding them would be an inefficient drain on managerial resources.

Townsend opened the meeting with a strong pitch that the City's FY '83 deficit will approach $1 billion and I suspect that argument alone will compel some cuts at Sanitation. However, at the meeting it was not clear where the cuts would be made. Sanitation staff were able to demonstrate (to my satisfaction) that virtually all of the cuts recommended by OMB were either unworkable or counterproductive. I was frankly surprised at OMB's inability to defend their proposals.
OMB questioned whether it would help the two-man truck negotiations to list expansion of the agreement in the PEG document. McIver counseled against it. He said that although negotiations were currently at a standstill, you were meeting with Bigel this week and he was hopeful that an agreement would ultimately be reached. On the contrary, he suggested casting the budget with a plan to take full attrition at Sanitation. He acknowledged that service cuts were politically difficult for the Mayor now but thought his proposal would prompt rank and file Sanmen to put pressure on the union and speed an agreement.

The meeting concluded with a decision to present the options/arguments to you and the Mayor. (There was an agreement to cut approximately 100 positions, largely clerical relating to computerization at DOS - under $1 million).

There was no discussion of the Department's new needs, which I know to be substantial. I am unsure of the efficacy of a PEG process which doesn't incorporate those issues.

cc: Brendan Sexton
    Sara Eskew
January 5, 1982

Hon. Frank J. Macchiarola
Chancellor
Board of Education
110 Livingston Street
Brooklyn, New York 11201

Dear Chancellor Macchiarola:

As you know the City's projected budget gap for FY 1983 exceeds $800 million and substantial budget reductions in every large agency will be necessary. It is essential that we have the cooperation of agencies so that the best decisions can be made and savings achieved in each agency that least affect priority programs.

With respect to the Board of Education, however, my staff was required to independently develop a set of budget reduction proposals (PEG's) to achieve the Board of Education's targeted reduction, since the Board had not submitted its PEG items as requested, and no PEG submission has been received to date.

It was our intention however in developing a preliminary PEG program for the Board to minimize service reductions through management initiatives as much as possible. A basic assumption of OMB's plan is that there will be aggressive management of special education by the Board of Education. A second is that improvements are possible through more flexible use of categorical funds.

As you know, my senior staff shared the preliminary PEG items with Deputy Chancellor Halverson and his staff on December 11. At that meeting several issues and concerns were discussed as to the feasibility and amounts of several of the items. Insofar as this entire package was developed in the absence of a Board-generated set of PEG proposals, your staff has agreed to respond to each of the items we have presented together with detailed back-up to support any difference which you might foresee. A written response signed by you would be preferable.
The following presents my understanding of the major issues that will be analyzed by the Board. Specifically, I would like you to respond to the following issues and questions:

Special Education: Our review of the environments in which handicapped students are placed indicates that New York City serves a greater proportion of students in separate classes and facilities than any other jurisdiction in the country. The educational and social disadvantages of segregating handicapped students have been widely documented. In fact, this practice contradicts the definition of "least restrictive environment" in P.L. 94-142. Moreover, the practice is not only educationally unsound but unnecessarily costly.

OMB proposes that the Board of Education take on a major initiative to improve management and reduce costs in special education over the next four years. We also propose a series of state regulatory and legislative changes to support this initiative and believe that these actions could also improve services to handicapped students. The Board does not appear to disagree with the concept of "least restrictive environment" nor with the spirit of management improvement and cost reductions. There are however, questions about the ability of the Board of Education to implement these proposals. I ask your support for the following proposals, detailed in our PEG document, and where you disagree, I would like to know exactly why you think these objectives cannot be achieved.

- Mainstream 10% of the special education population in each of the next four years. By June, 1986, it is estimated that the proportion of handicapped students served in the mainstream in New York City should approximate the national median.

- Increase state aid weightings for part-time students, and add weightings for mainstreamed students. This legislative proposal would increase fiscal neutrality in the placement of handicapped children and offset the potential loss of state aid under the current formula, if the Board successfully implements mainstreaming.

- Reduce the number of non-severely handicapped children placed in contract day schools.

- Revise state special education regulations to support the above initiatives. Your cooperation in developing mutually agreeable regulatory changes for presentation to State Commissioner Ambach and at statewide hearings in March is essential.
What percentage of children have been moved from special education (decertified) to regular classes as a result of successful programming? What are your plans to increase the level of decertification?

OMB has identified the following additional areas in special education where savings may be achieved with little or no service reduction:

- Eliminate 200 special education administrative vacancies. Your staff has indicated that funds attributable to administrative vacancies have been scheduled in other areas. What rationale or unanticipated new needs explain this shift of funds?

- Obtain Medicaid reimbursement for eligible special education services. Our estimate of savings is based upon the percent of Medicaid-eligible special education students in each program, Medicaid-eligible services for these students and current reimbursement rates. Your staff has expressed several reservations concerning the ability to implement this proposal. Given that obtaining Medicaid reimbursement would save city funds without reducing services, I would like to count on these savings in the City's January financial plan.

- Revise newly proposed State regulations to: a) increase class size for non-severely handicapped students in special classes from 12 to 15 with paraprofessional support determined on the local level; and b) increase teacher caseload in resource rooms to 25, with each period not to exceed six students. Our estimates assumed marginal teacher savings, without including any loss of paraprofessional support. Given that the proposed state regulations recommend an increase in special education class size rather than a decrease, what evidence exists that establishes a relationship between special education class size and pupil achievement? Assuming that there is no such evidence, will you support efforts to responsibly increase special education class size?

- Eliminate special education per capita in districts and high schools. These funds are generally perceived as "incentives" for increased cooperation between community school districts, high schools, and the Division of Special Education. The demand for specific services and resources from districts and high schools, which have not been funded by special education has never been clear. In addition, the kinds of special education services which these funds purchase have never been specified. Dr. Halverson has indicated that a study is being completed which responds to these questions.
School Closings: The Board of Education continues to maintain a high proportion of underutilized school facilities. OMB is recommending the closing of 10 underutilized schools in FY 1983. What progress is being made to reactivate the Building Review Committee and to target additional schools for consolidation?

Transportation: As you know, New York City, unlike other jurisdictions, provides free transportation for students living less than 1-1/2 miles from school, but receives no State reimbursement for our costs. We are recommending the feasibility of charging those students who currently do not pay for transportation and for which there is no state reimbursement, ten cents per day. What problems do you foresee in administering such a program? Dr. Halverson has expressed concerns that the safety of the students carrying money could be jeopardized. Is there a correlation between incidents and those students currently paying for transportation or for school lunch? Aren't there ways to collect fees which would not incur a safety risk?

Bureau of Supplies: Audits concerning inventory management and purchasing procedures in the Board of Education cite waste and duplication. OMB is working with the Comptroller's Office to update these findings. It appears that the Bureau of Supplies has failed to implement recommended cost savings. Information on efficiencies the Bureau of Supplies has achieved or reasons why they cannot implement this PEG is welcomed.

Use of PSEN Funding: OMB is proposing the use of additional PSEN funds for the Promotional Gates Program (PGP) on two levels. First, funds currently targeted to sixth and ninth grades could be reallocated this year. In addition, unanticipated State PSEN aid could further offset our tax levy costs. Second, the remaining tax levy funding of PGP could be offset with PSEN funds.

However, the larger context of Federal reductions and serious tax levy constraints raise questions about the comparative cost effectiveness of targeting remedial education funds to specific populations in specific grades. My staff has met with Dr. Perry Davis to discuss available information on the use of PSEN, Title I and tax levy funds. Short of having them review thirty-two individual PSEN/Title I plans, and hundreds of "building level sheets", I would like: a) specific examples linking PSEN expenditures in specific grades, specific programs
(pull-out, team teaching, laboratories), and specific populations to improved student performance; b) the numbers of students actually served and the kinds of additional resources purchased to serve them; and c) the estimated number of pupils, classes and programs affected by our proposal to fully fund the Gates program with PSEN.

Paraprofessionals: What specific service impact do you foresee in a 10% or larger reduction of non-mandated City-funded paraprofessionals? On what basis are paraprofessionals deployed and is there a differential success rate for similar students taught with and without paraprofessional help?

Sports Programs: One year ago the City Council granted $5 million to support sports programs. What PS and OTPS sports resources were purchased with these funds? It is my understanding that the majority of these funds were used for OTPS sports materials. To what extent are these costs recurring? In light of your FY 1983 request for sports programs as "holding power" for potential dropouts, what evidence exists that such programs retain students in school?

Block Grant: It is our understanding that many of the programs currently funded with categorical federal monies will have to be eliminated or severely cut back in FY 1983. OMB proposes to offset tax levy funding with the remaining block grant funds. To assess the service impact of this action, I would like: a) a list of all current programs run by the Board of Education, which will next year fall under Chapter II of the Education Consolidation and Improvement Act of 1981; b) the numbers of students, personnel and resources involved in these programs; c) information on which programs would have to be eliminated as a result of federal reductions and which programs you would continue with reduced federal dollars; and d) examples of those programs you would consider funding internally if all block grant funds were offset with tax levy dollars.

Obviously the entire set of PEG proposals are extensive and ambitious, especially those that focus on management improvements in the Division of Special Education. However, I believe that through your good efforts they can be accomplished. I anxiously await your response.

Very truly yours,

Alair A. Townsend
Director

cc: Deputy Mayor Robert Wagner
Deputy Mayor Nathan Leventhal
January 5, 1982

TO: Nat Leventhal
FROM: Monte Kurs
SUBJECT: Police PEG Meeting

You have been very involved with the development of the Police PEG and so are probably aware of the issues that will be raised with the Mayor. The main issue OMB will raise is the size of the class to be hired. They are presenting it as follows:

- FY '82 planned hires were 1500 Uniformed Personnel 500 Civilians above attrition replacement

<table>
<thead>
<tr>
<th>Option</th>
<th>UP</th>
<th>Civ.</th>
<th>Savings FY'83</th>
<th>Savings FY'84</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPTION 1</td>
<td>500</td>
<td>800</td>
<td>$17.7</td>
<td>$15.6</td>
</tr>
<tr>
<td>OPTION 2</td>
<td>550</td>
<td>1250</td>
<td>$14.6</td>
<td>$8.7</td>
</tr>
<tr>
<td>OPTION 3</td>
<td>800</td>
<td>950</td>
<td>$10.9</td>
<td>$10.1</td>
</tr>
<tr>
<td>OPTION 4</td>
<td>1000</td>
<td>500</td>
<td>$7.6</td>
<td>$10.1</td>
</tr>
</tbody>
</table>

At the Mayor's instruction, OMB will not raise the Robbery Program, Patrol Productivity or Precinct Closings. I think Bob McGuire will when confronted with these cuts. Housing Authority PD consolidation will also be raised by McGuire. None of these issues are ripe for decision-making.
### Program:

<table>
<thead>
<tr>
<th>OMB Proposal</th>
<th>DOS Prop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>($000)</td>
</tr>
<tr>
<td></td>
<td>FY'82</td>
</tr>
<tr>
<td>.civilianize uniform Sanitation Police positions (2)</td>
<td>71c</td>
</tr>
<tr>
<td>.consolidate and computerize reports</td>
<td>(25c)</td>
</tr>
<tr>
<td>.civilianize and consolidate the Home Visitation Program with the Department's Inspector General</td>
<td>(12u)</td>
</tr>
<tr>
<td>.consolidate Sunday Security at multi-district garages and other locations (3)</td>
<td></td>
</tr>
<tr>
<td>.reduce the Special Cleaning Workforce to the original FY'82 Executive Budget level (4,5)</td>
<td>(225u)</td>
</tr>
<tr>
<td>.reduce Special Cleaning Workforce support (6)</td>
<td>(9c)</td>
</tr>
<tr>
<td>.turnover, hiring lag and other savings (7)</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Footnotes:

1. FY'83 uniform force attrition of 561
2. This program would civilianize 74 of 100 uniform Sanitation Police positions. The program is comprised of the following actions: (a) transfer 40 Sanitation Policemen in FY'82 to traditional sanitationmen assignments in order to offset FY'82 excess uniform attrition; (b) hire 59 Sanitation Enforcement Agents (SEA's), promote 2 sanitationmen to foremen and 6 SEA's to sector sargents, and civilianize 6 clerical positions by May 1, 1982; and (c) transfer 34 Sanitation Policemen in FY'83 to traditional sanitationmen assignments in order to offset FY'83 uniform attrition. In addition to the program listed above, Sanitation has requested 17 more uniform personnel for night stakeout of illegal dumping activities. This request should be addressed during the Executive Budget process.
3. This program reflects an increase of $2,912 million to the Department baseline for uniform Sunday Security services in FY'83 and FY'84.
4. Out of total authorized cleaning workforce of 1250
5. The entire 450 Special Cleaning Workforce is valued at $8,404,000 in FY'83.
6. 9 mechanics (annual salary $26,240) and 61 trucks (OTPS cost $2046 per year per truck), assuming reduction of 225 in Special Cleaning Workforce
7. Subject to further analysis
January 8, 1982

TO: Nat Leventhal
FROM: Barbara Gunn
RE: CDA/DOE PEGS for Fiscal 1983

CDA:

In a meeting today with OMB and CDA and Operations, a compromise was reached which I describe for you below, along with other options you could consider. However, I think both CDA and OMB are satisfied, if you approve.

OMB will leave the $6.3 million in CTL in CDA in Fiscal 1983. CDA now believes it will receive a higher Federal appropriation than earlier anticipated (3%8 national; $16 million to CDA), and some assurance from HHS of funds to retroactively cover the lower funding in the first quarter of the Federal fiscal year. In light of this more optimistic picture, CDA withdrew its request for $3.4 million in Fiscal 1982 and up to $11 million in Fiscal 1983 to maintain CDA programs. Further, CDA told OMB they would not come back to OMB for more CTL if the Federal allotment fell through. Rather, they felt they could push the State for increased funds if the CTL remained in the CDA budget.

Thus, with the $16 million national appropriation and the $6.3 million CTL, Alvarez feels he can run a much reduced but workable community action program.

At the combined funding level of $22.3 million (or $23 million if OMB rounds it off), CDA will be operating with about $8 million less than Fiscal 1982. Further, the following cutbacks will be (or are being) implemented:

o a 20 percent reduction in the 287 community based organizations;

o a loss of 235 jobs in the cbos;
CDA (cont.)

° Fiscal administration will be reduced by 50%.

° CDA central staff will be reduced by 44 positions or 25%.

° APB administrative staff will be eliminated.

° Technical Assistance agencies will be eliminated.

° City-wide agencies (those not representing particular communities) have been reduced in number. There are now only three.

° A total of 210 jobs will be lost in APBs and CDA central.

OMB agreed with this option for the following reasons:

° Alvarez insists he can't run CDA as a discrete agency without $22 million total funding. Below that level, he would have to cut the CBO's by more than 20% which he feels would make them dysfunctional. Further cuts would require making decisions about which of the 34 APB's should continue to exist, a decision he would prefer facing restructuring than having to make.

° CDA argued that if the City pulled its $6.3 million from the program, the action would prompt a series of reactions. First, it is likely proposed State legislation funneling CSA money into APB's would pass. This would effectively create 34 independent organizations in minority communities.

° CDA further argued that if the City pulled out its tax levy, it could no longer lobby State and Federal governments for more CSA money.

° If the City tried to move the CSA money into Title XX programs as OMB proposed, the money would no longer serve the same population. Minority groups do not view Title XX programs as minority programs. Further, they would no longer have a voice in the distribution of these funds.

° CDA agreed with OMB that if they receive further Federal reductions, they will put more pressure on the State to increase its allotments to the City. OMB and CDA's compromise involves CDA not coming back for more City tax levy in Fiscal '83.
Summary:

Roger is willing to live with the cuts this arrangement imposes. If you are concerned, more CTL could be put in CDA. However, OMB would fight it and I trust Roger's ability to impose the cuts with minimal if any political fallout.

As I mentioned to you, OMB is still interested in pursuing the possibility of reducing the overlap in the City's community-based poverty programs (CDA, DOE and the Youth Board). Paul and I have briefly discussed the possibility of establishing a task force to consider overlap in programs or administrative costs in an attempt to find CTL savings.

Paul and Alair are also interested in the possibility of consolidating the City's community-based poverty programs, and I think want to talk to you about it before the meetings with the Mayor on Monday. They are not realizing the CTL savings in DOE, CDA and the Youth Board that they had anticipated so are interested in whether any CTL savings might occur, or limited Federal funds be re-distributed with more community involvement, if a consolidation were considered. I talked really briefly with OMB about this when the possibility arose that Federal funding for CDA and DOE would almost disappear. It's something we might want to consider from a programmatic as well as a budgetary standpoint. I think it's premature for the financial plan, but they want to talk to you about it.

DOE:

There is still no decision on what to do in DOE. However, after a six hour meeting Thursday night, we have some options.

Background:

DOE received about $115 million in Federal Fiscal 1982, anticipates $66 million in Federal Fiscal 1983. Of that, about $28 million is dedicated to the summer youth program. The remaining $40 million is to be distributed among the other CETA programs.

DOE has about $4.0 million in CTL: about $980,000 in the TAP Centers (a 90/10 share with the Feds) and the remainder is primarily in DOE top administrative salaries ($3.0 million)

DOE has cut its youth contract program by almost 75% already, and is prepared to cut its adult programs by about 50% across the board (including $1 million from the Board of Ed, 33% from its five largest contractors, 20% from contractors at $500,000 and 10% from small contractors (below $500,000).

Options
Options:

* OMB would still like to take the CTL out of DOE in Fiscal 1983 and draw money from the contractors (adult) to supplement the drop in Federal money in the TAP Centers;

* DOE would like to cut the contractors as described above, based on the Federal reductions, and receive at least $1.4 million to continue the existing TAP system until September 1982, then receive an additional $3 million to run five TAP centers (one in each borough) through the remainder of the 1983 FFY.

* It would cost $10.6 million to run the TAP centers as they are now. If the CTL contribution remained at $900,000, DOE would have to contribute the rest from its adult programs. DOE is not sure DOL would allow that redirection and such a redirection would leave about $32 million to run all the other CETA programs.

* It would cost $7.8 million to run 13 main TAPs and close the others (5 main and 12 satelites). If the CTL remained constant, DOE would have to contribute $7 million and have only $34 million to run the rest of its programs.

* For every $1 million DOE takes out of training contracts to put into TAP Centers, DOE loses 400 participants and 3 contractors ($2500 average cost per participant and $330,000 average cost per contractor).

Summary:

The decision which needs to be made is either:

- does the City want to leave DOE adult contracts at the present level of reduction and reduce the TAP Centers (with no CTL cost that would leave 13 TAPs);

- does the City want to draw money out of DOE's adult contracts (and other sources: $1 million in extra administrative money DOE has uncovered) to fund the TAPs as close to the existing level as possible with no additional CTL;

- does the City want to put more CTL into DOE TAP centers and only reduce adult contractors per Federal reductions.

Recommendation:

OMB is very unlikely to want to put more CTL into TAPs unless you really want to (figures on TAP centers are enclosed). OMB would prefer pulling all CTL money from DOE and using Federal money from adult contracts to fund the TAP centers. DOE wants more CTL (needless to say). I think we can reduce the adult contractors further to keep more TAP Centers going. Although the contractors will scream, it's going to be hard to avoid that in CETA. I think we could reduce DOE's CTL by at least a million or two and that it's not as crucial to have CTL in DOE as in CDA.
Reestimate of Financial Plans
City Funds - $ In Millions

Financial Plan of 10/23/81

<table>
<thead>
<tr>
<th></th>
<th>FY 1982</th>
<th>FY 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjustments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Property Tax</td>
<td>(10)</td>
<td>(29)</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>(6)</td>
<td>(91)</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>72</td>
<td>10</td>
</tr>
<tr>
<td>State Aid</td>
<td>(75)</td>
<td>(75)</td>
</tr>
<tr>
<td>All Other Adjustments</td>
<td>(2)</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Total Revenue Adjustments</strong></td>
<td>(21)</td>
<td>(186)</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>(17)</td>
<td>(18)</td>
</tr>
<tr>
<td>City &amp; MAC Debt Service</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Public &amp; Medical Assistance</td>
<td>(8)</td>
<td>(8)</td>
</tr>
<tr>
<td>Federal Budget Reductions</td>
<td>11</td>
<td>52</td>
</tr>
<tr>
<td>Reduction in Cost of Energy</td>
<td>(49)</td>
<td>(43)</td>
</tr>
<tr>
<td>All Other</td>
<td>(61)</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Total Expenditure Adjustments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estimated GAP of 1/4/82</strong></td>
<td>(5)</td>
<td>(991)</td>
</tr>
</tbody>
</table>

Adjustments to GAP of 1/4/82

|                        |         |         |
| **Revenues**           |         |         |
| General Property Tax   | -       | 19      |
| Other Taxes            | 23      | 29      |
| Miscellaneous Revenues | 7       | 15      |
| State Aid              | -       | 4       |
| **Total Revenue Adjustments** | 30  | 67     |
| **Expenditures**       |         |         |
| City & MAC Debt Service| 5       | 5       |
| Federal Budget Reductions | -    | (15)    |
| **Total Expenditure Adjustments** | 5  | (10) |
| **Estimated GAP of 1/9/82** |       | (934)  |
Proposed Program To Close 1983 Gap
City Funds - $ In Millions

GAP To Be Closed

Possible Revision to GAP
Additional Reserve For Federal Budget Reductions

Revised GAP To Be Closed 1/9/82

Revenue Enhancement Programs

Taxing Program (Full Program)

State Aid

MAC Debt Service Savings

Agency Reductions
Board of Education
Health & Hospitals Corp.
Department of Social Services
CUNY
D.E.P.
D.O.T.
Cultural & Libraries
Parks
Correction
D.G.S.
Fire
Sanitation - Partial Program
All Other Agencies

Total Determined

Remaining GAP To Be Closed

Pending Agency Reductions
Police
TAPD
HAPD
Sanitation
Hiring Delays
Pending Reductions

Remaining GAP

4-17
3
2
4
5-7

18-33

(29-14)
In the last four years, I have submitted four plans to the
Financial Control Board for its consideration. Each year, understandably,
the plan was characterized by a distinguished quality. Last year I
summed it up by saying that New York City has established itself as a
long distance runner in that we came through. In the prior year, when
we had taken a quantum leap by going to a gap balanced budget a year ahead
of time, I described the report as ____________________

I believe this report can best be described as one that basically
keeps us marching in place, notwithstanding the devastating, adverse impact
of the so-called New Federalism which deprives localities of federal aid
and imposes additional unfunded burdens on the backs of localities, the
least able to bear the load. So my job was to try to keep the gains that we
made over the last four years and to prevent, or at the very least reduce,
and diminution of essential services.

Eighty percent of our total tax levy is used to fund the basic essential
services of police, fire, education, sanitation and corrections. A sixth
essential service, which is not part of our operating budget although it
does receive dollars from us, is that of the MTA which is a state operated
agency. The proponents of each of these essential services who believe that they are unique will between now and the time the budget of the City of New York is actually adopted after hearings criticize the allocations and point to reductions which they oppose without recognizing that every increase to one service generally requires a reduction elsewhere in the budget. Yet I am convinced that we have basically held the line so that the enormous gains over the last four years have not been lost. I have referred to this plan as one which keeps us marching in place as opposed to advancing. It is my hope that over the course of the next year we will reverse the New Federalism so that the Federal Government again picks up its fair share of the burdens now unfairly imposed on cities and states. And, secondly, in the same calendar year of '82 to seek to redress legitimate grievances that we have vis-a-vis the State of New York and its failures to properly finance services and enable the cities of the State of New York to do their job. So what we have here is a holding action to be reversed and allow us to go forward next year as a result of changes that the people of the state and the country imposed in Albany and in Washington.
CONFIDENTIAL
1983-84 Budget Issues

FCB Concerns

- There are many more gap-closing uncertainties and risks for 1983-84 than in recent history. This is because we are relying heavily on State aid and taxes which are outside our direct control.

- 1984 looks very bleak, at both the City and State level. State budget problems are exacerbated as the State moves toward GAAP. Both the State and City are affected by the recession and Federal budget cuts. Unlike other years when the City has needed major help from the State, there may not be much to give in 1984, especially after this year's State election-year budget.

- Given possible City collective bargaining settlements, 1984 looks very bad. And having raised major taxes and fees this year, the revenue-enhancement option -- which heretofore has been available as a fallback -- is greatly diminished. Moreover, without substantial layoffs, there are limits to actions the City can take to cut spending dramatically. (For example, the 80 percent freeze on Mayoral agencies in our $75 million contingency plan would be in effect for all of FY 1983 yet would yield only about $35 million.)

- Approval of our plan is tied to the TA plan. FCB cited the legal problem that has developed over the 1/4% sales tax. Given pressure on the fare, especially after the transit settlement, FCB is concerned about whether local elected officials, including the Mayor, would support a fare increase.

FCB "Groundrules"

- As of July 1, FCB will acknowledge as gap-fillers only items on hand or fully committed. For example, taxes must either be adopted and State aid enacted or there must be firm written commitments from legislative leaders that these actions will be taken. Thus, for example, any of the $297 million in State aid for FY 1983 not in place by July 1, 1982 could not be shown as "anticipated State aid" in the final plan if needed to balance the budget. We currently project a State aid shortfall of $70 million, assuming the Governor does not veto the relevant budget bills.

- Any budget holes as a result of the above (including the financing of collective bargaining) must be covered by a program of cuts beginning not later than July 1.

- The final approved plan also must show balance in 1984-86 as well under reasonable assumptions, including for State aid.
- If a bridge plan is required, the FCB wants a one-year plan. This can be replaced with a "regular" four-year plan when such a plan is presented and agreed to by FCB. A one-year bridge plan would create serious problems for approving contracts longer than one year, including labor contracts, City financing, etc.

- FCB posed as options a one-year labor settlement until the 1984 budget situation is clearer, and a partial or zero settlement until we get State aid, taxes, or whatever.

**Practical City Issues**

- We should seek at all costs to avoid the chaos of a lengthy bridge plan. This would prolong budget uncertainties and a crisis atmosphere into the fall.

- We have to separate the budget-balance strategy shown in the Executive budget from the post-settlement plan strategy. In the Executive budget we may not want to depart markedly from Financial Plan assumptions with respect to taxes, State aid, etc., recognizing that events may require us to change these in later June-July when more time for State action has transpired.

- We are in the following box: actions that would be appealing for 1983 make 1984 more difficult. But FCB will focus primarily on 1984, and on whether the plan makes realistic assumptions. The best course from their perspective is to roll as much as possible of the surplus from 1982 directly into 1984, when it will be needed most. This will require strong controls in 1983, so that the 1982 surplus isn't required to balance 1983.

- As expected, the major variables for 1983-84 are:
  - Collective bargaining settlement (including wage increases, wage deferral, Tier III, and health insurance)
  - State aid
  - Revenue growth

- We are evaluating preliminary information on March revenue collections. They are up, and something around +$100 million for the rest of the year, including miscellaneous revenues, is not unreasonable. The outlook for 1983-84 is unclear, though our monitors never saw much more in 1984 than we did. Below are the OSDC and FCB estimates compared to the City's estimates as reflected in the Financial Plan adopted February 18, 1982, including the new $100 million added to the City's estimate for 1982.

<table>
<thead>
<tr>
<th></th>
<th>1982</th>
<th>1983</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCB</td>
<td>+27</td>
<td>+67</td>
<td>No estimate</td>
</tr>
<tr>
<td>OSDC</td>
<td>-34</td>
<td>+67</td>
<td>+42</td>
</tr>
</tbody>
</table>
Collective bargaining costs above the present 1983-84 plan are:

($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>1983</th>
<th>1984</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>4% each year</td>
<td>+ 55</td>
<td>+ 125</td>
<td>+ 180</td>
</tr>
<tr>
<td>5%</td>
<td>+ 110</td>
<td>+ 250</td>
<td>+ 360</td>
</tr>
<tr>
<td>6%</td>
<td>+ 165</td>
<td>+ 375</td>
<td>+ 540</td>
</tr>
<tr>
<td>7%</td>
<td>+ 220</td>
<td>+ 500</td>
<td>+ 720</td>
</tr>
<tr>
<td>8%</td>
<td>+ 275</td>
<td>+ 625</td>
<td>+ 900</td>
</tr>
<tr>
<td>Elimination of Tier III</td>
<td>+ 40</td>
<td>+ 50</td>
<td>+ 90</td>
</tr>
<tr>
<td>Wage deferral</td>
<td></td>
<td>+ 300-400</td>
<td></td>
</tr>
<tr>
<td>Health insurance</td>
<td>+ 27</td>
<td>+ 30</td>
<td>+ 57</td>
</tr>
</tbody>
</table>

Even using quite optimistic assumptions, given various slip-pades, a 6% settlement can barely be funded, let alone the other possible associated bargaining items such as Tier III elimination, wage deferral, and sweetened health insurance. "Quite optimistic assumptions" include $90-140 million in new, as-yet-unidentified City actions in 1983 and $312-362 million in 1984; $590 million in State aid in 1984 above 1982 (about $1.2-1.5 billion statewide); no new spending initiatives; favorable resolution of the MTA ½ percent sales tax legal issue; no need for more than our $25 million reserve for new Federal budget cuts; and some possible further growth in revenues. The 1984 requirements for new City actions -- either more new taxes or sharp spending reductions -- are very large.
STATEMENT BY MAYOR EDWARD I. KOCH

This begins as a good news budget, but could very possibly end as a bad news budget.

First the good news:

-- This will be New York City's third consecutive balanced budget.

-- It provides for a continuation of improved services promised last year, including 2,300 additional police officers, a larger street-cleaning force, the Board of Education's promotional gates program, and an expanded Emergency Medical Service.

-- It contains the most ambitious management and productivity program in the city's history.

-- It includes a $1.3 billion city capital commitment program -- 300 percent larger than we had in 1979.

-- It uses city dollars to offset the cruelest of the federal budget cuts, especially in day care and senior citizen centers.

Admittedly, balancing it will require $171 million in additional taxes, but even with this increase, New Yorkers will continue to see less of their personal income going to local taxes than in the past.

In short, the good news is that this budget represents another milestone in the city's pursuit of long-term fiscal stability, offering both restored services and an increased (more)
effort to rebuild the city's infrastructure. It is a reasonable budget, a prudent budget, a fair budget.

The possible bad news is that this budget is marked by major uncertainty -- largely the result of the state's failure to deal with the fiscal requirements of its cities and counties. Over the past year and a half federal budget cuts have battered the budgets of localities and the lives of the poor. We cannot afford to have the state follow suit. Despite the city's willingness to raise its own taxes, to use its own dollars to offset federal cuts, to forego further service restorations, to put into place a tough, ambitious productivity program, the state has shown an unwillingness to do its share. Of the $297 million of new state aid included in our January financial plan and in this budget, only $3 million is in place.

We had anticipated receiving $125 million in increased state aid for education, far short of the increase projected under the Levittown decision. Given rising costs, past history, and special education mandates, ours was and is a reasonable assumption; but, as it now stands, this will be the first year since fiscal year 1976 that no increase in aid to education has been provided by Albany.

We had also anticipated the beginning of relief from the crushing burden of Medicaid -- the single major obstacle to achieving recurring budget balance. The Governor and the legislative leaders have recognized the disastrous impact Medicaid has on New York City and the other 57 counties of this state, but so far this year Albany has failed to act.

(more)
The uncertainty we face is not ours alone. It is shared by every school board, every county, every municipality across this state. Outside of New York City, school boards have already adopted budgets that include increased school aid not included in Albany's final budget. If that aid is not provided, these school districts will have to raise the real property tax to make up the difference -- an intolerable situation for the homeowner, already overburdened with real estate taxes on non-income-producing property.

Again in the case of Medicaid, the state's failure to act will mean higher property taxes for communities outside New York City. Some counties are already paying more than 60 percent of their budgets for this state-mandated program. Costs are rising rapidly. Counties will have no choice but to increase the property tax on homeowners, since that is their major revenue source.

Today is May 10. In little more than six weeks the new fiscal year will begin. Everyone should understand that the consequences of continued state inaction will be dire for New York City and all other parts of the state. In the most recent financial plan approved by the Financial Control Board for New York City there is a contingency program of $75 million in cuts that will go into effect on July 1 if necessary. This program includes an 80 percent hiring freeze in virtually every agency for the entire fiscal year, as well as cuts in the Board of Education and in non-personnel areas. Clearly, if state aid is not

(more)
forthcoming, a $75 million spending cut and an 80 percent hiring freeze will not be enough. Further labor force reductions will be required. The three percent increase budgeted for collective bargaining could not be paid.

These are not idle threats, lightly stated. They are a fact of life. We have a legal requirement to balance our budget, and we will -- no matter how difficult the choices.

I know that in an election year there is always a desire to avoid hard issues, but New York City and the rest of the state cannot afford continued inaction in Albany. We need leadership, not lethargy; a willingness to act now, not further drift and procrastination.

At the heart of Albany's problem is a fear of confronting fiscal reality, a fear of generating necessary revenues. The Governor has made it clear that he will not sign the certificate needed for the state's spring borrowing if there is any increase in spending without an equal increase in revenues. On the other hand, the Legislature has taken the position that future revenues will be sufficient to pay for the increased cost of education and a Medicaid takeover and that if revenues should somehow be inadequate, the Legislature will act at a later time, probably after the November election.

I believe a different response is required. Today I am proposing a response that accommodates the positions of the Governor and the legislative leaders. The Legislature should enact a tax increase now as a standby measure. If
the Legislature is right, the revenue could be refunded or
the tax would never go into effect, depending on the tax
measure chosen.

Let me illustrate what I have in mind: if the
Legislature decides that a surcharge on the state's
corporate and personal income taxes makes the most sense,
these could be refunded at the end of the tax year if the
Legislature's revenue estimates prove accurate. Another
approach could involve the enactment of an oil and gasoline
tax dedicated to education, or to upstate and downstate
transportation needs, which would not go into effect until
six months into the state's fiscal year. If this income
proved to be unnecessary, the tax would be rescinded before
a dime was collected.

I believe this response makes sense, and I believe the
people of this state will accept it. New Yorkers are smart.
They want leadership -- not budget as well as leadership
gaps.

New York State has always been there when New York City
needed help, and when other localities encountered
difficulties. We look to the state government today not to
provide special relief for New York City, but to fulfill its
fair partnership role with all our counties and
municipalities.

The failure of the state to adopt an adequate budget is
not simply a problem for the City of New York. It is a
state problem. It must be addressed by the state
government, and it must be addressed now.

##
REVIEW OF THE PROPOSED NEW YORK CITY FOUR-YEAR
FINANCIAL PLAN FOR FISCAL YEARS
1983 THROUGH 1986

SUMMARY FOR THE FINANCIAL CONTROL BOARD
AND THE MUNICIPAL ASSISTANCE CORPORATION
(Report 12-83, June 15, 1982)

By June 30, 1982 the Financial Control Board must act on the City's Four Year Financial Plan. Yet, with that deadline so near, the City still faces a fiscal 1983 budget gap ranging from $87 million to $312 million, even if all the State aid voted by the Legislature is approved by the Governor. If the Legislature does not override the Governor's threatened vetoes, the gap could increase by an additional $193 million. And, based on preliminary estimates, proposed Federal budget reductions could increase the gap by another $75 million - bringing the potential gap in fiscal 1983 to a range of between $355 million to $580 million (Table A).

Not since the start of the four year planning process in 1978 has there been such continued uncertainty about the viability of the City's budget so close to the beginning of the fiscal year.
In part, the current uncertainty is due to the inability of other levels of government to meet their own planning deadlines. Action on both the State and Federal budgets has been delayed well past statutory deadlines. Of at least equal significance, however, is the City's decision to increase its spending in fiscal 1982 to a level beyond what could be sustained by recurring revenue growth - particularly in a period of declining inflation and sluggish economic growth - with the fiscal 1982 increases made possible by the availability of some $700 million in non-recurring items.

The fiscal 1983 budget difficulties have been predicted for well over a year. The slowdown in national economic growth and its potentially adverse effect on local revenues, and on the ability of other levels of government to render additional assistance to the City has appeared probable for some time. In view of this situation, we urged the City in several prior reports, to reduce its planned spending rate for fiscal 1982 in order to ease the transition into fiscal 1983. Instead, the City chose to increase its planned fiscal 1982 City-funded workforce by some 11,500 employees\(^1\) and to bring its total workforce by the end of fiscal 1982 to its highest level in six years. The cost of these new positions is estimated to be some $230 million in fiscal 1983.

Now, to help close the fiscal 1983 gap, the City has taken some local initiatives. The City has rolled into fiscal 1983 a projected fiscal 1982 surplus of $165 million. The Mayor has imposed a hiring freeze, and the City has been forced to resort to tax increases for the second time in three years.

\(^1\) Including some 3,600 positions previously funded by the CETA program.
Other, perhaps more severe measures, may still prove necessary before the fiscal 1983 budget process is complete. The City has reportedly prepared a standby plan that encompasses such measures, and the Mayor has repeated his promise to take whatever other actions prove necessary to ensure a balanced budget. Yet clearly, if such last minute reductions are necessary, the result may be further deterioration of City services.

To the extent that the City relies on measures which can not be sustained for long periods, recurring budget problems will inevitably result. And indeed, depending on the size of the upcoming labor settlement, the City may face an incremental budget gap in fiscal 1984 only marginally smaller than the gap it faced one year ago for fiscal 1983.

The current process serves neither to promote confidence in City financial management nor to increase the City's access to the credit markets, which it needs before it can resume its fiscal independence. Indeed, it has been reported that continued uncertainty about the size of the gap and how it will be closed may result in Financial Control Board consideration of an interim, shorter-term plan than the Four Year Plan proposed by the City.

Clearly, rather than year by year planning, what is needed is a true long term planning process. The attainment of this process is complicated by the fact that the City must prepare a four year plan without four year State and Federal aid commitments. As a result, in order to increase the pressures on other levels of government to provide additional aid, the City has deferred decisions to cut costs. However, given the fiscal difficulties at both the national and State level, this strategy is fraught with obvious risks. What is needed, instead of a plan that is predicated almost exclusively on additional State takeovers to provide budget relief, is a multi-year
plan that includes strict spending and service goals laid out in advance. That plan should detail specific objectives for optimizing the use of available resources as a way to help assure recurring budget balance.

Fiscal 1983

The proposed Financial Plan projects revenues and expenditures of $15.3 billion. Compared to the approved Plan, the proposed Plan increases City-funded spending by $157 million, about half of which is discretionary, along with the addition of 2700 City-funded positions. This proposed spending increase follows a fiscal 1982 spending increase of 10.9 percent\(^1\) which exceeded the projected local inflation rate in that year by three percent.

As stated earlier, our review of the Plan indicates a gap to be closed that could range as high as from $355 million to $580 million. This potential gap is due to the following factors:

- **Increases in State aid may not be realized.** The proposed Plan anticipates $294 million in increased State aid. However, only $207 million of that amount, in the form of increased education aid and Medicaid relief, was voted by the Legislature and even this smaller amount is subject to veto by the Governor.\(^2\) The State budget

---

1 Includes all operating expenditures except debt service, which was excluded since some of the fiscal 1982 debt service costs were prefunded in fiscal 1981 out of that year's surplus.

2 However, even if the Governor vetoed the aid increases, the City would still receive $14 million in increased education aid pursuant to the permanent provisions of the State Education law.
process this year has been marked by an ongoing disagreement between the Governor and legislative leaders over the State's financial capacity to increase spending without new revenues. This disagreement delayed the adoption of the State Budget for more than a month past the statutory date and resulted in the largest budget veto in the State's history. Nothing has yet occurred to resolve this fundamental disagreement. Should the Governor veto the legislatively approved State aid increases, there is no assurance that his vetoes will be overridden.

Furthermore, the Medicaid relief bill passed by the Legislature does not involve any State fiscal year 1983 appropriation. Rather, it anticipates appropriations in State fiscal year 1984 which begins on April 1, 1983 - three months before the end of the City's 1983 fiscal year. This means that the anticipated savings would not be assured until late in City fiscal year 1983. We note that in both fiscal 1979 and fiscal 1980 the City had budgeted increased State Revenue Sharing aid based on existing legislation. This aid was to be paid in a subsequent State fiscal year. But the formula or appropriation levels were modified in the subsequent State budget so that aid to the City was reduced below anticipated levels.

Labor costs may be understated. The proposed Plan assumes a labor settlement of approximately 3 percent. However, the recently arbitrated settlement between the Transit Authority (TA) and certain of its employees granted wage increases of 7 percent for the year ending March 31, 1983. If the City's labor settlements provide similar increases, personal service costs would increase by about
$225 million over the amount provided in the proposed Plan. Although City officials have stated that they would only agree to a settlement that the City can afford, the terms of the settlement may not ultimately be within the City's control. If negotiations between the City and the municipal labor unions reach an impasse, the terms of the settlement could be determined through binding arbitration, as happened in the case of the TA.

Federal budget cuts may add to the City's gap. Different versions of the Federal budget have passed the House and Senate, and have yet to be reconciled. The House version of the Federal budget provides for many of the cutbacks in entitlement programs suggested by the President. Preliminary City estimates indicate that these cutbacks could result in a mandatory increase in City funding of $100 million for the Medicaid, Welfare and Food Stamp programs. However, the proposed Plan provides only a $25 million reserve for such Federal aid reductions.

In past years, shortfalls in intergovernmental assistance were offset by substantial growth in locally generated revenues. Tax revenues exceeded original budget estimates by over $500 million in fiscal 1980 and over $700 million in fiscal 1981. However, for the first time since fiscal 1976, there may be little potential for additional revenue growth over the amounts anticipated in the proposed Plan because of the current recession and the substantial decline in inflation.
The City successfully weathered the 1980 recession. However, the current recession has already lasted twice as long as the 1980 recession, and has resulted in steeper declines in national employment and industrial production. The number of industries affected has also increased. The national unemployment rate in April 1982 was at its highest level since World War II, and in the first quarter of calendar 1982, corporate profits registered their largest decline (33.9 percent) since such statistics were first introduced in 1947.

Even more significant in terms of revenue growth is the dramatic decline in national and local inflation. During the second and third quarters of fiscal 1982, the Consumer Price Index for the New York City area actually declined. This is in marked contrast to the 10 percent annualized increase recorded in the comparable fiscal 1981 period.

Considering these trends, our analysis concluded that the proposed Plan's baseline forecasts for certain economically sensitive tax revenues may be modestly overstated. Sales tax revenues, for example, may fall short of the City's forecast by about $20 million, largely as a result of the recent decline in energy prices. The estimate of revenues from unincorporated business taxes also appears optimistic in light of fiscal 1982 experience. Further clarification as to the extent of any possible shortfall in these revenue sources should be available by the end of June.

There are also factors that could reduce the potential budget gap. For example:

The City has proposed legislation to modify certain pension assumptions that according to the City estimates would reduce fiscal 1983 costs by $38 million.
As previously noted, the City has already "rolled over" $165 million of its projected fiscal 1982 surplus to fiscal 1983. The fiscal 1983 gap could be reduced further to the degree that the projected fiscal 1982 surplus is larger than previously anticipated and this additional amount could be rolled into fiscal 1983. At this point, however, it is not clear whether there will be sufficient margin in fiscal 1982 for an additional rollover to take place.

Given the aid shortfalls, and the magnitude of the negative uncertainties, it would appear that until these matters are clarified, the Control Board should require a contingency reserve that gives adequate consideration to the uncertainties that have been identified. Otherwise, it cannot be determined with reasonable assurance that the budget for fiscal 1983 will be balanced in accordance with Generally Accepted Accounting Principles, as is required by statute.

Fiscal Years 1984 Through 1986

The City's proposed Financial Plan forecasts a budget gap of $237 million in fiscal 1984, $60 million in fiscal 1985, and a $130 million surplus in fiscal 1986. However, these estimates assume fiscal 1983 State aid payments that are higher than those approved by the Legislature. In addition, these estimates assume annual wage increases of 3 percent.

Based on the State aid increases approved by the Legislature, and assuming that the upper level of any negotiated wage settlement would be equivalent to the Transit Authority labor settlement in fiscal years 1983 to 1985, and at the projected inflation rate in fiscal 1986, the City could be faced with a
projected gap in fiscal 1984 of over $900 million, rising to over $1.1 billion by fiscal 1986 (Table B). These gap estimates could be even higher if any threatened veto of increased State aid is not overridden, or if the personal income tax surcharge and the State Medicaid cost relief program - both of which are scheduled to expire in fiscal 1984 - are not continued.

The City's ability to close gaps of this size is contingent on many factors, most of which cannot be assessed at this time. One key factor is the City's ability to close the remaining fiscal 1983 gap by recurring actions. Even if this were to occur, however, the City could still face an incremental gap in fiscal 1984 of over $600 million. This incremental gap, although smaller than the gap the City faced a year ago for fiscal 1983, could still require further revenue increases and/or workforce reductions.

Furthermore, the gaps for fiscal 1983 through 1986 could increase as a result of the following:

1. Beginning in fiscal 1984, the Plan assumes a substantial surge in economic activity spurred by the federal tax reduction program. For the major economically sensitive taxes, the Plan assumes average annual growth of 9.3 percent, even with a projected local inflation rate of 5.8 percent. However, if economic growth is slower than expected, the tax estimates for the fiscal 1984 through 1986 period could be overstated.

2. The Plan provides only a $25 million annual reserve for Federal budget reductions. However, based on preliminary City estimates, the budget cuts proposed by the House could cost the City $100 million in fiscal 1983 and substantially more in subsequent fiscal years. Further aid reductions are possible as the Federal government moves to reduce future Federal budget deficits.
The City may be under pressure to increase its transit subsidies. The proposed Transit Authority Plan projects gaps of $390 million, $684 million and $837 million in fiscal years 1984, 1985 and, 1986, respectively.

The City's proposed Four Year Plan assumes that only small spending reductions will be necessary past fiscal 1983. Instead, the City believes that future budget balance will be secured by a fundamental restructuring of City-State funding relationships, with the State assuming an ever increasing share of the costs of financing Medicaid and education expenditures. By fiscal 1986 the City is projecting over $1 billion in new aid above the fiscal 1983 level as a result of this hoped for restructuring.

Although such restructuring was suggested by the Governor, it has not been enacted by the Legislature. Instead of a long-term Medicaid takeover plan involving increased State assumption of the local costs of Medicaid, the Legislature passed a proposal which provides relief in City fiscal years 1983 and 1984 only, and does not provide for annual increases in the rate of State assistance. Furthermore, the Legislature did not adopt a proposal to restructure education aid which was to be financed by an increase in the sales tax rate. Given the State's own budgetary problems, there can be no assurance that the fundamental changes inherent in the City's proposed Plan will be enacted in the future. Absent such changes, revenue increases or expenditure reductions substantially different from those anticipated in the proposed Plan are likely to be needed in the years ahead.
1. The City should specify to the Financial Control Board how it intends to close the remaining gap for fiscal 1983. This plan should be two tiered: an $87 million gap closing program to offset the shortfall in anticipated aid, and a standby program of actions, within the City's ability to implement in a timely manner, to offset threatened State aid vetoes that may not be overridden by the Legislature. Consideration should also be given to increasing the reserve for Federal aid reductions from its current level of $25 million. Obviously, as soon as collective bargaining agreements are negotiated, the City will also have to identify appropriate funding sources should salary increases exceed three percent.

We note that the City has proposed a full hiring freeze for most mayoral agencies, which it projected would save $70 million in fiscal 1983. If this freeze were applied to all mayoral agencies, and to the Board of Education (whose revenues and expenditures are included in the City's Plan), we estimate that the City would realize fiscal 1983 savings of $152 million. According to our estimates, savings of $99 million could be realized if the City replaced two out of every five persons that leave City service.

2. The City should take steps to implement additional productivity improvements to mitigate the impact of expenditure reductions on service levels and to realize additional savings. In December 1981, the State Comptroller sent the Mayor a letter containing a list of recommendations gathered from recent audit reports which had not yet been implemented. The letter noted that implementation of those recommendations could reduce the fiscal 1983 gap by $154 million without any adverse impact on the City's
service delivery capacity or its economic base. Various other cost reduction programs were also identified but the savings associated with these actions were not quantified. The City's proposed Financial Plan for fiscal 1983 includes over $50 million from the implementation of these potential gap closing recommendations. In addition, the Plan includes many productivity initiatives in other areas. However, over $100 million in potential savings have not yet been implemented by the City. At least half of these savings could be realized through City administrative actions, without any outside approvals.

3. To provide for recurring budget balance the City must identify long term spending targets and related service goals. These spending targets should consider the multiyear budget implications of any spending increases and the ability of future budgets to sustain the additional costs. The goals should be geared to deploying resources more efficiently in order to maintain services or even enhance them in periods of scarce resources at all levels of government. The City's success in deploying two-man trucks in the Sanitation Department is an excellent example of more efficient use of existing resources. According to our analysis, this program allows the City to provide the same level of service with 11 percent fewer personnel. The City should seek to identify and implement similar programs in other agencies.

For government to retrench is never easy. Managers at all levels, both inside and outside government, find it easier to increase resources to meet legitimate service demands rather than to optimize the use of the resources they already have. However, in this period of reduced inflation and substantial economic and fiscal uncertainty, there may be no choice; retrenchment may be inevitable.
Long Term Financing

Beginning in fiscal 1983, the City will be entering a new phase in its financing program. The various pre-arranged financing agreements, such as the Federal Loan Guarantee Program and the City's and MAC's private bond sales to various financial institutions and the City pension systems, that had been in place since the onset of its fiscal crisis, will have expired. These programs enabled the City to raise substantial amounts of needed financing without dependence on the public credit markets. Without such pre-arranged financing agreements, the City will be relying upon its ability to issue increasing amounts of debt in the public credit markets to meet its long term financing needs. The financing program calls for public sales of the City's general obligation bonds over the next four years to more than quadruple — from $250 million in fiscal 1982 to $1.1 billion in fiscal 1986.

Considering the City's progress in recent years in attaining limited access to the public market, the projected levels of City long term debt issuances for fiscal years 1983 and 1984 ($300 million and $400 million, respectively) appear attainable. However, the significant acceleration in market re-entry assumed for the following two years ($700 million in fiscal 1985 and $1.1 billion in fiscal 1986) is optimistic, and may not be attained, especially in view of the unsettled condition of the nation's credit markets.

Our review indicates, however, that the City could undertake a more gradual re-entry to the long term public credit market and still be able to carry out its fiscal 1983 through 1986 capital program largely as planned. This less ambitious, and therefore less uncertain, market re-entry plan envisions annual public sales of City general obligation debt rising more
gradually from the planned $300 million in fiscal 1983 to only $675 million by fiscal 1986. This latter amount is about 40 percent less than the $1.1 billion level assumed in the City's current financing program. In total over the four year period the amount of City debt required to be issued in the public markets under this more gradual proposal would be $600 million less than under the current program. This reduction could be accommodated without constraining the City's capital program because of the following factors (Table C):

1. Our analysis shows that even if the capital commitment program is carried out as planned, the resulting expenditures would be some $380 million less than forecast by the City. The City's spending estimates are based upon a fiscal 1982 commitment level which is up to $200 million greater than our analysis indicates is likely to be achieved. This lower level of fiscal 1982 commitments will reduce spending in subsequent years. In addition, the proposed Plan anticipates that capital commitments, particularly in the latter years, will be expended at faster rates than the City's recent experience would indicate.

2. Additional financing resources totalling some $472 million, which are not included in the capital financing program, could be made available to offset the impact of the reduced amount of City public debt issuances. These additional resources include:

- $213 million from the proceeds of MAC bond sales which could be used to finance capital construction instead of for refunding certain outstanding MAC bonds as currently planned;
- $158 million of available proceeds from bond sales prior to fiscal 1983 which had not been considered by the City in developing its
Plan; and the reduction in the level of City bond issuances would reduce debt service costs during the four year period by $101 million. If the City chooses, such savings could be used to finance capital projects on a "pay-as-you-go" basis.

Our lower estimate of capital spending and the availability of other financing sources more than offset the suggested reduction in projected City issuances to achieve more gradual market entry. The remaining funds not needed during the fiscal 1983 to 1986 period would be available to ease the transition of market reentry in the post-fiscal 1986 period. Furthermore, because of the reduced debt issuances, additional debt service savings of over $150 million would also be available during fiscal years 1987-89. As a result, the City's annual debt issuances would not have to reach the $1 billion level until fiscal 1988, two years later than currently planned; yet the City would still be able to continue to move toward the goals of its ten year capital improvement plan.

We note that the City's financing program assumes that the Secretary of the Treasury will waive a provision of the Federal Loan Guarantee Act of 1978. This provision requires the City to gradually refinance its outstanding Federally-guaranteed debt from bond sale proceeds beginning in fiscal 1983. If the Secretary does not agree to the waiver, then under the City's proposed Plan, between $488 million and $607 million of the City's fiscal 1983 through 1986 projected bond proceeds will be needed to refund the guaranteed debt.1 Under our more gradual market re-entry proposal, the refunding requirement would be about $59 million less.

---

1 The range depends upon whether the debt issuances of the planned water and sewer financing authority would be subject to the refunding provision.
We also note that because of the current uncertainties regarding the fiscal 1983 budget gap, it has been suggested that the Financial Control Board might adopt an interim, rather than a Four-Year Financial Plan. In the absence of an approved Four-Year Financial Plan, it is unlikely that the City would be able to continue to have even its limited access to the long term credit markets. Furthermore, such an interruption could offset some of the momentum in its market re-entry efforts which the City has generated in recent years. However, due to the additional resources that we have identified, even if market access is delayed for a year, it would appear that the City's ability to carry out its capital program would be only modestly affected.

Cash Flow

The projection of cash sources and uses contained in the proposed Plan for fiscal 1983 indicate the need for seasonal borrowings of between $450 and $650 million, similar to the borrowings required during fiscal 1982. Our independent cash flow projections however, indicate the need for some $700-$800 million in seasonal financing. Our higher estimate stems primarily from a lower opening cash balance for fiscal 1983 as compared to fiscal 1982 and because much of the "budget balancing" revenue (anticipated State aid and increased taxes) may not be available until the second half of the fiscal year, beyond the period of peak cash needs.
APPENDIX G

Reductions in the City Workforce
and Balanced Budgets: Some Observations

1. Overview

In recent years, the City has successfully closed large annual budget gaps. Tax increases, expenditure constraints--involving both service reductions and improvements in efficiency and effectiveness--and "loadshedding" to other jurisdictions (primarily the State) are among the reasons for this success. But the main reasons the budget has been balanced are inflation and an improved local economy, which have generated revenues in excess of those anticipated.

The City has recognized that national economic trends will markedly reduce this source of relief. It has therefore supported an ambitious program of structural intergovernmental fiscal reform through State assumption of burdensome costs--the proposed full Medicaid takeover and changes in educational finance. But this program has not been fully adopted in Albany, and even if it were adopted in toto, it would constitute only the foundation, not an entire program for recurring balanced budgets.

It is for such reasons that we have often urged the City to intensify a process of intelligent, targeted expenditure restraint at the local level. With about half the City's budget devoted to personal service costs, expenditure restraint means reductions in the size of the workforce if not also in the real growth of compensation.

We recognize that there are many viewpoints on the necessity for, and feasibility of, further expenditure constraint. Each is reasonable and each is vigorously expressed by dedicated and sincere advocates. Many City officials and union leaders seem to agree that the workforce cannot be further reduced without a serious adverse effect on services. Citizens insist that they deserve more and better services for their tax dollars. Others urge that if only the City would focus more on "productivity," large savings could be achieved.

---

1 These programs, proposed by the Governor, along with tax increases and other revenues to finance them, have not yet been adopted by the State. A one-year Human Services Overburden-Medicaid Relief program (affecting two City fiscal years) has been authorized, but no substantial revision of State education aid formulas has yet been enacted. The recent decision by the State Court of Appeals in the Levittown case may make the attainment of the revisions supported by the City much more difficult to achieve.
No sufficiently sound quantitative or qualitative evidence exists to support any of these conclusions. One cannot easily prove or disprove the thesis that additional personal service cuts would further impair the City's capacity for service delivery. Similarly, a determination that the City is "over-programmed" in terms of services is difficult to make in the absence of a consensus about the optimum scope and level of municipal services. Moreover, both of these questions differ from the issue of whether productivity can be improved.

In this appendix, we present some of the information that is needed in order to make judgments on these questions:

- First, we review trends in City workforce levels, both in the aggregate and within certain selected agencies, from FY 1970 to the present.

- Second, we analyze how the City's FY 1983 Executive Budget is related to these trends.

- Third, we set forth some views on the elements necessary for a long-term strategy to achieve workforce reductions while preserving important services. By so doing, we emphasize that such a strategy is only one component of a program for ensuring recurring balanced budgets.


There is obviously a rough, though constantly changing, relationship between the size of the City workforce and the level of City services. Information about personnel levels alone will provide only an incomplete sense of how the City utilizes its personnel resources. Such information will, however, indicate in a general sense the City's capacity for service delivery. Moreover, if analyzed over the longer term, personnel levels should suggest how the City has responded to external events.

Accordingly, we have collected data on total full-time employment in mayoral agencies—including individual Agency totals for several of the largest agencies—and in some covered organizations. These data are presented in Tables G-1 and G-2 on pages G-4 and G-5.

As a preface to understanding the information, several points must be noted. Each of these is expanded upon in the technical note at the end of this appendix.

First, the data cover only full-time personnel. Consequently, the tables do not reflect the practice of many agencies of utilizing part-time personnel or paying overtime costs to perform agency functions.
Second, because the data are for fiscal-year-end, they provide only a "snapshot" of the employment totals as of June 30 of each fiscal year (unless otherwise noted). Thus, seasonal variations (which can be considerable in some agencies), average annual headcounts, and other important factors are not discernible from these figures.

Third, the comparability of year-to-year data is limited. Data for FYs 1973 and 1979 were obtained from OMB documents; data for FYs 1974 and 1982 are from the Mayor's Management Reports (or their predecessor) except as otherwise noted. The degree of consistency of data collection practices from one Mayor's Management Report to the next is unknown; and the comparability of the combined data sources is undetermined.

Fourth, shifts in jurisdiction between the City and State occurred in certain agencies during this period. These changes may not have been fully reflected in Tables G-1 and G-2. Similarly, organizational changes among and between City agencies may not have been reflected.
Table G-1

SUMMARY OF FULL-TIME EMPLOYMENT IN MAYORAL AGENCIES AND SELECTED COVERED ORGANIZATIONS FOR 1970-1982

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Uniformed Agencies</td>
<td>69,051</td>
<td>67,221</td>
<td>65,693</td>
<td>66,881</td>
<td>68,435</td>
<td>68,361</td>
<td>60,534</td>
<td>57,026</td>
<td>55,997</td>
<td>56,397</td>
<td>54,065</td>
<td>57,305</td>
<td>59,960</td>
</tr>
<tr>
<td>Other Mayoral</td>
<td>68,106</td>
<td>67,026</td>
<td>68,936</td>
<td>70,900</td>
<td>80,375</td>
<td>79,797</td>
<td>61,765</td>
<td>60,122</td>
<td>67,569</td>
<td>63,014</td>
<td>59,570</td>
<td>61,084</td>
<td>61,693</td>
</tr>
<tr>
<td><strong>Total Mayoral</strong></td>
<td>137,157</td>
<td>134,247</td>
<td>134,629</td>
<td>137,781</td>
<td>143,810</td>
<td>148,158</td>
<td>122,299</td>
<td>117,148</td>
<td>123,566</td>
<td>119,411</td>
<td>114,435</td>
<td>118,399</td>
<td>121,653</td>
</tr>
<tr>
<td>Board of Education</td>
<td>82,810</td>
<td>80,439</td>
<td>79,120</td>
<td>78,825</td>
<td>79,582</td>
<td>71,536</td>
<td>67,785</td>
<td>63,582</td>
<td>71,734</td>
<td>72,262</td>
<td>70,666</td>
<td>70,062</td>
<td>70,665</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>219,967</td>
<td>214,686</td>
<td>213,749</td>
<td>216,606</td>
<td>223,392</td>
<td>219,694</td>
<td>190,084</td>
<td>180,730</td>
<td>195,300</td>
<td>191,673</td>
<td>185,101</td>
<td>188,451</td>
<td>193,318</td>
</tr>
<tr>
<td>City University</td>
<td>15,217</td>
<td>16,783</td>
<td>18,261</td>
<td>18,951</td>
<td>19,350</td>
<td>20,009</td>
<td>17,655</td>
<td>14,446</td>
<td>5,522</td>
<td>4,762</td>
<td>4,791</td>
<td>3,307</td>
<td>3,470</td>
</tr>
<tr>
<td><strong>TOTAL – City Budget</strong></td>
<td>235,184</td>
<td>231,469</td>
<td>232,010</td>
<td>235,557</td>
<td>247,742</td>
<td>239,703</td>
<td>207,739</td>
<td>195,176</td>
<td>206,822</td>
<td>196,435</td>
<td>189,892</td>
<td>191,758</td>
<td>195,768</td>
</tr>
</tbody>
</table>

Covered Organizations

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Hospitals</td>
<td>40,036</td>
<td>40,294</td>
<td>42,756</td>
<td>45,531</td>
<td>45,283</td>
<td>46,780</td>
<td>37,810</td>
<td>37,179</td>
<td>38,983</td>
</tr>
<tr>
<td>NCRR/MBIDCA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>49,021</td>
<td>47,692</td>
<td>45,435</td>
<td>43,325</td>
<td>43,410</td>
</tr>
<tr>
<td>NCRA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>12,699</td>
<td>12,699</td>
<td>13,175</td>
<td>12,784</td>
<td>13,310</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>354,745</td>
<td>347,350</td>
<td>303,918</td>
<td>288,408</td>
<td>296,525</td>
<td>287,045</td>
<td>290,378</td>
<td>291,378</td>
<td>297,590</td>
</tr>
</tbody>
</table>

1 As of 4/30/82, as reported in City's April Financial Plan Statements.
2 Excludes Court employees.
3 Includes Senior College employees 1974-1977.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fire</strong></td>
<td>15,309</td>
<td>15,031</td>
<td>14,802</td>
<td>14,750</td>
<td>14,613</td>
<td>14,095</td>
<td>12,019</td>
<td>11,578</td>
<td>11,919</td>
<td>12,348</td>
<td>12,833</td>
<td>12,384</td>
<td>12,998</td>
</tr>
<tr>
<td><strong>Sanitation</strong></td>
<td>15,327</td>
<td>14,835</td>
<td>14,999</td>
<td>14,820</td>
<td>14,902</td>
<td>14,256</td>
<td>12,722</td>
<td>12,225</td>
<td>11,689</td>
<td>11,811</td>
<td>10,928</td>
<td>11,632</td>
<td>11,944</td>
</tr>
<tr>
<td><strong>Corrections</strong></td>
<td>3,685</td>
<td>3,901</td>
<td>4,189</td>
<td>4,604</td>
<td>4,635</td>
<td>4,392</td>
<td>4,061</td>
<td>3,975</td>
<td>4,075</td>
<td>4,684</td>
<td>4,734</td>
<td>5,318</td>
<td>5,450</td>
</tr>
<tr>
<td><strong>Subtotal Unif.</strong></td>
<td>69,051</td>
<td>67,221</td>
<td>65,693</td>
<td>66,881</td>
<td>68,435</td>
<td>68,361</td>
<td>60,534</td>
<td>57,026</td>
<td>55,997</td>
<td>56,397</td>
<td>54,865</td>
<td>57,325</td>
<td>59,960</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td>26,745</td>
<td>26,822</td>
<td>28,633</td>
<td>29,263</td>
<td>30,042</td>
<td>30,069</td>
<td>25,126</td>
<td>25,010</td>
<td>24,512</td>
<td>23,036</td>
<td>22,009</td>
<td>22,761</td>
<td>23,346</td>
</tr>
<tr>
<td><strong>Environ. Protection</strong></td>
<td>4,880</td>
<td>4,796</td>
<td>4,836</td>
<td>4,990</td>
<td>4,941</td>
<td>4,712</td>
<td>4,484</td>
<td>4,309</td>
<td>4,476</td>
<td>4,295</td>
<td>4,236</td>
<td>4,340</td>
<td>4,457</td>
</tr>
<tr>
<td><strong>Housing Preservation</strong></td>
<td>5,301</td>
<td>4,979</td>
<td>4,677</td>
<td>4,535</td>
<td>4,633</td>
<td>4,264</td>
<td>2,845</td>
<td>2,587</td>
<td>2,643</td>
<td>3,240</td>
<td>3,492</td>
<td>3,649</td>
<td>3,672</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>5,451</td>
<td>5,649</td>
<td>5,611</td>
<td>5,608</td>
<td>5,715</td>
<td>5,525</td>
<td>5,143</td>
<td>4,998</td>
<td>5,478</td>
<td>5,432</td>
<td>5,501</td>
<td>5,613</td>
<td>5,459</td>
</tr>
<tr>
<td><strong>General Services</strong></td>
<td>4,135</td>
<td>3,971</td>
<td>3,804</td>
<td>3,773</td>
<td>3,787</td>
<td>3,553</td>
<td>3,359</td>
<td>3,403</td>
<td>3,202</td>
<td>2,863</td>
<td>2,731</td>
<td>2,856</td>
<td>2,764</td>
</tr>
<tr>
<td><strong>Parks</strong></td>
<td>5,700</td>
<td>5,410</td>
<td>5,325</td>
<td>5,030</td>
<td>5,057</td>
<td>4,649</td>
<td>3,649</td>
<td>5,389</td>
<td>5,595</td>
<td>5,965</td>
<td>3,991</td>
<td>4,540</td>
<td>4,245</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>4,562</td>
<td>4,467</td>
<td>4,911</td>
<td>5,271</td>
<td>5,944</td>
<td>4,942</td>
<td>4,309</td>
<td>5,132</td>
<td>3,735</td>
<td>3,442</td>
<td>3,086</td>
<td>3,636</td>
<td>3,637</td>
</tr>
<tr>
<td><strong>Other Mayoral</strong></td>
<td>11,323</td>
<td>11,022</td>
<td>11,139</td>
<td>9,430</td>
<td>20,656</td>
<td>21,456</td>
<td>12,850</td>
<td>9,294</td>
<td>18,310</td>
<td>15,610</td>
<td>14,254</td>
<td>13,689</td>
<td>14,113</td>
</tr>
<tr>
<td><strong>Subtotal Civ.</strong></td>
<td>68,097</td>
<td>67,116</td>
<td>68,936</td>
<td>67,900</td>
<td>80,376</td>
<td>79,170</td>
<td>61,765</td>
<td>60,122</td>
<td>67,589</td>
<td>63,014</td>
<td>59,300</td>
<td>61,084</td>
<td>61,693</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>137,148</td>
<td>134,337</td>
<td>134,629</td>
<td>134,781</td>
<td>148,810</td>
<td>147,531</td>
<td>122,299</td>
<td>117,148</td>
<td>123,566</td>
<td>119,411</td>
<td>114,165</td>
<td>118,409</td>
<td>121,653</td>
</tr>
</tbody>
</table>

For sources, see previous table.
a. **Trends in Employment Levels during the Past Decade**

If the past is prologue to the future, interpretation of the data suggests, but does not conclusively prove, four major points:

1. Over the long term, demographic, social, technological and other forces may permit workforce reductions.

2. Over shorter periods, the size of the workforce seems to show a recurring pattern of rapid increase followed by gradual decline.

3. In part, the second pattern reflects actions that later prove to be unsustainable and undesirable.

4. Substantial reallocation of personnel among various functions and agencies has not occurred since 1975.

Reductions over the long term. Essentially, the data show that, over the long term, reductions in the workforce seem possible, because they have occurred. There are fewer people working for the City now than there were in FY 1970. There are fewer people working for the City now than there were in FY 1978, which some people argue was the final year of the fiscal crisis period.

Employment levels reflected in the City budget—i.e., those in mayoral agencies, the Board of Education and the City University of New York—shrunk by 16.8 percent between FY 1970 and FY 1982, declining from 235,184 positions in FY 1970 to 195,788 on April 30, 1982.

A significant part of this change reflects "loadshedding"—the transfer of CUNY senior college employees to State jurisdiction in FY 1978. If CUNY employees are excluded from both FY 1970 and FY 1982 totals (since it is not feasible to disaggregate senior and community colleges figures in the totals), the decrease becomes 12.6 percent, or 27,649 positions.

Similarly, from FYs 1978 to 1982, total City employees declined from 200,852 to 195,788, or 2.5 percent, and the comparable figures, excluding CUNY, declined 1.5 percent.

It can be asserted that this decline, particularly the portion that occurred before FY 1978, entailed severe service reductions that are, over a still longer term, unsustainable. And there is convincing evidence that, in real dollar per-capita terms, City expenditures have declined sharply since the early 1970s, which may support such an assertion.

---

2 Excluding court employees, who became State employees during the period.
Yet, it also seems clear that, within the total framework, reflecting all the choices that are made by government and the electorate—between tax levels and expenditure levels, between personnel levels and services, and between public and private disposal of resources—the size of the workforce has declined. There appears to be no iron law requiring a growing, or even stable, level of employment. 3

Cyclical pattern. Throughout the entire period, significant percentage increases and decreases in the size of the workforce occur annually. Excluding the CUNY employees, employment increased 5.6 percent between 1973 and 1974, dropped precipitously (annual average of 7.1 percent) during the 1975-1977 heart of the fiscal crisis, rose 8.1 percent between FYs 1977 and 1978, dropped 2.6 percent (annual average) from then to FY 1980, and rose 2.1 percent annually FYs 1980 to 1982. (While the percentage increases appear small, it should be recognized that, at the current time, each one percent change in the workforce involves approximately 2,000 employees and $70 million in annual public resources.) At least one important pattern appears to be reflected in some of these increases and decreases: the City workforce is increased quadrennially and reduced in the years thereafter. But it is not necessarily only these increases that may hamper a more long-term employment strategy. In addition, the reductions during difficult times appear to be unsustainable.

Unsustainable reductions. Apart from the reductions taken during the depths of the fiscal crisis, continued reductions in the levels of City employment4 have not been sustained for more than two years in succession. The workforce was increased in FY 1973 after two years of moderate reductions, in FY 1978 after three years of significant reductions and in FY 1981 after two years of moderate reductions. Although a variety of factors

3 It may be argued that population declines can account for much of this employment decline. In fact, the decrease in the workforce from 1970 to 1978 was only slightly greater than the decline in population during the same period. On the other hand, there was no population increase between 1960 and 1970, while City government employment grew rapidly. Leaving aside the question of whether the composition of the population is as important as is the size of the population in determining the need or demand for public services, it seems clear that there is nothing close to a one-to-one correspondence between the size of the population and the size of the workforce. It therefore seems that population changes are but one component of the "total framework," and that the above conclusion is still valid.

4 Excluding covered organizations, except the Board of Edu-

cation.
might well explain these increases, there may be some grounds for believing that the last increment of retrenchment taken just prior to the increases, given the then-existing political and social consensus about necessary and affordable service levels and given then-available management techniques, was too great. On the other hand, the reductions may have been perceived only as short-term adjustments (because of the way in which they were undertaken), and not necessarily needed on a long-term basis.

Insignificant reallocation of personnel. Excluding Board of Education employees, the fiscal crisis seems not to have resulted in a significant change in the allocation of City personnel resources. The shares of total mayoral agency personnel allocated to various agencies at the end of FYs 1975 and 1981 are presented in Table G-3 below:

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1975</td>
<td></td>
<td>1981</td>
</tr>
<tr>
<td>Police</td>
<td>24.2%</td>
<td></td>
<td>23.6%</td>
</tr>
<tr>
<td>Fire</td>
<td>9.5</td>
<td></td>
<td>10.5</td>
</tr>
<tr>
<td>Sanitation</td>
<td>9.7</td>
<td></td>
<td>9.8</td>
</tr>
<tr>
<td>Correction</td>
<td>3.0</td>
<td></td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Total—uniformed agencies</strong></td>
<td>46.3%</td>
<td></td>
<td>48.4%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>20.4%</td>
<td></td>
<td>19.2%</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>3.2</td>
<td></td>
<td>3.7</td>
</tr>
<tr>
<td>Housing Preservation &amp; Development</td>
<td>2.9</td>
<td></td>
<td>3.1</td>
</tr>
<tr>
<td>Transportation</td>
<td>3.7</td>
<td></td>
<td>4.7</td>
</tr>
<tr>
<td>General Services</td>
<td>2.4</td>
<td></td>
<td>2.4</td>
</tr>
<tr>
<td>Parks</td>
<td>3.2</td>
<td></td>
<td>3.8</td>
</tr>
<tr>
<td>Health</td>
<td>3.3</td>
<td></td>
<td>3.1</td>
</tr>
<tr>
<td>Other Mayoral</td>
<td>14.5</td>
<td></td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Total—civilian agencies</strong></td>
<td>53.7%</td>
<td></td>
<td>51.6%</td>
</tr>
</tbody>
</table>

5 Because of sharply declining general enrollment (offset in part by more teacher-intensive special education enrollment), including the Board's personnel allocations would distort this comparison.
APPENDIX H

Background Information about the New York State
Financial Control Board, the Review Process and the
Structure of the Financial Plan

1. Establishment of the Control Board

The New York State Emergency Financial Control Board (the "Control Board") was created by the State Legislature in September 1975 pursuant to the New York State Financial Emergency Act for the City of New York (the "Financial Emergency Act"). The act gave the Control Board certain powers of review and oversight with respect to the financial management of the City and the "covered organizations" for the duration of the "emergency period," as those terms were defined therein. The enactment of the Financial Emergency Act was one of several actions taken in response to the City's loss of market access in 1975 and to public recognition of the size of City short-term debt and operating deficits and the state of the City's accounting and financial control practices.

The Financial Emergency Act, among other things, required the City to prepare a financial plan for City FYs 1976 through 1978. The plan was to project revenues and expenditures for the City and the covered organizations and to be designed to bring the City's budget into balance in accordance with accounting principles permitted by State law by FY 1978. The City balanced its budget in FY 1978 in accordance with State law, revised its financial control systems and accounting practices as required by both State and Federal law, and either paid or exchanged all of its outstanding short-term debt for bonds of the Municipal Assistance Corporation for the City of New York ("MAC"). Nevertheless, at the end of FY 1978, the public credit markets remained closed to the City.

To induce many of the leaders to participate in the $4.5 billion long-term financing program for the City for FYs 1979-1982, the State Legislature extended the life of the Control

1 The term "covered organization" is defined by the Financial Emergency Act to include certain government agencies, public authorities and public benefit corporations which receive or may receive moneys directly, indirectly or contingently from the City, other than moneys received for the sale of goods, rendering or services or loan of moneys to the City.
Board in September 1978, and renamed it the New York State Financial Control Board. The 1978 amendments to the act linked the duration of the Board's control authority to three conditions: a GAAP-balanced budget for three successive years, no outstanding Federally guaranteed bonds, and access to public credit markets by the City or MAC. The last condition would be evidenced by sales in public credit markets during the previous and current years plus certification by the City and State comptrollers that there would be sufficient market access during the next year to meet substantially all of the City's long-term and short-term cash needs.

2. Composition of the Control Board

The Control Board consists of the Governor (Chairman), the State Comptroller, the Mayor, and the City Comptroller (collectively, the "public members") and three members who are appointed by the Governor, with the advice and consent of the State Senate, and who serve at the Governor's pleasure (the "private members"). Two of the private members must be residents of the City or have their principal place of business in the City. Various elected officials of the State and City are entitled to appoint nonvoting representatives to the Control Board (the "observers"). The Control Board acts by majority vote of the entire seven-member board, each of whom has one vote. Public members can authorize others to act on their behalf.

The Governor and the Mayor jointly appoint the Executive Director of the Control Board, who serves at the pleasure of the board and who directs a thirty-two person staff.

3. Powers and Duties of the Control Board Regarding the Financial Plan

During a control period (formerly the "emergency period"), the Control Board, among other things, approves a "rolling" four-year financial plan for the City and the covered organizations (the "Financial Plan"). The City is required by the Financial Emergency Act to prepare and submit a proposed Financial Plan to the Control Board prior to the beginning of each City fiscal year and may be required to submit modifications thereto on at least a quarterly basis. The proposed Financial Plan must be accompanied by the City's Executive Budget for the coming fiscal year, and a certification from the Mayor stating that the budget is consistent with the proposed Financial Plan and that operation within the budget is feasible. The Financial Plan must be in such form and contain such information for each fiscal year as the Control Board may specify. The Financial Plan and any subse-

---

2 Generally new Plans are submitted by May 12.
quent modifications must, among other things, be complete and comply with the following standards of the Act:

(a) The City's expense budget is to be prepared and balanced in accordance with GAAP in FY 1982 and in each fiscal year thereafter.

(b) The expense budgets of the covered organizations are to be balanced in accordance with GAAP in FY 1989 and in each fiscal year thereafter, and in each prior fiscal year there shall be substantial progress toward this goal;

(c) State limitations on outstanding short-term debt are to be observed;

(d) Provision is to be made for payment in full of the debt service on all obligations of the City and the covered organizations and for adequate funding of programs mandated by State or Federal law;

(e) All revenue and expenditure projections must be based on reasonable and appropriate assumptions and methods of estimation. All cash-flow projections must be based on reasonable and appropriate assumptions as to sources and uses of cash and shall provide for operations to be conducted within projected cash resources;

(f) Provision must be made for a City general reserve for each fiscal year to cover potential reductions in its projected revenues or increases in its projected expenditures. The reserve must not be less than $100 million at the beginning of any fiscal year;

(g) Beginning with FY 1983, the first fiscal year of any Financial Plan shall provide for repayment of any City deficit incurred during the preceding fiscal year;

(h) The City is to seek to achieve a stabilized City workforce, and to the extent a reduction in the workforce is required, primary recourse shall be to attrition to accomplish the reduction.

The Control Board is obligated to act upon each Financial Plan within 45 days of submission and each Financial Plan modification within 30 days of submission. The Control Board is obligated to approve Financial Plans or modifications that are complete and comply with the standards of the Financial Emergency Act. If a Financial Plan or modification is incomplete or fails to comply with the Financial Emergency Act, the Control Board shall disapprove it and may order any one or more of several remedial actions. The Control Board may, under certain circumstances, approve a modification that deviates from the require-
ment of a balanced budget if it is necessary to avoid a material adverse impact upon the delivery of essential City services.

If, for any reason, the City fails to submit a Financial Plan as required prior to the beginning of the fiscal year or if the Control Board has not, for any reason permitted under the Act, approved a Financial Plan submitted by the City prior to the beginning of a fiscal year, the Control Board must formulate and adopt a financial plan in conformance with the provisions of the Act to be effective until it approves a Financial Plan submitted by the City.

The budgets and operations of the City and the covered organizations must be in conformance and compliance with the Financial Plan in effect. The Control Board reviews the approved Financial Plan at least quarterly in consultation with the City and the covered organizations, and may require the City to submit a modification at such times. If the Control Board determines at any time that revenue and expenditure aggregates must be adjusted to ensure compliance with the Act, the City must at such time submit a Financial Plan modification; should the City fail to provide an acceptable modification, the Board may formulate and adopt such modifications as it deems appropriate. The City may also submit modifications for consideration as it deems necessary.

In order to assure compliance with the Financial Plan in effect, the Board may, among other things, issue such orders as it deems necessary to accomplish such purpose to the appropriate officials of the City and the covered organizations, and adopt procedures controlling the disbursement of certain revenues of the City and the covered organizations. Any officer or employee of the City or any of the covered organizations who knowingly and willfully violates a valid order of the Control Board, authorizes an obligation in excess of the amount available therefor under the Financial Plan then in effect, or violates certain other provisions of the Act, is subject to administrative discipline and, upon conviction, is guilty of a misdemeanor.

4. Structure of the Financial Plan

The Financial Emergency Act provides that the Financial Plan shall be in such form and shall contain such information for each year of the Plan period as the Control Board may specify, and shall include projections of all revenues, expenditures and cash flows, including capital expenditures and debt issuances, and a schedule of capital commitments and expenditures of the City and, except where the Control Board deems appropriate, each of the covered organizations, in such detail as the Control Board may prescribe.

The Financial Emergency Act requires that a Financial Plan deal with the finances of both the City and its covered organiza-
tions. Therefore, Financial Plans generally have been divided into "sections," with at least one section dealing with the City proper and others with the covered organizations.  

The Financial Plan generally covers four City fiscal years (the City fiscal year runs from July 1 to June 30). The several Financial Plan sections generally include projections of revenues, expenditures, cash flow and debt issuances. The City section also includes projections of capital commitments and expenditures and such projections are being developed for the section relating to the New York City Transit Authority. The projections are presented in terms of "current dollars," which reflect anticipated price changes, rather than in "constant dollars," which do not reflect inflation.

Revenue and expenditure projections are generally presented as "baseline" projections. They are essentially extrapolations of initial-year projections and reflect the requirements of current statutes and related administrative interpretations. In many cases, projected expenditures exceed projected revenues, and the resultant projected deficit, or "gap," is then projected to be closed through various programs. Financial Plans for any particular year are considered to be "in balance" if revenues either equal or exceed expenditures or if the "gap" is projected to be closed by reasonable and appropriate actions.

The structure of the Financial Plan also reflects the fact that multiyear financial planning presents many difficulties to both the formulators of such plans and to those who must review them. Such plans must reflect consideration of an extraordinary number of quantifiable and unquantifiable factors, subject to varying degrees of control and influence by the City. Other factors also contribute to the complexity of the process:

(a) The cumulative volatility of the Plan's various components. Minor changes in estimates of revenues and

---

3 The City section of the Financial Plan reflects the financial plans of the covered organizations in several different ways. For example, the finances of the Board of Education (defined by the Financial Emergency Act as a covered organization) are wholly subsumed within the City section of the Plan. City contributions to certain covered organizations (for example, to the New York City Health and Hospitals Corporation and the New York City Transit Authority) appear as operating or capital expenditures in the City section and as revenues in the respective covered organization financial plans. For various reasons, these amounts are not always identical. A portion of the finances of the City University of New York, which reflect the Community Colleges and the City's prefunding of the wholly State cost of the Senior Colleges, are included in the City section.
expenditures, as low as one percent each, can produce an additional $1 billion of resources or gaps over the period of the Plan;

(b) The City's heavy dependence upon the activities of other levels of government;

(c) The need to address a diverse audience with various perspectives and interests in the condition of City finances.

Moreover, this financial planning process, like most financial planning, relies to a large degree upon the extrapolation of trends and developments from the immediate past. It may therefore be insufficiently attuned to possible discontinuities between prior experience and future developments, and may not adequately predict important turning points. Thus, the ability to modify the Financial Plan is an important element of the financial planning process.
Ms. Alair A. Townsend, Director
Office of Management and Budget
Municipal Building
New York, N.Y. 10007

Re: New York City Budget-Fiscal 1983

June 17, 1982

Dear Ms. Townsend:

The budget for Fiscal 1983 appears to be the most difficult for the City since its movement out of the crisis stage about four years ago.

Federal cuts have become real, state support at increased levels in certain sectors have yet to be funded and the fiscal impact of labor settlements are not fully quantified.

We would want to review the adopted budget and financial plan with the expectation that costs are being adequately recognized and that the revenue side estimates are realistic and leave little in the way of assumptions that still must be provided for by other levels of government.

While the "BBB" rating, which we assigned in March 1981, anticipated recurrent stress in the budget balancing process nevertheless, Fiscal Year 1983 represents a strain not present in earlier years.

Standard & Poor's will be in touch with your office for the purpose of scheduling a meeting to review the above-indicated subjects.

Very truly yours,

HG/mjo
cc: Hon. Harrison J. Goldin, City Comptroller
MEMORANDUM

To : Agency Heads

From : Mayor Edward I. Koch

Subject: Spending Discipline in 1983

As you know, several factors have coalesced to produce a very tight budget for 1983: Federal budget cuts, a shortfall in anticipated State aid, a nationwide recession induced in large part by Federal monetary policy, and our modest service enhancements in 1982 and 1983. The net effect of these factors, when coupled with the uncertainty surrounding collective bargaining, is that there is absolutely no budget room for agency overspending, regardless of the reasons.

I expect you to manage your agency's funds in the most prudent, conservative fashion. I am particularly concerned about overtime and other than personal service expenditures, and expect that in these areas you will view your budgeted levels as the outer limits. If you believe that unanticipated factors may cause you to exceed these limits, approval must be sought in advance to substitute reductions in other areas.

I know I will have your full cooperation in managing our resources to deliver services in the most efficient and effective manner.
Today, the Financial Control Board is approving New York City's third consecutive balanced budget. Because labor negotiations have not yet been concluded, today's action ratifies a one-year interim plan. I will submit a full four-year plan after a labor settlement is reached.

Today's action, however, represents a significant achievement and another important milestone in the city's recovery. I want to acknowledge the constructive role of the Financial Control Board and its staff. Now, at the end of the first four-year plan, we can reflect on the tremendous progress we have made together.

As the city faced its 1983 budget, it no longer looked on a situation unique to New York. Instead, like the rest of urban America, it had to contend with a nationwide recession, dramatic reductions in federal aid, the loss of revenues because of federal tax actions, higher interest costs, and limited state capacity to make up the difference.

I believe that today's plan does contend with these problems and does so in a way that is at once fiscally prudent, mindful of the need to preserve and rebuild essential services, and conscious of government's special obligation to those in greatest need of help.

When we put together the 1983 financial plan in January, we faced more than the usual number of uncertainties. In the intervening six months, we have accomplished basically all we set out to achieve:

- the expansion of an ambitious management and productivity program to achieve savings without impairing services;

(more)
the institution of local revenue measures such as accelerated real estate taxes, and fees for water and sewer use which more nearly reflect the cost of delivering those services;

- the passage of a local tax program, which will yield $171 million in revenues in 1983;

- the acquisition of more than $200 million in additional state aid including, at last, budget relief related to Medicaid;

- and added resources for essential city services, particularly police and education.

Approval of this one-year plan today does not mean that all uncertainties have disappeared. I recognize that we must look to the city's municipal unions to show restraint in collective bargaining. I recognize that action on the federal budget has not been concluded, and that further damage could be done to the city -- although it now appears that this damage will be contained. In short, I recognize that continued restraint and hard work, along with an improved national economy and a constructive state-local partnership, are all required for New York City and other New York State cities and counties to prevail in these difficult times.

I have always said that I will do whatever is required to achieve a balanced budget and fiscal stability for New York City. The actions of the last six months demonstrate not only my commitment to that end, but also the commitment of the City Council, the Board of Estimate, the State Legislature, and the Governor. And I am confident this commitment -- on all our parts -- will continue to be there in the future.

As we look to the future, at least in the short term, we regrettably cannot rely on the federal government to do anything close to its fair share. This will mean continued (more)
self-reliance. It will also have to mean an even greater role for the state. I recognize that the state also faces budget problems, but it can provide relief to hard-pressed localities without abandoning fiscal prudence. For New York City and other localities to be able to deliver adequate services and to plan responsibly for the future, we must count on the state.

We must count on the state to examine its costly mandates on localities, and either relax them in areas where no program damage would result, or provide a greater share of the dollars they require, particularly in the area of Medicaid. Governor Carey has started the state on this course; it cannot be abandoned.

We must also count on the state to increasingly target scarce resources according to need. The issues raised in the Levittown case will not go away. Fair distribution of state aid to education must be addressed.

Much of our budget -- including public assistance, Medicaid, pensions, debt service, and judgments and claims -- is essentially fixed in the short term. The remainder is comprised largely of essential services -- such as police, fire, sanitation, corrections, transit and education -- which can be increased or decreased at the margin, but which must be maintained at some basic minimum if the city is to survive. New Yorkers know that these services affect the quality of our lives, but we also know that we can only provide what we can afford. One of the key factors in assessing what we can afford is the fairness of state aid distribution and the impact of state mandates.

In the next several months the Financial Control Board will have before it the city's revised four-year plan. This plan will be balanced in 1983 and will provide a blueprint for balance throughout the four-year period. We must assure that our fiscal partners will continue to do their part; but even if they don't, we are prepared to do whatever has to be done.

##
Memorandum from:
Alair A. Townsend
Director

To: Mayor Koch

Ed. Nat indicated
you wanted to see another
copy of the gap-closing
program for 1982 that
was submitted to the
FCB after the 1980
collective bargaining.
It is attached, along
with my notations.

Alain

cc: Not Lessenthal
### 1982-1984 GAP CLOSING PROGRAM

($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>1982</th>
<th>1983</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gap To Be Closed</strong></td>
<td>$(733)</td>
<td>$(1,259)</td>
<td>$(1,312)</td>
</tr>
<tr>
<td><strong>Gap Closing Actions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>City Actions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure Reductions—We'll do at least</td>
<td>133</td>
<td>258</td>
<td>383</td>
</tr>
<tr>
<td>Revenue Enhancements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTB—State Legislature didn't move</td>
<td>65</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Water and Sewer Revenues—done for '83</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Real Estate accelerated payment—done for '83</td>
<td>32</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>PVB/ECB fine collections—have pushed here</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>CUNY Tuition—done for '83</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Tax Reduction Program—have deferred this</td>
<td>(20)</td>
<td>(20)</td>
<td>(20)</td>
</tr>
<tr>
<td>General Reserve—Can't do now</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Debt Service Savings—$75 million for '83/'84</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Reserve for service enhancements, tax reductions and other contingencies</td>
<td>(122)</td>
<td>(122)</td>
<td>(338)</td>
</tr>
<tr>
<td><strong>Total City Actions</strong></td>
<td>397</td>
<td>410</td>
<td>319</td>
</tr>
<tr>
<td><strong>State Actions</strong>—We have about $283</td>
<td>136</td>
<td>209</td>
<td>283</td>
</tr>
<tr>
<td>Federal Actions (Medicaid reform) impossible</td>
<td>200</td>
<td>640</td>
<td>710</td>
</tr>
<tr>
<td><strong>Total Gap Closing Actions</strong></td>
<td>$733</td>
<td>$1,259</td>
<td>$1,312</td>
</tr>
<tr>
<td><strong>Contingency Program</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure Reductions</td>
<td>$50</td>
<td>$150</td>
<td>$150</td>
</tr>
<tr>
<td>Tax Increases</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>State Aid</td>
<td>-</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$200</td>
<td>$500</td>
<td>$500</td>
</tr>
</tbody>
</table>
MEMORANDUM

To: Hon. Edward I. Koch
    Mayor

From: Alair A. Townsend

Subject: Economic Conditions/Personnel Freeze

Recent economic news and projections have led me to the conclusion that our revenue estimates for FY's 1983 and 1984 will not hold. The major relevant data include the following:

1. After four months of increase in the national leading economic indicators, 6 of the 10 indicators released yesterday are down. The recovery which was anticipated in the Financial Plan projections for the national economy is delayed for at least one quarter. The recession has continued since mid-1981 and little tangible evidence of the beginning of a recovery is discernible. Clearly, the failure of the national economy to turn around has serious implications for the New York City economy and our tax revenues.

2. The performance of our local economy since July has been affected by the national recession. Unemployment in August reached 10.5 percent. Employment by place of residence is below our projections -- and below last year's level. Retail sales, which account for 60 percent of our sales tax, have also been running below expectations. Data received this week on the level of July sales, while showing some improvement, confirm that our anticipated levels are not being achieved.

3. Based on year-to-date experience and new national forecasts using the Wharton model, the OMB economic unit has just revised downward its forecasts for both the national and local economies. These revisions also affect revenues. The new economic projections were discussed on September 29 with our advisory panel of private economists. Based on this discussion we are fine-tuning the economic and revenue forecasts. There was no disagreement, however, that the downward adjustments are appropriate as a result of current conditions.
4. Early information indicates that the September collections of personal income tax quarterly estimate payments are below plan.

These events, combined with funding considerations related to the labor settlement, lead me to propose that you institute an immediate hiring freeze, with provision for exceptional cases, to preserve your options as you prepare a four-year financial plan along with any necessary and appropriate budget modifications for FY 1983.

AT: cb
I am today instituting a hiring freeze on all Mayoral agencies. At the same time, I am releasing a memorandum given to me by Alair A. Townsend, the city's Budget Director, indicating that as a result of the national recession and its effects on local economies, tax revenues in fiscal years 1983 and 1984 will not be as high as we had originally projected. These new projections, added to the need to fund our recent labor settlement, make it imperative that a hiring freeze be imposed, just as we did two years ago, to give us time to examine options to deal with these fiscal problems and to take appropriate action. That hiring freeze is being imposed effective at close of business today.

Annexed to this statement is my memorandum to all agency heads setting forth the extent of the freeze and exceptions permissible thereunder, as well as the Budget Director's memorandum referred to above.

We are asking all covered agencies and other public officials to apply similar measures.

###
October 4, 1982

TO: Agency Heads
FROM: Edward I. Koch
Mayor
SUBJECT: Hiring Freeze

Effective immediately, I am temporarily suspending the post-audit policy concerning the review of personnel actions and instituting a hiring freeze on Mayoral agencies. This temporary measure is made necessary as we review local tax revenues in light of the deepening nationwide recession and its effects on the City's economy, and analyze expenditures to determine reductions required to fund the recent labor agreement and to offset potential revenue shortfalls.

Until the necessary reductions are determined, all post-audit privileges are suspended and a hiring freeze will be in effect. Exceptions to this freeze will be considered only for revenue-generating and cost-avoiding positions, legally mandated positions, bona fide hiring commitments that have been made prior to this announcement, and truly extraordinary needs which cannot reasonably be delayed. However, requests for these exceptions must be submitted to the Office of the Mayor, the Office of Management and Budget and the Department of Personnel through the pre-audit Planned Action Report System, and must state compelling justification based on these criteria.

Attached is a memorandum from Alair A. Townsend, Budget Director, which provides additional information about the hiring freeze and exceptions to it.

I appreciate your cooperation at this critical time.
October 4, 1982

TO:    Agency Heads
FROM:  Alair A. Townsend
        Budget Director
SUBJECT: Procedures to be Followed During the Hiring Freeze

As a result of the continuing deterioration of the economy and the recent collective bargaining agreement between the City and its non-uniformed employees, the City must institute expenditure reductions. While the necessary reductions are being developed and reviewed, a temporary hiring freeze has been imposed by the Mayor effective close of business, October 4.

Exceptions to this hiring freeze will be considered only for: (a) revenue-generating and cost-avoiding positions, (b) legally mandated positions, (c) replacement of dismissed employees pursuant to Executive Order #33, (d) hiring commitments that have been made prior to the imposition of this hiring freeze and (e) positions for which there is a truly extraordinary programmatic need and which cannot responsibly be delayed. All requests for exceptions must be submitted on Planned Action Reports (PARs) to the Office of the Mayor, the Office of Management and Budget and the Department of Personnel and will be considered through the pre-audit system. Sufficient explanation and justification must be provided. Only those requests for exceptions which establish a clear and compelling justification under the criteria described above will be entertained. Requests for October must be submitted by Friday, October 8.

All future requests for exemptions after October must be submitted in accordance with the attached pre-audit timetable.

All personnel actions including non-City funded hires, promotions and merit increases, as well as actions concerning part-time and seasonal positions are subject to this freeze.
October 4, 1982

TO: Agency Heads
FROM: Edward I. Koch
      Mayor
SUBJECT: Hiring Freeze

Effective immediately, I am temporarily suspending the post-audit policy concerning the review of personnel actions and instituting a hiring freeze on Mayoral agencies. This temporary measure is made necessary as we review local tax revenues in light of the deepening nationwide recession and its effects on the City's economy, and analyze expenditures to determine reductions required to fund the recent labor agreement and to offset potential revenue shortfalls.

Until the necessary reductions are determined, all post-audit privileges are suspended and a hiring freeze will be in effect. Exceptions to this freeze will be considered only for revenue-generating and cost-avoiding positions, legally mandated positions, bona fide hiring commitments that have been made prior to this announcement, and truly extraordinary needs which cannot reasonably be delayed. However, requests for these exceptions must be submitted to the Office of the Mayor, the Office of Management and Budget and the Department of Personnel through the pre-audit Planned Action Report System, and must state compelling justification based on these criteria.

Attached is a memorandum from Alair A. Townsend, Budget Director, which provides additional information about the hiring freeze and exceptions to it.

I appreciate your cooperation at this critical time.

[Signature]
Nat--

I'm enclosing three "sample" agency revenue proposals--DOT, DEP, Sanit. This is just to illustrate that Alair's approach, an "all cuts" PEG (except HHC and HRA), is not just an academic issue. There are real revenue prospects out there. If we are just sitting on them through November 'cause we don't think the FCB will believe them, well that's a strategic question and not for me to decide.

But, if we intend to keep the freeze on and force deep cuts on the agencies when our Commissioners know that there's real revenue not being taken (or counted), then we're going to lose a whole lot of credibility with our own guys. We have never done things like this before. (when we hid revenue it was general tax revenue, not agency programs.) Don't get me wrong--cuts are obviously needed, but why are we artificially inflating the problem? So it feels better later (when we stop hitting ourselves in the head with a hammer)? Am I missing something?

P.S. I hope the discussion in the EIK meeting was what you wanted--I sure felt minimally prepared.
MEMORANDUM

November 1, 1982

TO: Nat Leventhal
FROM: Brendan Sexton
RE: PEG

1. To get the basics out of the way:

- Considering this is pre formal agency negotiations most of the ideas are sound. But, it's in the agency/Ops/OMb sessions that seemingly sound ideas get sometimes blown away.

- I'm not dealing here with obvious items like how many cops do we need.

- '83 stuff is much lighter-duty than '84 (where we're still short many millions). This means we can do '83, announce '84, and hope like hell things get better.

- Almost no revenue items are in Alair's package. I have no idea why. They could help lessen some of the more obnoxious cuts. She must be hoping that your approval of a tough, cuts-only PEG will force agencies to come up with bigger, better revenue and productivity items. Not a bad strategy, but it means this package is a bit premature.

- Alair's memo is too pollyanna-ish. There will be layoffs, '83 (a few) and '84 (more). I see some in DOH, DOE, Education. Maybe others.

2. Issues -- In the order of Alair's memo:

a. Police - Other than officer hiring issues:

- OMB promised PD $3 million in use of accruals for OT. Now they're taking it back by increasing the PEG by $3 mil.
- PEG moves 500 civilianization hires to '84. I don't believe we can hire civils while reducing PO's. Maybe while holding constant.

b. Sanitation

- Based on both full uniformed attrition over two years, and 2-man truck. If union insists on retaining some "excess" manpower from 2-man, we can't have our cake and eat it.

- June 1984 Clean Team goes down to 142 with the full implementation of 2-man expansion -- unacceptable. Have to put back either some FY '83 hires, or $2-3 million in OT for spring Clean Team.

- Can 2-man expansion be accelerated (once begun, that is) to get back to original '83 targets? Depends on attrition rates. I don't know how these are going.

- Sanitation has the third largest PEG cuts -- after PD and Education (HHC is bigger in '84, but some is revenue). This means all recent productivity improvements going for gap -- none for service. And, last year's, too, as Clean Team erodes late into '84.

- Sunday and holiday sweeping are eliminated (not just "basket collections" as in Alair's memo).

- Eliminates all civilian vacancies. I'll bet this can't be done - MIS, resource recovery, bottle bill will need some hiring above current levels. What about civilian enforcement agents? Not mentioned anywhere.

c. Fire

- Elimination of 3 battalions, 1 division. Nothing wrong conceptually, but does mean demotions (not layoffs) of a few. And, some reduced supervisory fire-response capability.

- Proposes 50 civilian reduction from current levels. I'd much rather see full-duty administrative fire-fighters reduced and leave civilians alone -- much cheaper for us.
d. DOT

- If we reduce pot-hole filling does it cost us in increased claims? Answer might be "who knows"?, but has to be thought through before adopting this PEG -- a 12% cut -- very stiff.

e. DEP

- Same claims question arises with reduction in response to sewer and water mainbreak complaint response. The latter is a sharp reduction -- no night response on weekend, for example. Also reduces water supply system security. I don't know this area well, but I worry about Newark's experience.

f. Education

- Chapter I funds -- $21 million -- needs State approval, is for particular uses. I don't believe it'll work as a gap-closer. Technical issue, I could be wrong.

- Assumes $40 million in State aid. Who knows? OMB does not, I know that. So, OME inserted references to a needed "contingency plan." This is an '83 issue. What contingency plan? If the only purpose here is to get us past PCEB next month, then maybe. Otherwise, this one would hurt.

- Then, OMB recognizes only $10 million of Board's claim of $20 million in special ed new needs.

- All the above adds up to this year's "baseline" battle.

- As to the PEG's proper, they require $10 million (83) and $20 million plus $19.8 million in '84, on top of the recent, enormous PEG in the year we gave everybody else money back. This means layoffs, I believe. Just the baseline dispute could mean layoffs (in my unqualified opinion) depending on who's right. (Our batting average is only fair on being right in these disputes.)

g. Correction

- Eliminate local bus subsidy. Ben sees this as a racial issue -- saves $60K in '83. Needs his input.
- Civilians held constant -- needs more analysis, could be counter-productive.

- OMB is conceding it must hire to meet population.

h. DSS/HRA

- Cuts in services to seniors -- no center closings. Needs more detail -- none provided -- 5% reduction.

- DOE cuts would mean layoffs I think -- given the Fed cuts, they can only absorb so much. I could be wrong.

- Eliminates Court Employment Project -- Monte is counting on an increase, not cut, for population reduction for Rikers.

i. HHC

- Only really hot item is delaying EMS improvements -- this would be second year in a row. We are at about 11.5 minutes response. National standard is 10.4 minutes. Plan was to go to around 8 minutes. Maybe we can fund part -- enough to reach 10.4 minutes.

j. Parks

- Deep cuts are listed (90% freeze '83, 70% in '84) but all unspecified. Needs a lot more detail and some analysis. Not even any bureaus/programs named.

k. DGS

- Includes eliminating Office of Fleet Administration. News to me. (Also, a small layoff issue, as these people are a bit specialized.)

l. Libraries

- An old story, but these cuts will mean fewer hours of service -- 11 to 15 percent fewer.

m. Health

- HIP center evaluation elimination. Bruce has to say okay (DOH reviews HIP centers giving care to City employees).
- 5 Health Center consolidations in '84 (no '83 issue) -- 250 FT positions. If they can do this with no layoffs, I'd be surprised. Also, if they can do this at all.

- Also lists 18 unspecified "efficiency" layoffs in headquarters -- '83 and '84.

Sorry this is so long. In this short time, I had no chance to resolve and maybe delete some items. However, further discussion may add some issues, too.

c: Peter Madonia
November 13, 1982

MEMORANDUM

To : Edward I. Koch
From : Alair Townsend
Subject: FY 1983-84 Revenue Estimates

The volatility of economic assumptions and revenue estimates over the last several months has prompted me to clarify, through this memorandum, the factors that have led us to lower our estimates for 1983-84 tax collections. These estimates, compared to the adopted budget, are as follows:

(in millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>1983</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>tax revenue</td>
<td>-100</td>
<td>-105</td>
</tr>
<tr>
<td>interest income</td>
<td>-40</td>
<td>-48</td>
</tr>
</tbody>
</table>

If these estimates hold, and collections do not improve or deteriorate, our initial estimating variance will have been only slightly more than 1% each year -- low by any standard. Regrettably, the variance is in the negative direction, representing a change from recent years when estimates rose throughout the year as initial forecasts proved too pessimistic. And, of course, 1% on our large revenue base represents a troublesome amount in terms of the compensatory measures required. I want to assure you that OMB will continue its practice of approaching revenue estimating with prudent conservatism.

Our local economic and revenue forecasts are products of three major sources of information: forecasts of the national economy, largely using the Wharton service but also cross-checking with data from the other two major services; actual data on recent national and local economic performances; and trends in local tax collections. I have been monitoring each of these sources much more closely and regularly than under less volatile economic conditions. We are constantly on the alert for trouble signs and signals of new trends. Given the large month-to-month fluctuations, there is a danger of overreacting. There is also an unavoidable delay, as you will see, in when we and other interested parties receive solid data on actual tax collections and economic performance.
As we were constructing the FY 1983 PEG at this time last year and the Executive Budget last spring, it was clear that the nationwide recession was taking hold in the City, and that the rate of growth in tax revenues would be dramatically lower than in 1980-82. Indeed, the Budget Message in May indicated that without the $171 million tax package, growth would have been only 3.5 percent in 1983, compared to 8.6 in 1980, and 10.8 in 1981, and 7.2 in 1982. Thus, our estimates in the adopted budget reflected the poor economic situation as we saw it.

What follows is the schedule of pertinent events that have transpired since the time of the adopted budget.

- **June 30**: FCB issued staff report indicating potential for tax revenue growth of $35 million in 1983 and $10 million (exclusive of property tax) in 1984 compared to City estimates.

- **July 12**: Received news that June sales tax receipts were below expectations by $18 million. (The only reliable sales tax collection data are the quarterly -- such as June -- distributions. The State estimates the taxes we are owed the first two months of the quarter and pays us each month. About 12 days after the close of the third month, the State reconciles actual taxes vs. estimated, and remits to us the difference. In the last three quarters, the third-month reconciliations have been below our plan expectations).

- **End of July - August 12**: Tax collections for July become known. They ran according to plan, with sales tax and general corporation tax somewhat above the seasonal pattern.

- **August 23**: Comptroller Goldin issued press release on July collections indicating that "Although it is premature to make projections based upon one month's experience, July's tax collections are encouraging." (See Attachment A)

- **End of August-Sept. 12**: Tax collections for August became known. They ran according to plan, with sales tax and general corporation tax again somewhat above the seasonal pattern.

- **Sept. 9**: Civilian labor settlement reached.

- **Sept. 10**: Wharton update of national economic projections received, indicating a deeper, longer recession. Wharton's September forecast reduced virtually all major economic indicators for the remaining months of 1982 and for all of 1983. A significant exception was corporate profits, which was raised slightly. The week-long process of updating City's economic and revenue forecasts began.
Sept. 17: Comptroller Goldin issued report on July-August tax collections, saying "The first two months' tax collections are encouraging, but it is far too early in the fiscal year to make full-year projections. In particular, we need additional experience this year with collections from the sales tax." (See Attachment B).

Sept. 29: The City's advisory panel of economists met to discuss OMB's revised revenue forecasts, down $56 million in 1983, and $77 million in 1984.

Sept. 30: Index of leading national economic indicators for August was released by the Federal government, and showed a sharp drop in most indicators.

Oct. 1: I sent you a memorandum urging imposition of a hiring freeze because of concern about revenue estimates based on the Wharton forecast, revenue collections, and national and local economic conditions. (See Attachment C). Received word that September personal income tax collections were off $13 million and that sales and financial tax collections appeared to be off although important details were not yet known. However, general corporation tax was above plan.

Oct. 4: Freeze announced and imposed.

Oct. 8: Received word that September sales tax was off $13 million. The financial tax shortfall, $26 million, was mainly due to lower than expected final adjustments on 1981 bank activity. General corporation taxes were above plan.

Oct. 15: Comptroller Goldin issued press release on July-September collections, indicating that results to date were "well below the rate of increase anticipated for the entire year and the growth rate in the first quarter last year." (See Attachment D)

First week in Oct.: Wharton October forecast received. This forecast reduced further most economic indicators. Wharton also lowered its interest rate projections, recognizing the dramatic decline in market rates that started in early September.

First week in Nov.: November Wharton update received. This forecast moved the recovery back another quarter, to the second quarter of 1983 -- nine months later than in the forecast used for the original FY 1983 budget. Still more reductions were made in the major economic indicators. Based on collections to date and new
forecast, non-property tax collections were revised downward by $110 million in 1983 and $115 million in 1984.

Nov. 5: Received news that October collections for general corporation tax were $11 million off because of lower quarterly estimate payment on current-year profits.

Att.
December 15, 1982

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

Dear Mr. Mayor:

As of this moment, we have not received a submission of any of the collective bargaining agreements between the City and the various coalitions of labor unions.

It is my understanding that certain issues remain unresolved in some, or all of these agreements. While I am advised that these issues are limited to the manner in which the settlement is reduced to writing, I understand that the City is not in a position, at this time, to advise the Control Board when these issues will be resolved or when the agreements will be submitted for approval. Accordingly, it does not appear that it will be possible to take action with respect to any of the labor agreements at the Control Board meeting on December 21. We will, of course, be prepared to act promptly upon the agreements once they are submitted.

As you recall, one of the criteria we set forth in our July Staff Report on the Interim Financial Plan was that the costs of actual 1982 labor settlements should be incorporated in the expenditure baselines, if approval of a four-year Financial Plan was sought.

While we anticipated that this criterion would be met by submission of the agreements for review and approval, it appears possible that we could still act upon the Proposed Plan in the absence of formal submission of the labor agreements if the City is prepared to provide promptly the following information:
1. We must have a draft text for all agreements that the City has: the CEA, the UCEA, the two deferral agreements.

2. With respect to the civilian coalition negotiations, the Uniform Coalition Economic Agreement, and the uniformed superior officers negotiations, we must have a letter from the City detailing each outstanding item, the City position on that item, the union position on that item, an analysis of the cost impact of each position and some sort of assurance that the City is making a diligent effort to resolve each item as quickly as possible.

3. We must have a detailed written list of all units not presently covered by the various coalitions, including number of employees, and a statement about the current status of bargaining for each unit.

4. We must have a clear and specific indication from the City that it is convinced that it does have a labor settlement with the civilians and the uniform rank and file, including a settlement on deferral repayments, subject only to the need to reflect that agreement in contractual language.

With this information, I believe we can justify a conclusion that the settlement cost projections in the Proposed Plan are reasonable, although we will have to quantify certain risks for the open items and for bargaining for other units still in progress, and we will have to point to significant uncertainties. This information will be kept confidential under the provisions of the Freedom of Information Law.

I trust that you will undertake to provide this information immediately, so that we can remain on course for approval of the Proposed Plan.

Very truly yours,

[Signature]

cc: Nathan Leventhal
    Bruce C. McIver
    Alair A. Townsend
Conditions for Approval of OMB Proposal:

1. Agreement of members of Control Board.

2. Prior to December 21, Mayor to announce 18-month 75-80% Citywide hiring freeze effective January 1, 1983. If freeze lifted, new Plan modification must be submitted simultaneously therewith.

3. City to prepare 18-month (1/1/83 to 6/30/84) monthly headcount plan, by agency, including covered organizations. Twenty (20) days after close of month, if an agency exceeds planned headcount by more than 2%, explanation of reasons therefore to be submitted by City along with description of what alternatives will be used to achieve original levels of savings.

4. City to prepare on February 1, and semiannually through FY 1984, statement on service impact, total and by agency including covered organizations, of the personnel reductions or other savings so that the Control Board may evaluate their effect upon the economic and therefore the revenue base of the City.

5. City to prepare by February 1, four-year productivity improvement plan setting forth specific measures, time tables and targets by agency.
6. By February 1, City to prepare report on which work rules changes it will seek to achieve productivity-work-rules PEG goal, as well as its program for civil service reform.

7. Board to adopt new resolution on bringing budget into conformance and compliance with Plan: "All appropriate City and covered organization officials shall forthwith take all necessary steps to ensure that the City Budget shall not, in aggregate, authorize expenditures in excess of the aggregate level of expenditures in the Financial Plan in effect. No City official shall prepare, approve or execute any modification to such budget (including modifications related to intergovernmental categorical grants) if such modification would authorize, together with all other expenditures authorized by the budget then in effect, expenditures in excess of the aggregate level of expenditures authorized by the Financial Plan then in effect."

FINANCIAL CONTROL BOARD STAFF

Comer S. Coppie
Executive Director
December 20, 1982

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

Dear Mr. Mayor:

The enclosed is a copy of the staff report and accompanying press release.

I want to take this opportunity to thank you for your commitment and cooperation as we look toward the meeting tomorrow and the recommended action to approve the four-year plan for New York City and its Covered Organizations. The actions which have been called for this time are difficult, I realize that. I do want you to know however, that your presentation Saturday was well prepared and received, as difficult as its implementation will be.

The staff of the City has been particularly helpful and responsive. I want to commend Alair Townsend and the Office of Management & Budget. As always she and her office have been extraordinarily helpful in making this process work successfully.

Sincerely,

C. Egan
For Release:
Wednesday, Dec. 22, 1982

STATEMENT BY MAYOR EDWARD I. KOCH

Today I am submitting a revised financial plan, a plan that is significantly different from the one I submitted November 17.

At that time I proposed a reduction, generally through attrition, of 5,000 positions in our workforce, as compared to the adopted budget. Today's plan calls for the reduction of an additional 9,400 positions and will mean approximately 6,600 layoffs by the end of this fiscal year.

It also calls for additional taxes. We had proposed additional taxes of some $200 million in the November plan; this revised plan calls for another $100 million in new taxes, for a total tax program of $300 million.

This is a tough program -- tough for city workers, for city residents, and for those who will be asked to carry an additional tax burden.

City employees, who carried a heavy load during the financial crisis in 1975 and whose wages have since lagged behind inflation, face layoffs.

Businesses, which already bear a heavy tax burden, will be asked to shoulder more.

And the city's residents will have to endure reduced services. There will be fewer police than we had hoped for; streets will be dirtier, potholes filled less often; park maintenance will decline; libraries will be open even fewer hours.

I want to stress that this program of cuts and tax increases can be changed, can be made less onerous if there are changes in Washington and if there is action -- the right kind of action -- in Albany. The state must deal with its budget problems, and it must deal with those problems in a way that does not simply shift them to local governments. It cannot abandon Medicaid relief to local governments. It (more)
cannot reduce aid and continue mandates. Even though this plan reduces expected state aid by $300 million, I remain committed to do all I can to obtain this aid. I will fight for it and fight hard, because we not only need it, we also deserve it.

Over the next several months I hope the state will take decisive action that will allow a restoration of services and a reduction in tax increases for New York City. We will do what we have to do to keep our budget in balance, but with responsible leadership in Albany the worst of the pain can be avoided.

Since the conclusion of our labor negotiations, I have met with the city's union leaders and explained our worsening fiscal situation. They have agreed to immediately sit down with us to identify $50 million in work rule savings. More important, they have agreed that if revenues fall even further, if the state does not deliver the aid we expected, or if our tax package is not enacted, they will in a spirit of cooperation and mutual interest come back together with the city to help solve our fiscal problems. As I said on November 17, I am relying on these assurances.

Two phrases have entered the political vocabulary in recent years: "recurring budget balance" and "structural reform." The need for both is compelling, but neither can be achieved by New York City alone. Given the mandates this city faces, given the share of Medicaid and welfare we have to bear, given the unfair nature of the state education aid formula, achieving recurring budget balance through structural reform will require changing the fiscal relationship between Washington, Albany, and local governments, including New York City. I have stressed this issue in the past, and I will not let up now, even in the present hostile economic climate.

I am still convinced the present crisis is temporary -- as long as concern for the future is not sacrificed to short-term solutions, as long as the state and federal
governments begin to recognize their responsibilities, as long as the spirit that brought us through the ordeal of 1975 remains alive.

Today New York City is not alone. Our problems are shared by local governments everywhere, because of a nationwide recession, which is beyond our control. But these problems, however widespread, are not insoluble, especially if all the parties involved shoulder their part of the necessary burden.

I want to make one last point, one that has to do with my former colleague in Congress and my friend, Hugh Carey. This is his last meeting as Chairman of the Financial Control Board. He has been an extraordinary friend of New York City. He has been an extraordinary Governor of New York State. Back in 1975 it was common to talk about the city as the Titanic and to dismiss the rescue efforts as simply rearranging the deck chairs on the ship. Perhaps Hugh Carey was not the best choice to rearrange the deck chairs; but he was absolutely the right choice to guide this ship to a safe harbor. He performed that role exceedingly well.

Hugh Carey is my friend. I know he will always be my friend. But just as important, he is the city's friend and I know he always will be its friend.

Hugh Carey is terrific. He is the best of New York. He is the essence of the city. He has started us on a course. We will do our best to stay on it.
COVER CHART

The 1983 Executive Budget is $15.5 billion -- an increase of 3.7% over the 1982 forecast when computed on a comparable basis. This level includes a reserve of $183 million, including the $100 million general reserve and $83 million for additional Federal cuts and other contingencies.

There have been some internal changes in the 1983 plan since January, but by and large the elements of the budget strategy remain the same.
CHART 1

We said in January that we would close a gap of more than $800 million through a program divided in thirds:

- 1/3 from a productivity management and improvement program and other spending reductions,
- 1/3 from tax increases and other local revenue measures, and
- 1/3 from increased state aid.

That strategy remains essentially unchanged. The situation has not changed materially because the Federal budget cuts are no less now than they were in January -- indeed additional cuts have been proposed by the President, and because the hoped-for recovery from the nationwide recession has not yet begun.

CHART 2

The effect of Federal budget cuts can be seen quite clearly in this chart. The 1983 budget reflects a decrease in both absolute dollars from the Federal government and in the Federal share of our budget. Federal support for our budget has declined from nearly 20% in 1978 to a projected 14.6% in 1983. As a result, at this time we are more dependent on State aid and on local revenues. Local revenues, moreover, are affected by Federal economic policies, and by the broad currents in the national economy.
CHART 3

Chart 3 uses one indicator -- economic growth -- to confirm that our economy, like that of most areas, tracks the national economy. The sustained economic growth and the improved economic mix in the City in the last few years has helped cushion and delay the effects of the national downturn here, however. In fact, for the first time since 1960, in 1981 employment growth here outpaced that of the nation. Construction was up over 7% in New York City but declined over 1% in the nation as a whole. And we project small employment growth in the city in 1982 compared to a decline nationwide.

Nonetheless this City is not immune from the effects of a nationwide recession -- including in projected economic growth as shown in Chart 3.

(Chart 3 cont’d)

We have also begun to see effects on the unemployment level, on retail sales, and certainly on the rate of inflation, which has been zero in the New York City area for six months. While no or low inflation is generally considered good news, today it also indicates little movement in the national economy and has a strong depressing effect on our revenues.
The effect of this dramatic change in inflation and reduced levels of growth will be lower growth in tax revenues for New York City in 1983 as compared to 1982 or 1984. Without the $171 million tax package, our taxes are projected to grow only 3.5% in 1983 compared to 7% in 1982, an average of 6.3% from 1978 to 1981, and an average of 6.9% from 1984-86. If our taxes grew at the same rate in 1983 as in 1982 our revenues would be $300 million higher. With the tax proposals included, as shown here, the situation is somewhat improved, but the 1983 dip is still apparent.

(Chart 4 cont'd)

As you know, expenditures do not fall as immediately as revenues because many expenditures are contractual, others are linked to Federal, State and court mandates, and some -- such as public assistance -- are linked to economic conditions and tend to rise when revenues are falling. While recovery is projected for 1984 both nationally and locally, current conditions require considerable budget restraint in 1983.
CHART 5

WE HAVE APPLIED THAT RESTRAINT IN THIS BUDGET. AS I INDICATED EARLIER, ON A COMPARABLE BASIS THE BUDGET GROWTH BY 3.7% -- LESS THAN INFLATION. AND AS YOU CAN SEE IN CHART 5, OUR BUDGET IS GROWING LESS THAN THE STATE AND FEDERAL BUDGETS ARE GROWING, AS HAS BEEN THE CASE FOR THE LAST 5 YEARS.

CHART 6

AS CHART 6 SHOWS, THE BULK OF OUR CITY-FUNDED SPENDING INCREASE FROM 1982 TO 1983 IS RELATED TO COSTS LARGELY BEYOND OUR IMMEDIATE CONTROL:

- 50% OF THE INCREASE COVERS COLLECTIVE BARGAINING AT THE BUDGETED 3% LEVEL.
- 23% FOR INCREASED PENSION COSTS.
- 12% IS FOR HIGHER MEDICAID COSTS.
- 6% IS FOR HIGHER ENERGY COSTS.
- AND EVERYTHING ELSE NETS TO 9%.
CHART 7

Nonetheless, within this restrained budget, our essential services continue to receive the highest priority, as they have throughout this Administration. The average annual growth rate from 1978 to 1983 in police and other criminal justice, fire, sanitation and education exceeds that of city spending as a whole. In 1983, the full complement of 2,300 police officers hired in 1982 for the 3 police departments will be retained. In 1983, an additional 500 civilians will be hired in the New York Police Department to continue the civilianization program in that department. In 1983, street cleaning services will be dramatically improved because of the recent agreement on a citywide 2-man truck program. In 1983, our commitment to the Promotional Gates program is

(Chart 7 cont’d)

maintained, along with the remainder of the $60 million in service enhancements provided to the Board of Education last year.
CHART 8

Spending has been restrained without significant service reductions in this budget through a productivity and management improvement program totaling $143 million. $133 million of this program provides direct budget relief. The remaining $10 million represents service enhancements provided from productivity savings from the additional civilians that will be hired by the Police Department and from the 2-man sanitation truck program.

While there has been some slippage from the January targets for this program, largely in Special Education, a rigorous monitoring and tracking system and the concerted effort by the Commissioners involved will produce unprecedented results.

CHART 9

This disciplined approach will also enable us to reduce the number of City-funded positions by more than 1,400, even after we have accommodated some high-priority new needs. These new needs include mandates in foster care and corrections; workload increases -- such as the opening of Borough of Manhattan Community College; operational improvements such as the civilianization program; and revenue-generating positions that will at least pay for themselves.

Offsetting these increases by more than 1,400 positions are reduced personnel requirements because of the Management and Productivity program, school enrollment decline; and other savings.
**CHART 10**

The Federal budget and tax cuts have cost the 1983 expense budget $274 million. That includes $174 million to compensate for cuts in the highest priority programs such as day care and senior citizen centers, and $100 million in lost tax revenues from the corporate tax cuts. This was roughly one-third of the budget gap. In response, the budget includes local tax increases totalling $171 million -- which will recover only 62% of the expense budget losses. These increased revenues are necessary in the short term as we adjust to the Federal losses and await the economic upturn.

**CHART 11**

Despite the proposed new taxes, the City's tax burden as a percentage of personal income will continue to decline. In fact, it will be at its lowest point since 1971.
CHART 12

It is helpful to view this year's budget difficulties in the context of the extraordinary progress the City has made in the last four years. I have just discussed one element -- the decline in the tax burden. Another sign is that in 1982 the City met all its seasonal borrowing requirements in the public markets. And this year, for the first time since the fiscal crisis, City notes were sold on a competitive basis. Overall, peak seasonal borrowings have been reduced by two-thirds since 1978.

CHART 13

Another positive sign is that long-term debt outstanding has remained stable since 1979, despite the fact that our capital program has been dramatically increased. Debt service as a percentage of City-funded expenditures has declined from 24% in 1978 to under 16% in 1983.
CHART 14

In 1983 commitments for capital improvements will reach a record $3.8 billion level, with $1.3 billion City-funded. This compares to a City-funded level of only $344 million in 1979. The highest priority in 1983 and 1984 will be devoted to mass transit and infrastructure improvements in streets, bridges, sewers, water supply and water pollution control, and waste disposal. One of our priorities was capital investments to improve productivity and reduce operating costs, and we have identified $220 million in such investments in the 1983 capital plan.

CHART 15

I began by noting that the same elements we identified in January as essential to the 1983 budget are, in fact, still essential. It is important to note what the City is doing:

- We are restraining expenditures and accommodating the highest priority needs only through management and productivity improvements and spending reductions elsewhere.
- We are proposing a modest tax package and other local measures to raise revenues.

But, we cannot do the entire job on our own. Increased State aid to education and relief from the burden of Medicaid costs are vital elements of our budget, and we look to the State to do its part.
TO: Agency Heads

With your active cooperation, the City's Financial Plan revision submitted on November 17 identified a program that closes the City's 1983 budget gap and substantially reduces the 1984 projected gap. Included in the City's program are specific agency expenditure reductions totalling $148 million in 1983 and $280 million in 1984.

In that Plan we committed to identifying in the January plan an additional $81 million in agency spending reductions for 1984. We also indicated that if the budget relief anticipated from two sources -- $50 million from more flexible work rules to be worked out with union cooperation, and $50 million from miscellaneous revenues -- is not forthcoming, offsetting spending reductions will be required.

As you know, the City, like most localities, faces considerable uncertainty with respect to both 1983 and 1984: a delayed economic recovery would further reduce our tax revenues; a shortfall in State aid or failure to pass the City's tax measures would exacerbate our fiscal situation. We hope that the key elements of our revenues hold, but we must recognize the risks involved. Thus, in order to present a four-year plan on January 17, 1983 that demonstrates and ultimately provides that the City will live within its means in 1984 and succeeding years, further city-fund expenditure reductions must be identified. While I hope it will not be necessary to implement all of these reductions, we must be prepared for the worst.

The Budget Director's memorandum to agency heads on October 12, 1982 stated that second-level reductions would be necessary for the new four-year financial plan and indicated that each agency should begin planning for an additional 2% reduction in 1984, for a total reduction program of 6%. The financial plan revision we have just submitted to the Financial Control Board is a good effort toward developing the required, even more detailed, PEG program. However, because of the increasing economic and State-level uncertainties, an additional targeted reduction of 3.5% for each agency is now a more prudent course than the previously announced target of 2%.
In order to implement reductions of this magnitude in 1984, most agencies will be required to sustain further workforce reductions in 1983. The consequences of delay would, in many cases, require unnecessary layoffs of personnel as well as abrupt and therefore difficult-to-manage service reductions in 1984. Therefore, I have instructed the Budget Director to continue the citywide freeze at least through the preparation of the January 17 Financial Plan. Exceptions will be made for critical management positions and compelling programmatic needs.

While it is my policy to avoid layoffs whenever possible, it is also possible that in the context of a substantial citywide workforce reduction, layoffs will be required to achieve needed savings while avoiding even further declines in services. For example, if attrition rates in a low-priority area such as general administration within an agency are low while in a vital service area the personnel turnover is rapid, layoffs in the low-priority areas should be considered as a way of achieving savings without further reducing a critical service. You should also evaluate carefully the performance of and need for your provisional employees.

I hope that, as in the past, any terminated employees would, through normal civil service procedures, be able to obtain employment in another City agency. I have instructed the City's Personnel Director to be prepared to provide assistance to any City employees who may be laid off.

Below are the guidelines for your submission detailing expenditure reductions. Please submit your responses to OMB by December 10, 1982.

1. Each agency should submit an analysis that details a 3.5% City-fund reduction from its 1984 expenditure level as proposed in the financial plan submission of November 17, 1982. This is in addition to the reductions that have already been reflected in the revised financial plan, which for most agencies were 2.25% in 1983 and 4% in 1984. The 3.5% savings should at least annualize at the same level in 1985.

2. Wherever possible, actions for 1984 reductions should begin in 1983. If your proposals do not result in reduced headcount in 1983 a full explanation is required.
3. You should give particular attention to reductions in administrative functions also performed by overhead agencies -- functions such as personnel, legal support, labor relations, procurement, and intergovernmental relations. However, before proposing major reductions in these areas based on an assumed transfer of responsibilities, you should consult with staff of the overhead agencies.

4. Agency-generated revenue increases above the 1984 financial plan level should be identified and can serve to offset the need to reduce programs and personnel that otherwise would have been required to meet targeted savings.

5. You should consider the termination of low-priority programs if so doing would protect higher priority, essential services.

6. New needs mandated by law and regulation or other uncontrollable factors (i.e. increased unit costs) should be documented. However, to the extent these needs are service enhancements (even though they are mandated) and therefore increase the proportion of the City's budget allocated to a particular service, each agency should, as an option for the City, identify how it would internally fund such needs after the budget reduction targets have been met.

7. All other needs should be identified, and your proposal for funding these needs from within your budget after your budget reduction target has been met should be specified.

8. Opportunities to reduce costs by amending State law, regulations, or administrative procedures that mandate programs and costs for the City in areas you do not believe to be high-priority should be identified and accounted for separately.

9. Changes in work rules or other productivity improvements that would require union agreement should not be submitted. A separate process has been initiated to identify such savings.
The successful development of this program will require that you continue to improve productivity and identify reductions that have the least adverse effect on City services and operations.

Forms which should be used for completing this analysis will be sent under separate cover by OMB.

Edward I. Koch
MEMORANDUM

TO: Nat Leventhal
FROM: Brendan Sexton
DATE: December 28, 1982

I'm sure you've heard this from others by now, but the current "extra" PEG discussions with the agencies are running into a serious technical problem.

The "attrition" forecasts/estimates used in EIK's press release, etc. are not correct. These are not the usual Bernie Rosen/Charlie Brady attrition numbers. They include Executive Order 33's, transfers, all kinds of stuff -- not just the usual attrition numbers.

As agencies try to apply the OMB projections to their operations, they cannot make the numbers work. For an illustration, ask Joe to walk through the Operations numbers as presented by OMB. It's quite an eye-opener.

Now, whether this is a real problem depends on how closely the January Financial Plan is going to follow the December press material. So far, the staffs here and at OMB are quite confused. You should see the ridiculous attempts at '84 targeting I'm seeing in the MWR drafts -- it's been the critical stumbling block so far in getting the material shaped up.

I don't want to be a Cassandra on this issue. Last year I remarked that the PEG process was the latest, longest-to-resolve I had ever seen. It was, but in the end it worked out fine. It was just incredibly tense until the last minute. So, maybe history will repeat itself. I also don't know what Alair intends to do about all this, (she must have something in mind), but will try to find out before the first EIK meeting. I'll let you know what I learn -- if there is anything to learn. We may just have a case of bad arithmetic which can be juggled by OMB in the final days to come out right. But, in the meantime, agency and OMB staffs are not producing the detailed, careful analysis we would have hoped for at this stage.
STATEMENT BY MAYOR EDWARD I. KOCH

In January, when I released the Plan before us today, I termed it painful and in many ways unacceptable. It calls on New Yorkers to pay more and receive fewer services -- at least for the short term.

This Plan meets our legal mandate and our firm commitment to have a balanced budget. It also represents an orderly response to increasingly harsh circumstances; to the drop in our revenues caused by the worst nationwide recession in more than 40 years; to the human misery created by this recession, and our need to alleviate it with additional spending for shelters and for Medicaid; to the risk of shortfalls in state aid; to the need to pay for a labor settlement which, while fair and reasonable at the time it was negotiated, has proven harder to fund than we had expected; and to the continuing destructive effects of federal budget cuts.

I said in December and again in January that our best hope lay in Albany, that our claim for equity and justice should be honored, that the worst of the pain could be averted by the achievement, at long last, of genuine reform in the financing of Medicaid and local education costs.

Governor Cuomo has submitted a state budget that is responsive to the needs of local governments and that includes the structural changes we have long sought. I commend his leadership and urge the Legislature to act positively and promptly on his proposals.

Given the state's own fiscal problems, the 1984 state budget cannot be expected to eliminate all pain for New York City. We will still have tax increases and spending cuts. We will continue to seek additional operating efficiencies. And we will still rely on the commitment of the city's municipal union leaders to work with us to achieve savings (more)
from more flexible work rules and, if necessary, other measures to reduce personnel costs in 1984.

But if the Legislature follows the Governor's lead, the worst of the pain can be avoided. The Governor's budget is indeed our best cause for hope. If that hope becomes real, we will be able to modify this plan in the Executive and Adopted budgets. We will be able to maintain many, though not all, of the gains we have made in services over the last few years, and we will be able to scale back, even if only modestly, our proposed tax increases.

I believe that this Plan presents the worst case and that, with responsible action and cooperative efforts here and in Albany, our situation can only get better.

##
IMPACT
of the
PRESIDENT'S PROPOSED
1984 BUDGET
on
NEW YORK CITY

Office of Management and Budget
March 15, 1983

Edward I. Koch, Mayor
City of New York
Our current fiscal constraints have been unusually severe, caused by:

- LOSS OF TAX REVENUES AND INTEREST INCOME DUE TO THE RECESSION

- NEW SPENDING REQUIREMENTS -- SUCH AS FOR MEDICAID AND SHELTERS -- THAT ARE RECESSION RELATED

- CUMULATIVE LOSSES IN FEDERAL AID

- SHORTFALLS IN ANTICIPATED STATE AID

- LABOR SETTLEMENT COSTS
Since adoption of a balanced 1983 budget, the City has had to solve a $2 billion problem to preserve budget balance in 1983 and 1984.
Several years of Federal reductions have already resulted in a loss of $862 million to the City and its citizens in 1984.

1984 LOSSES DUE TO FEDERAL ACTIONS ALREADY PASSED

EXPENSE BUDGET LOSS
$501 million

OFF BUDGET LOSS
$361 million

Note: Prior losses to the capital budget have been offset by Federal funding of wastewater treatment plants and gas tax revenues, for a net gain in the capital budget of $44 million in 1984.
Federal budget cuts have increased our dependence on local revenues.

- THE PROPORTION OF FEDERAL AID IN OUR EXPENSE BUDGET HAS DROPPED SHARPLY.

<table>
<thead>
<tr>
<th></th>
<th>1979</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>actual</td>
<td>forecast</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>19.7%</td>
<td>14.2%</td>
</tr>
<tr>
<td>State Aid</td>
<td>21.3</td>
<td>21.6</td>
</tr>
<tr>
<td>Local Revenues</td>
<td>59.0</td>
<td>64.2</td>
</tr>
<tr>
<td>Total Funds</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

- BECAUSE THE RECESSION HAS GREATLY REDUCED GROWTH IN LOCAL TAX REVENUES, TAX INCREASES HAVE BEEN REQUIRED.

- 1983 Enacted Tax Package: $211 million
- 1984 Proposed Tax Package: $260 million
In 1983, the City replaced about one third of the $500 million loss in Federal aid to support the highest priority programs.

TOTAL LOSS IN FEDERAL AID TO OUR EXPENSE BUDGET IN 1983: $491 MILLION

LOST OR REDUCED PROGRAMS: $331 million

CITY FUNDED OFFSETS: $160 million

- 29 SENIOR CENTERS
- 50 DAY CARE CENTERS
- 6,000 CETA PUBLIC SERVICE EMPLOYMENT JOBS
The President's proposed 1984 budget will cause the City and its citizens to lose an additional $275 million in 1984.

1984 LOSSES DUE TO PROPOSED FEDERAL ACTIONS

EXPENSE BUDGET LOSS
$144 million

OFF BUDGET LOSS
$131 million

Note: In 1984 gas tax revenues will increase Federal funds to the capital budget by $173 million.
EFFECTS: On New York City's Beneficiaries and Services

- Copayments by all Medicaid recipients for basic health care.

- No funding for TB or AIDS.

- A loss of over $4 million for Food Stamp beneficiaries.

- An average cut of $56 in low-income energy aid to over half a million poor and elderly households.

- Elimination of Community Service Block Grant-funded programs.

- Loss of 2.5 million breakfasts and 1.2 million summer meals for children, and 372,000 meals for the elderly.

- Fewer new subsidized housing units, and higher public housing rents.

- Cuts in operating funds to the Transit Authority which are the equivalent of a 5¢ fare increase.

- Additional cuts in legal services, juvenile justice, job training, UDAG, and EDA, among other programs.
Proposed health care "cost containment" measures do not reform the health care system, they merely pass the rising costs on to states, localities and beneficiaries.

- Inpatient co-payments by Medicare recipients would cost the City $4.4 million in Medicaid and public hospital bad debt.

- The proposed 1% reduction in Medicare reimbursement to hospitals is arbitrary and unproductive, penalizing all hospitals regardless of how successfully they have contained costs.

- Medicaid co-payments would raise bad debt costs for municipal hospitals, and impose additional burdens on the poor, the disabled and the elderly.

- Extension of the 3% reduction in the Federal Medicaid matching rate passes the burden to states and localities, but does nothing to contain rising health care costs.
EFFECTS: $42 million in Mandated Expenditures in 1984; $88 million in 1985

Example:

- Workfare programs would be required for all able-bodied Food Stamp beneficiaries, and the City would have to pay most of the administrative costs of such programs.

- At the same time, proposals to substantially change Food Stamp eligibility rules would, at least initially, place additional administrative burdens on the City.

BUT

- The Federal Government would hold states and localities financially responsible for all payment errors above 3%. Assuming the State and City shared this cost, New York City would pay $13 million in 1984 -- despite considerable progress in reducing errors in recent years.
EFFECTS: On All New Yorkers

- LESS CITY SERVICES

Federal cuts in "mandatory" areas (AFDC, Medicaid, Medicare, and Food Stamps) would require New York City to spend about $42 million in City tax levy funds in 1984 and $88 million in 1985. This is the equivalent of 1,700 City workers in 1984, and 3,500 in 1985.

This would mean shifting funds from basic City services that are vital to all residents and businesses. Our City-funded workforce is already projected to decline by 11,500 by the end of FY 1984, including full police attrition.

- DIFFICULT CHOICES

It would cost nearly $60 million more to compensate for Federal cuts in discretionary programs:

- Employment and training programs for unemployed youths and adults;
- Older Americans programs that provide nutrition and home care;
- Low Income Energy Assistance for home heating fuel;
- Community Service Block Grant programs that fund senior citizen centers, vocational training, housing management and other services;
- Education programs for remedial reading, bilingual training, and nutrition.
Committee Agenda:

AGRICULTURE

- Maintain Food and Nutrition programs at least at current levels.

BANKING

- Maintain adequate funding levels for existing lower and middle income housing programs.

BUDGET/APPROPRIATIONS

- Allow for additional outlays for the General Revenue Sharing program. (Government Operations)

EDUCATION AND LABOR (LABOR AND HUMAN RESOURCES)

- Maintain current funding levels for education and training programs.

ENERGY AND COMMERCE

- Reject proposals that would reduce medical services to the poor and the elderly or pass costs to states and localities. (Ways and Means/Finance)
Committee Agenda:

**PUBLIC WORKS AND TRANSPORTATION (BANKING)**

- Reject further reductions in mass transit operating assistance;
- Maintain gas tax obligation ceiling authorized under Public Law 97-424.

**WAYS AND MEANS (FINANCE)**

- Reject workfare proposal unless states and localities receive full reimbursement for their administrative costs;
- Reject child support enforcement proposal to eliminate current Federal match for Administrative expenses as it would increase state and local costs;
- Reject Foster Care cap because it does not allow for unanticipated demands for Foster Care.
General Revenue Sharing is a good jobs bill for New York City.

- Federal budget and fiscal policies have contributed to the projected loss of 11,500 City workers.

- These lost workers add to our unemployment problem and erode City services just like a plant closing would.

- These are not "make-work" or "dead-end" jobs; they have passed the market test.

- Many of our workers would be considered disadvantaged without our jobs.

- We need flexible funds to retain workers to perform our highest priority, essential services.

- Reauthorized and expanded General Revenue Sharing would be an excellent jobs program for New York City and most localities.
The proposed Federal actions would raise the loss of support to the City and its citizens to $1.1 billion in 1984.

Note: Due to Federal funding of wastewater treatment plants in prior years and current gas tax revenues, total Federal funds to the capital budget will have been increased by $216 million in 1984.
March 25, 1983

Honorable Samuel R. Pierce, Jr.
Secretary of Housing & Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Secretary Pierce:

Last night the President signed into law the Urgent Supplemental Appropriations Bill. In enacting this bill, Congress found that "a program to provide for neglected needs which results in productive jobs was very strongly in the national interest". Moreover, it was the specific intent of Congress that Community Development Block Grant funds, available pursuant to this Bill, be used to avoid some of the workforce reductions previously mandated for New York City.

New York City is currently mandated by the New York State Financial Control Board to reduce its workforce through layoffs and attrition by 11,500 positions beginning in July. These reductions include 5,000 teachers and assistants, 1,800 police officers, 800 social service employees and 500 firefighters. Many of the people affected are women and members of minority groups. However, funds available will enable New York City to retain some of these jobs through this period of fiscal austerity which we expect will ameliorate as the local economy improves.

Congress' specific concern about the workforce reductions in New York City was reflected in the following statement which was included in the Conference report:

In order to provide maximum flexibility for the use of additional Community Development Funds to create jobs or forestall workforce reductions within localities, additional Community Development Funds appropriated by this legislation may be used to fund regular responsibilities of local government for services without regard for
maintenance of effort requirements. The Secretary of Housing and Urban Development is encouraged to waive any regulatory requirement which would impede use of the funds appropriated herein in the manner described above. However, such funds must be used to prevent workforce reductions that were specified prior to enactment of this legislation and that were required to balance revenues and expenditures of said localities (emphasis added).

Given this very clear message of Congressional intent, I urge you to use your full discretion, to maximize the City's ability to use the newly available Community Development funds for the vital municipal purposes for which they were intended.

Sincerely,

Edward I. Koch
MAYOR

EIK:de
MEMORANDUM

TO: Hon. Edward I. Koch
Mayor

FROM: Alair A. Townsend
Director

March 28, 1983

In answer to your request we have prepared an analysis which attempts to allocate a portion of the FY 1984 financial plan to the poor.

Similar analyses were done for the 1981 and the 1979 budgets. For those fiscal years the City allocated 56% of the total budget and 46% of the City funds. For FY 1984 the percentages are 55% and 46% respectively, virtually identical to the analyses for the prior fiscal years.

We concluded from the 1981 analysis that, compared to 1979, budget reductions over those two years did not have a disproportionate impact in the aggregate allocations for service directed to the poor. It would appear that the budget reductions from 1981 to 1984 also did not have a disproportionate impact on allocations for services targeted to the poor based on the following comparison:

Summary of Resources allocated to the Poor
($ In Millions)

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenditures</td>
<td>Percent of</td>
</tr>
<tr>
<td></td>
<td>for the Poor</td>
<td>Total Budget</td>
</tr>
<tr>
<td>All Funds</td>
<td>City Funds</td>
<td>All City Funds</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>$3870</td>
<td>$1543</td>
</tr>
<tr>
<td>Education</td>
<td>1573</td>
<td>649</td>
</tr>
<tr>
<td>Essential Svcs.</td>
<td>656</td>
<td>488</td>
</tr>
<tr>
<td>Other</td>
<td>1735</td>
<td>1516</td>
</tr>
<tr>
<td>Total</td>
<td>$7834</td>
<td>$4196</td>
</tr>
</tbody>
</table>


Assumptions

As in the previous analyses, the assumptions used for determining resources allocated to the poor varied from each category of service and for specific agencies within a category.

The assumptions are summarized below and described in further detail in the following pages. Unless otherwise noted, the same assumptions were used for 1984 as in 1981.

In the category of Health and Social Services, the definitions of poverty were based upon welfare eligibility. For the Health and Hospitals Corporation, the assumption is that services are being provided to persons who are unable to afford medical care.

In the category of Education the standards used by the Board of Education are based upon an analysis of Title I funds as well as other State and Federal subsidies provided to children from low-income families. Funds for the targeted programs to the poor were allocated entirely to that group. Of the remaining appropriations in the Board of Education the allocation is based upon the percentage of children from low-income families as defined by the Board of Education. For the 1981 analysis, the Board on the basis of 1980 data noted that 45.12% of the children were from low-income families. In the current analysis, the Board used 1983 data and based on those data 47.54% of the children were from low-income families.

In the case of higher education, the costs associated with the College Discovery Program and other special educational programs for minorities such as SEEK were entirely allocated to the poor both in 1984 and 1981. Of the remaining total in 1981 it was found that 48% of the students were from families whose income was below $8000 which coincided very closely with the poverty definition for a family of four in New York City. For 1984 it was found that 47% of the students were from families whose income was less than $12,000 per year. This does not quite coincide with the census definition or with the Federal Employment and Training Administration data which indicate that in New York City the poverty level would be $10,930 for a family of four (1982 calendar year). However, CUNY family income data are only available in increments of $4000, ($4000-8000, $8000-12000, etc.) and therefore we can only include those students from families below $12,000 as the cutoff point.
In the category of essential services, which includes Police, Fire, Sanitation, Environmental Protection, Department of Transportation, Parks and HPD, a city-wide percentage was used in almost every agency except for HPD and Sanitation. The percentage of the population in New York City which fell below the $10,930 level of family income was 26% in our current study. In the 1981 analysis the cutoff point was $7750 and at that time 26% of the population in the City also fell below that level of income. For HPD certain programs such as Relocation, Code Enforcement and In Rem were completely targeted to the poor and the remainder of the agency was allocated on the basis of 26%. The city-wide percentage was also applied to Sanitation, except for the Vacant Lot Cleaning Program which is entirely funded from CD funds and is assumed to be completely targeted to the poor.

As in the previous analysis, appropriate proportional allocations were made for overhead costs covering executive and administrative support functions in the agencies. Consistent with the previous analysis those areas of the budget which provide certain city-wide appropriations (Pensions, Miscellaneous and Debt Service) were also analyzed and apportioned in the ratio that the line agencies' budgets provided services to the poor.

We noted in both the 1979 and 1981 analysis and note again that illegal aliens have not been factored into our analysis since no accurate data are available as to how many live in the City, how many are poor or the types of services the City delivers, directly or indirectly, to this population.

Attached is Exhibit I which outlines the assumptions used in the analysis by agency and service area. Exhibit II is the summary of the current analysis and Exhibit III summarizes the 1981 study.
### EXHIBIT I

**ASSUMPTIONS BY AGENCY AND SERVICE AREA**

($ In Millions)

**Health and Social Services**

<table>
<thead>
<tr>
<th></th>
<th>Total Funds Allocated to the Poor</th>
<th>City Funds Allocated to the Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Social Services</td>
<td>$3640</td>
<td>$1546</td>
</tr>
<tr>
<td>Social Services</td>
<td>• The following programs directly serve the poor:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Public Assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Medical Assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Foster Care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Day Care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Family and Adult Services</td>
<td></td>
</tr>
<tr>
<td>Human Resources Administration</td>
<td>• Human Resources, which includes the Department of Employment and Community Development agency, administers programs that entirely serve the poor under various Federal and State mandates.</td>
<td>161</td>
</tr>
<tr>
<td>Health and Hospitals Corp.</td>
<td>• The City's general care subsidy and the City share of Medicaid to the Corporation is for reimbursement of medical services delivered to the &quot;medically indigent,&quot; all of whom are considered to be below the poverty level.</td>
<td>495</td>
</tr>
<tr>
<td>Health</td>
<td>• Approximately 61% of the agencies services delivered to the poor and working-poor populations in recognized &quot;low-income&quot; neighborhoods. The balance of the services are distributed on the city-wide ratio.</td>
<td>73</td>
</tr>
<tr>
<td>Mental Health</td>
<td>• All services provided by the agency (96%) except those which support family and court clinic operations and prison health services are devoted to assuring services for medically indigent clients.</td>
<td>140</td>
</tr>
</tbody>
</table>
Aging

- The following programs directly serve the elderly poor.

- Foster Grandparents, HEAP, Title V and Community Development

Between 60 and 65% of the balance of the agency's programs serve the poor.

Sub-Total Health & Social Services 4532

Education

Board of Education

- A number of programs in the Board of Education are targeted to the poor:

  - Title I Federal Subsidy 156
  - Federal subsidy for free or reduced price lunches, breakfasts and summer feeding programs 109
  - State aid for free or reduced cost lunches 5

- It is assumed that the remaining funds in the Board of Education budget are allocated to the poor on the basis of the fiscal 1983 percentage of children from low-income families (47.54%).

Higher Education

- The CUNY programs targeted for the poor are:

  - College Discovery 2
  - SEEK 6

- Based upon a survey of family income it was found that 47% of the students family income have less than $12,000 per year; therefore 47% of the remainder is allocated to the poor.

Sub-Total Education 1778
Essential Services

- The following agencies' allocations to the poor are assumed to be 26% of their net total budget with some variation in the Sanitation Department for the vacant lot cleaning program.

  - Police  224  221
  - Fire  114  110
  - Sanitation  96  90
  - Environmental Protection  52  50
  - Transportation  49  48
  - Parks and Recreation  28  27

Housing Preservation

- Of the $271 million budgeted for housing programs $164 million is allocated to the following programs targeted to the poor: 164  42

  - Relocation
  - Code Enforcement
  - In Rem and DAMP
  - Section 8 (portion of)
  - Administration (portion of)

- The remainder is allocated on the basis that 26% of the funds supporting other housing programs are targeted to the poor 28  1

Sub-Total Essential Services 755  589

Pension Contribution Agency

- This agency contains the annual appropriation to be paid to the various actuarial and non-actuarial retirement systems. The appropriations for pensions on behalf of certain agencies have been apportioned in the same ratio as that agency's budget is targeted for services to the poor.

  - Board of Education  255  235
  - CUNY  20  15
  - Social Services  86  28
  - Health Dept.  1  1
  - All other pension costs  231  225

  593  504
-7-

The appropriations for Debt Service have been apportioned in the same manner as pensions.

<table>
<thead>
<tr>
<th></th>
<th>87</th>
<th>79</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Education</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>CUNY</td>
<td>76</td>
<td>76</td>
</tr>
<tr>
<td>Health &amp; Hospitals Corp.</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Housing Authority</td>
<td>414</td>
<td>414</td>
</tr>
<tr>
<td>All Other Debt Service Costs</td>
<td>592</td>
<td>584</td>
</tr>
</tbody>
</table>

Miscellaneous Budget

The Miscellaneous Budget contains the cost of fringe benefits for most mayoral agencies, subsidies to the Legal Aid Society, certain covered organizations e.g. Transit Authority, SIRTOA and the Housing Authority. The fringe benefits have been allocated in the same manner as the agencies' budgets to which they apply; the components of the subsidies have been analyzed and allocated according to the population to which they are targeted.

|                      | 581 | 529 |

All Other Agencies

Based on the percentage of families below the poverty level in the City, 26% of all remaining agencies' budgets were deemed to serve the poor except for the library systems which were analyzed as to the branches located in Community Development-eligible census tracts.

<table>
<thead>
<tr>
<th></th>
<th>275</th>
<th>249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Total Other</td>
<td>2041</td>
<td>1866</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>$9106</td>
<td>$5322</td>
</tr>
</tbody>
</table>
As a result of increases in state aid and in taxes and other anticipated revenues, New York City now plans to hire 3,000 police officers in fiscal year 1984, including 1,000 new officers and 2,000 who will replace members of the force who retire, Mayor Edward I. Koch announced today.

The new police hiring program reverses the plan announced in the city's January 18 financial plan. That plan, because of anticipated revenue shortfalls, projected not only no new hirings of police, but also the loss by attrition of approximately 2,000 police officers.

Mayor Koch said, "In January our fiscal outlook was exceedingly gloomy. At that time I told the people of New York City, 'This is a tough program, a painful program, in many ways an unacceptable program. . . . I am not happy about this plan. I wish I did not have to propose it. But realism, prudence, and the need for a balanced budget leave me no choice.'

"I also said at that time, 'We must turn our eyes to Albany. . . . New York City will continue to press its case -- vigorously and persistently -- over the next several months. We will point out that with additional aid we can limit service reductions, avoid the worst of the layoffs, and possibly even reduce our tax program.'

"A particularly painful part of that plan was the planned attrition of more than 2,000 police officers. I know the City Council and the Board of Estimate shared my concern on this issue.

"Since last January we have worked with Governor Cuomo and the Legislature, and they have responded. Our fiscal picture today is much brighter than it was in January. We have received additional Medicaid aid and aid to education; our projected tax revenues are up, and we also expect additional funds from the recently-enacted federal jobs bill.

(more)
"Police and education, as I have often said, are my first priorities. I am happy to be able to announce today that we will replace all our police attrition, and we will also have these additional 1,000 officers, steps which in January we regrettably were not able to propose. We are now weighing, in light of our increased revenue projections, which of the other planned cuts in services we announced in January can and should be restored; we are also reconsidering the size and nature of the tax package we plan to ask the Legislature to allow us to impose."

"I do not want to imply that our fiscal problems are over. We still face serious fiscal restraints, we still cannot hope to bring services up to the level we would like. However, we will be able to restore some of the proposed service and personnel reductions. We will do so prudently. Our budget will always be in balance. But we will spend what we reasonably and responsibly can to ensure the delivery of essential services to our citizens."

Full replacement of attrition in the city's three police forces is expected to cost $17.6 million in fiscal year 1984. The addition of the 1,000 new officers, scheduled to take place in December, 1983 and May, 1984, is expected to cost about $9 million in that year.

The 1,000 new officers will include 700 for the New York City police force, 200 for the Transit Police and 100 for the Housing Authority police.

###
June 7, 1983

Honorable Mario M. Cuomo
Governor
State of New York
Two World Trade Center - 55th floor
New York, New York 10047

Dear Governor Cuomo,

The Board of Directors and the Staff of the Municipal Assistance Corporation are pleased to submit its review of the City of New York’s fiscal 1984 budget.

This review highlights the significant improvements in the City’s fiscal situation. Particularly noteworthy has been the commitment by the State, which provided key budgetary actions necessary to balancing the City budget.

We believe that the City's present situation is indicative of the considerable efforts by City and State officials since the time of the crisis. The forecasted surplus is a tribute to the economic possibilities of the metropolitan region and to the managerial policies of the City. The uncertainties that exist are manageable, and can be incorporated in this and future budgets.

The City has made significant progress this year towards its goal of re-entering the public debt markets on a regular basis with approximately $450 million in bond sales in the first six months of the 1983 calendar year. Much work remains, however, if the City is to totally assume the responsibility for its capital financing by January 1985.

We believe the worst is over, but meeting the challenge of returning to financial independence requires a continuation of the same level of commitment and responsibility that the City has exhibited to date.

Respectfully submitted,
Felix C. Rohatyn
Chairman
STATEMENT BY MAYOR EDWARD I. KOCH

I am pleased to present the city's financial plan for 1984-1987. This plan continues and builds upon the extraordinary progress New York City has made in achieving fiscal stability. It includes a $550 million surplus at the end of fiscal 1983, a surplus which demonstrates the resiliency of New York City's economy, despite the trying economic times which this nation is still experiencing. This has been a difficult year -- but it is a year which we are ending with flying colors.

This week we conclude fiscal 1983, and with it our third GAAP-balanced budget, despite the rapidly changing circumstances and many uncertainties with which we were faced. Managing these uncertainties required our concerted efforts, great restraint, the cooperation of the state, and the continued strength of the local economy. Fortunately, all these were forthcoming. And I fully intend to press the city's municipal unions to fulfill their commitment to achieve $50 million in additional productivity savings in fiscal year 1984 and thereafter.

The plan that I present to you today eliminates most of the unacceptable service reductions and tax increases that were previously called for, and improves services in our highest priority functions -- police and education. As a result of our achievements to date, and our continuing partnership with the state, I believe the people and businesses of New York can look forward to gradually improved services and a declining local tax burden.

I want to commend the Governor and the leaders of the Legislature for their responsibility and cooperation, the members and staff of the Financial Control Board for their (more)
dedicated efforts on behalf of the city, and my city colleagues -- elected and appointed -- who have worked with me in making fiscal year 1983 a major achievement in our campaign to put the City of New York on a sound financial basis.

I especially want to acknowledge and thank G.G. Michelson and Lee Oberst, who have served the Financial Control Board and the City of New York with distinction, and who are now completing their service. They have dedicated their enormous energy, personal integrity, and a fundamental sense of fairness to this important process. All New Yorkers are in their debt, and to them I extend my personal gratitude.

###
Much of the concern about our MAC proposal has focused on the fact that MAC debt is backed by the State's "moral obligation." Thus, we are viewed as somehow hurting the State in asking MAC to borrow up to its legislatively authorized limits. Indeed, the New York Times in a recent editorial stated that "the Mayor wants to trade City debt for State debt." Certainly, all will readily acknowledge that there is no likelihood of MAC ever drawing on the State's moral obligation. The revenues available to MAC exceed debt service requirements even in peak years by a ratio of more than 3 to 1. However, they indicate that the rating agencies view MAC as a potential liability and this somehow affect the State's credit.

Analysis of rating agency reports and discussions with key rating agency personnel indicate that there is no validity whatsoever to these claims. They view MAC debt as City not State debt obligations, they place no credence on the State's moral obligation in rating MAC, and MAC does not affect the State's credit rating.

Hy Grossman, the head of municipal debt ratings for Standard and Poor's has told me that he is prepared to publicly state that "MAC's rating is not affected by the State's moral obligation, that they view MAC debt as City revenue bonds and that they have always rated MAC accordingly". As for Moody's, they have issued a position paper that the "moral obligation feature deserves no consideration as part of a bond's security". And indeed, in Moody's recent extensive credit report on MAC, the moral obligation feature is not even mentioned. Instead, as the primary reason for upgrading MAC's bond rating, Moody's stated that "bond holder's protection is increased because of the improved credit standing of the City of New York."
MAC's Moral Obligation
December 5, 1983
Page 2

Nor does MAC's moral obligation affect the State's rating. Moody's nets out MAC debt in determining the State's tax supported debt which it then analyzes in comparison with other Cities. As the reason for netting out MAC, Moody's cites the fact that it is self supporting (other moral obligation debt such as that of UDC is included by Moody's as part of State's tax supported debt). Moody's does include MAC in determining the debt position of New York City.

Finally, Felix Rohatyn himself in testifying before the Proxmire Committee stated that the increase on MAC's authorization to $10 billion, which was then pending before the State legislature, would not adversely affect the State's credit. (See enclosed excerpt).

AB:se
cc: Mayor Edward I. Koch
    Nat Leventhal
    Bob Wagner
    Fritz Schwarz
    Alair Townsend
MEMORANDUM

TO: Edward I. Koch, Mayor

FROM: Ken Lipper, Deputy Mayor
       Alair Townsend, Budget Director
       Phil Michael, Finance Commissioner

DATE: December 14, 1983

SUBJECT: FINANCIAL TAX REFORM

Enclosed is a proposal to reform the City’s financial tax. The proposal would lower the bank tax rate from 13.823 percent to the 9 percent rate imposed on other corporations, and replace dubious accounting techniques with an accounting method designed to provide greater assurance that all income earned in the City is reported to the City for tax purposes. These changes should redistribute the tax burden among the banks more equitably, more closely conform the bank tax to the City tax levied on all other corporations, and make the City more competitive with other major banking centers.

The proposal follows extensive discussions with senior representatives of all the major New York City banks (generally at the Chief Financial Officer level), and detailed examination of the banking policies of the other major banking jurisdictions in the Nation. While no panacea, we believe that it represents a much needed improvement over the current bank tax and that it should help to persuade banks to continue expanding activities in the City. Inaction on our part could result in significant erosion in our preeminent position in the banking industry as other states actively recruit the increasingly mobile financial service sector.
We are aware that additional tax reform may be needed should interstate banking become a reality. However, until it is clear when and how interstate banking will function, it is not possible to address the further changes that may be required at that time. The more immediate problem of the outmigration of bank activities must be addressed now.

The proposal requires State legislative action and envisions a matching State initiative. As such, once we have formulated a firm City position we will have to move to enlist the active support of State officials in both the Executive and Legislative branches. We must also garner industry support to implement various aspects of the proposals and have committed ourselves to giving the industry an opportunity to react to the proposal in writing before it is put in final legislative form.

KL/y1
cc: Nat Leventhal
    Bob Wagner
    Fritz Schwarz
    Rosemary Ginty
PROPOSAL TO REFORM THE FINANCIAL TAX

Summary Of Key Provisions

There are two major changes called for in this proposal: (1) a reduction in the tax rate imposed on all commercial banks, and (2) a change in the method used to attribute income to the City for tax purposes.

1) Tax Rate: The tax rate will be reduced from 13.823 percent to nine percent (the rate levied on all other corporations) beginning in tax year 1984. It is anticipated that the State would make a proportionate rate reduction from 12 percent to 8 percent.

2) Attribution of Income for Tax Purposes: For banks having operations within and without the City, the "separate accounting" method (currently used by almost all major banks) will no longer be permitted. Instead, income will be attributed to the City by means of formula apportionment on the basis of those factors which help to generate income -- property, payroll, receipts and deposits.

Payroll and Property - Local payroll and property costs will be taken as percentages of the bank's total payroll and property costs. Both factors will be based on three year averages (two previous years and the current year) instead of just current year figures. In addition, the property factor will exclude net new additions to property for five years.

Receipts - Bank receipts are largely comprised of interest income from loans which may be generated in many different locations. Under this proposal interest income for NYC banks will be apportioned as follows:

For loans made in foreign currency or Euro-dollars, no portion of the receipts will be attributable to NYC.

For domestic loans made in U.S. dollars, 60 percent of the income will be attributed to New York City.

Deposits - Deposits will be attributed to NYC if the deposit was either opened in the City or subsequently transferred to the City.

Receipts and deposits will be double-weighted and payroll and property will be single-weighted under this proposal.
3) Other Provisions:

* Inter-company dividends will be eliminated from taxation.
* Banking activities of non-New York City banks will become subject to the financial tax.
* A deduction will be allowed for foreign taxes paid.
* The minimum tax will be increased from $25 to $125.
The City of New York
Financial Plan
Fiscal Years 1983-87
Edward I. Koch, Mayor
The four year gap-closing plan.

1984-1987 GAP Closing Program
($ In Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gap To Be Closed</td>
<td>(580)</td>
<td>(882)</td>
<td>(748)</td>
<td>(710)</td>
</tr>
<tr>
<td>City Actions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure Reductions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service Including MAC</td>
<td></td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>More flexible work rules and other productivity improvements</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>Revenue Initiatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Enforcement</td>
<td>75</td>
<td>25</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Increased User Fees, Charges, etc.</td>
<td>53</td>
<td>34</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Tax and Revenue Program</td>
<td>260</td>
<td>290</td>
<td>305</td>
<td>170</td>
</tr>
<tr>
<td>Westway</td>
<td>22</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total City Actions</td>
<td>460</td>
<td>429</td>
<td>439</td>
<td>314</td>
</tr>
<tr>
<td>State Actions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandate Relief and Other Actions</td>
<td>20</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Other State Aid</td>
<td>100</td>
<td>325</td>
<td>550</td>
<td>775</td>
</tr>
<tr>
<td>Total State Actions</td>
<td>120</td>
<td>378</td>
<td>603</td>
<td>828</td>
</tr>
<tr>
<td>Federal Actions</td>
<td></td>
<td>75</td>
<td>150</td>
<td>225</td>
</tr>
<tr>
<td>Reserve for service enhancements, tax reductions and other contingencies</td>
<td>-</td>
<td>-</td>
<td>(444)</td>
<td>(657)</td>
</tr>
<tr>
<td>Total GAP Closing Program</td>
<td>580</td>
<td>882</td>
<td>748</td>
<td>710</td>
</tr>
</tbody>
</table>
The 1984 budget will be balanced, but not without pain.

New York City, like other localities and states across the nation, faces economic constraints of unusual severity.

This Financial Plan incorporates and adds to the November and December revisions. It addresses fiscal problems created by several factors:

- Shortfalls in State Aid
- Loss of tax revenues and interest income due to the recession
- Labor settlement costs
- Cumulative losses in Federal Aid

Taken alone, any one of these factors would not have posed a serious problem for the City. However, their combined effects have required service reductions and tax increases. The major elements of this plan are:

- Revenue measures and better tax enforcement
- Elimination of virtually all planned service enhancements
- Service reductions
- Expenditure reductions through additional productivity improvements and more flexible work rules, and reductions in administrative staff
The recession has been both longer and deeper than anticipated.

In January of last year, national forecasts assumed a strong recovery in the third quarter of 1982. Subsequent projections have indicated that the recovery will be delayed and less robust. A slight recovery is now forecast for the end of the second quarter of 1983 with stronger growth in the fourth quarter—one year later than original projections.

### Percentage Change in Real GNP

<table>
<thead>
<tr>
<th>Quarter</th>
<th>January 1982 Financial Plan</th>
<th>Adopted FY1983 Budget</th>
<th>December Forecast</th>
<th>Current Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>-3.3</td>
<td>-4.3</td>
<td>-5.1</td>
<td>-5.1</td>
</tr>
<tr>
<td>2</td>
<td>2.3</td>
<td>2.0</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>3</td>
<td>4.7 Recovery</td>
<td>4.6 Recovery</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>4</td>
<td>3.7</td>
<td>3.1</td>
<td>2.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>1983</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3.3</td>
<td>3.1</td>
<td>3.0</td>
<td>2.2</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>4.5 Recovery</td>
<td>3.9</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>5.5</td>
<td>5.2 Recovery</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>5.1</td>
<td>5.3</td>
</tr>
</tbody>
</table>
The City has restrained growth in spending.

Disciplined management and planning have kept the growth in City expenditures lower than the State and Federal governments and below the rate of inflation.

Annual Percent Change

- Inflation (NY area CPI)
- City Expenditures

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>1979</th>
<th>80</th>
<th>81</th>
<th>82</th>
<th>83*</th>
<th>84*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>7.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
<td>7.8</td>
<td>7.4</td>
</tr>
<tr>
<td>1982</td>
<td>5.4</td>
<td></td>
<td></td>
<td></td>
<td>8.0</td>
<td>5.4</td>
</tr>
<tr>
<td>1983*</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>1984*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average Annual Increase in Budgetary Outlays:

- Federal 11.3
- NY State 10.2
- New York City 6.6
The 1983-84 Program to Eliminate the Gap continues to be guided by the principles of fiscal responsibility and fairness.
New York State's assistance to its localities is well below the national average.

The restructuring of Medicaid and education funding would redress the longstanding imbalance in the City-State fiscal relationship.

Forty-nine States assume a larger share of local government costs than New York.

<table>
<thead>
<tr>
<th>Percent</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 70</td>
<td>6</td>
</tr>
<tr>
<td>60 to 69.9</td>
<td>19</td>
</tr>
<tr>
<td>50 to 59.9</td>
<td>21</td>
</tr>
<tr>
<td>Below 49.9</td>
<td>4</td>
</tr>
</tbody>
</table>

Medicaid costs mandated by States on localities

<table>
<thead>
<tr>
<th>Percent</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 25</td>
<td>1</td>
</tr>
<tr>
<td>20 to 24.9</td>
<td>0</td>
</tr>
<tr>
<td>15 to 19.9</td>
<td>1</td>
</tr>
<tr>
<td>10 to 14.9</td>
<td>0</td>
</tr>
<tr>
<td>5 to 5.9</td>
<td>2</td>
</tr>
<tr>
<td>.1 to 4.9</td>
<td>1</td>
</tr>
<tr>
<td>0</td>
<td>45</td>
</tr>
</tbody>
</table>

State contribution to education expenditures

<table>
<thead>
<tr>
<th>Percentage of costs assumed</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 60</td>
<td>9</td>
</tr>
<tr>
<td>50.1 to 60.0</td>
<td>11</td>
</tr>
<tr>
<td>40.1 to 50.0</td>
<td>15</td>
</tr>
<tr>
<td>30.1 to 40.00</td>
<td>10</td>
</tr>
<tr>
<td>Below 30</td>
<td>5</td>
</tr>
</tbody>
</table>

No Local Contribution
This plan prudently responds to State Aid risks.

Reform of State funding for education and Medicaid remains the single most important element of the City’s plan for long-term fiscal stability.

- The State has not yet resolved its fiscal problems. In response to the resulting risk of a State Aid shortfall, the City in December reduced the aid assumed in this plan—principally Overburden and education aid—by $300 million over 1983 and 1984 over last year’s plan. This action, while prudent, will mean significant service reductions for the City.

- However, this action does not mean that the City has reduced its State Aid request, which is reasonable and fair, and consistent with the legitimate claims of all New York localities.

- The City urges the State to assume its fair share of the fiscal burdens borne by its localities as an indispensable goal of the State’s plan to resolve its fiscal problems. Such a plan should provide for a restructuring of Medicaid and education funding, which would enable the restoration of City services.

- The first step toward a more equitable partnership between the State and its localities should be taken in the Governor’s budget in February.
The State is capable of providing substantial fiscal relief to its localities.

In recognition of the State’s immediate fiscal difficulties, this Financial Plan includes proposals that would provide the City and other localities fiscal relief at little or no cost to the State.

**Actions the Governor and Legislature can take at no cost to the state:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conform paid leave for military reserve duty to Federal standards</td>
<td>$2.2</td>
</tr>
<tr>
<td>Permit Toxic Superfund reimbursement for toxic cleanup in heavily populated areas where drinking water is not affected</td>
<td>$2.3</td>
</tr>
<tr>
<td>Reduce OTB contribution to the New York State Breeding Fund</td>
<td>$2.3</td>
</tr>
<tr>
<td>Provide access to State income tax returns of Public Assistance recipients to determine joint filings</td>
<td>$3.7</td>
</tr>
<tr>
<td>Raise class sizes for non-severely handicapped students</td>
<td>$17.9</td>
</tr>
<tr>
<td>Improve requirement for income and expense statements on real estate assessments</td>
<td>$3.0</td>
</tr>
<tr>
<td>Extend to covered agencies the requirement for non-resident employees to pay income tax at resident rates</td>
<td>$2.0</td>
</tr>
<tr>
<td>State takeover of arterial highway maintenance using Federal gas tax dollars</td>
<td>$5.7</td>
</tr>
<tr>
<td>Other actions</td>
<td>over $1.8</td>
</tr>
</tbody>
</table>

**Law Reform in Risk Management:**

Reform tort law to enable the City's risk management program to contain excess cost not now within the City's control

TOTAL CITY/SAVINGS/REVENUE INCREASES

over $76.9

TOTAL COUNTED FOR GAP-FILLING PURPOSES

$20.0
Needed spending reductions will mean that the City's workforce for 1984 will be reduced from planned levels.

Reductions will be achieved through maximum feasible attrition, but layoffs will also be necessary.

Comparative end-of-year statistics:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity/Management</td>
<td>3990</td>
<td>12,947</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced Service Enhancements</td>
<td>1500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Reductions</td>
<td>6406</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| City-funded positions          | 180,110        | 1512                    | Other 1051            | 168,675               |
| City-funded positions          |               |                         |                       |                       |

Adopted 1983 Budget

Current Plan 1984
The balance between attrition and layoffs reflects the need to preserve service and managerial priorities.

- The City is committed to maximum feasible attrition in achieving the necessary savings. Over ____% of the reductions in personnel will be through attrition.
  
  Approximately 20,000 positions will become vacant over the next 18 months. However, about 8,000 of these relate to legal mandates, revenue generation or cost avoidance—making attrition either impossible or counterproductive.

- Reduction by attrition affects agencies unevenly and would have an arbitrary impact on services.

<table>
<thead>
<tr>
<th>Selected Agency Attrition Rates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Social Services</td>
<td>11%</td>
</tr>
<tr>
<td>Department of Transportation</td>
<td>20%</td>
</tr>
<tr>
<td>Office of Economic Development</td>
<td>28%</td>
</tr>
<tr>
<td>Police—uniformed</td>
<td>8%</td>
</tr>
</tbody>
</table>

- Attrition cannot easily be targeted to satisfy service and managerial priorities or to comply with legal mandates.

- In a given year, layoffs yield greater savings than attrition with lower reductions in personnel, and a correspondingly lower impact on services.
Representative program effects.

The reductions contained in this plan have been designed to minimize service impact. In many cases, elimination of service enhancements and significant service reductions will be unavoidable.

New York City, Transit, and Housing Authority Police
- Replacement of uniformed attrition in 1983.
- Maintenance of patrol strength 2 percent below the levels originally forecast for 1983, but above 1982 levels.
- Elimination of the planned additional 1,000 police and 550 civilian hires for 1983.
- Full attrition of 2,090 officers and 471 civilians during 1984.

Education
- Provides $10 million for increases in special education costs in 1983.
- Reduction of $168 million or 6.4 percent of City funds, requiring an estimated reduction of 3,865 pedagogical and 1,243 non-pedagogical positions.

Sanitation
- Implementation of a private security contract to save overtime costs for uniform personnel currently providing security services on Sundays and Holidays.
- Elimination of the 550 person Clean Team, partially offset by additional overtime to augment existing street cleaning personnel, raising the base number of cleaners from 800 to 900.

Fire
- Reorganization of the Fire Command Structure resulting in the elimination of 3 of 53 battalions and 1 of 12 divisions.
- Reduction in manning from 5 firefighters to 4 in 73 Engine Companies while retaining 5 firefighters in 67 companies.
- Retirement of 100 limited duty and extended medical leave personnel.
- Transfer of 60 full-duty firemen from administrative functions to field operations.

Other Agencies
- Social Services—1,000 bed increase in City-run shelters for homeless men and women, and funding for up to 500 additional beds to be provided by community-based voluntary organizations.
- Corrections—Increased staff and new dormitory space to accommodate current and anticipated growth in the inmate population.
- Finance—Investment of $4.0 million in 1984 and $2.7 million in 1985 to continue implementation of the Computer Assisted Mass Appraisal project resulting in more equitable real property assessments.
The service impact of reductions in workforce will be lessened by additional gains in productivity.

The City continues to develop and implement management and productivity improvements.

Added to the $130 million in savings recurring from the 1983 productivity program, this plan includes $214 million in new productivity savings. Examples of some of the major initiatives are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased flexibility in work rules</td>
<td>$ 50.0</td>
</tr>
<tr>
<td>A reduction in the manning on 73 fire engines from 5 to 4, bringing the number of 4 man trucks to 144.</td>
<td>7.6</td>
</tr>
<tr>
<td>Improved collections from third-party payors in the Health and Hospitals Corporation</td>
<td>39.7</td>
</tr>
<tr>
<td>Expanding the error rate reduction program, improving reimbursement and providing better screening of client needs in public assistance programs.</td>
<td>24.0</td>
</tr>
</tbody>
</table>

The City's implementation of City and State Comptroller audit recommendations, which are not technically part of the PEG program, will have produced $245 million in productivity savings from 1979-1983. Some of these savings are included above.
The Financial Plan provides for increased reliance on local revenues.

Increases in taxes, while never popular, are a temporary necessity.

- During times of prosperity, City taxes were reduced. These reductions continue to provide savings to City taxpayers.

<table>
<thead>
<tr>
<th>Cumulative savings from prior year tax reductions through 1984.</th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Corporation tax rate reduction of more than 10% (1978)</td>
<td>300</td>
</tr>
<tr>
<td>Commercial Rent tax rate reduction of more than 20% (1978)</td>
<td>360</td>
</tr>
<tr>
<td>General Occupancy tax eliminated (1981)</td>
<td>4</td>
</tr>
<tr>
<td>Stock Transfer tax eliminated (1978)</td>
<td>2,130</td>
</tr>
<tr>
<td>Sales tax on the purchase of machinery and equipment eliminated (1978)</td>
<td>126</td>
</tr>
</tbody>
</table>

- The City has consistently maintained the lowest possible real estate taxes by not levying real estate taxes to our full legal taxing power and by adjusting senior citizen exemptions and rent freeze programs. As a result, property taxpayers will have saved $400 million from 1978-1984. Since 1977, City real estate taxes have increased only 25 percent as much as the full market value of taxable real estate.

- All of the savings shown above are net of increases proposed in this plan.

- Current fiscal pressures, however, will require tax increases to avoid counterproductive service cuts.

- The City is proposing a menu of revenue increases totalling $498 million, from which it seeks $260 million.*

<table>
<thead>
<tr>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock transfer tax $ 150</td>
</tr>
<tr>
<td>Impose a 10% Gains tax on large real estate transactions $ 30</td>
</tr>
<tr>
<td>Increase real estate tax rate $ 30-90</td>
</tr>
<tr>
<td>Increase tax rate and impose a 2-year 10% surcharge on non-resident earnings $ 94-102</td>
</tr>
<tr>
<td>Selected luxury tax increases $ 30</td>
</tr>
<tr>
<td>Increase gas tax by 4¢ per gallon $ 12</td>
</tr>
<tr>
<td>Increase taxi medallion transfer tax from 5% to 8% $ 2</td>
</tr>
<tr>
<td>Other revenue measures $ 49-82</td>
</tr>
<tr>
<td>Total $397-498</td>
</tr>
</tbody>
</table>

*With the enactment of the accelerated corporate tax payment bill the City has already obtained $40 million of the original $300 million requested.
The City's tax policy remains responsible.

Despite new taxes to offset revenue losses, City taxes as a percent of personal income will be almost 20 percent below the 1977 level.
The Capital improvement program remains strong.

* Forecast
** Includes repair and upgrade of bridges, roads, sewers and other components of the City's physical plant.
Growing and sustained access to public credit markets ensures continuing support for the City's capital needs.

- City Public Issues
- MAC Public Issues
- Water and Sewer Bonds

* Forecast

- Funding available from prior year resulting from 1981 transfer of $147 million from expense budget to capital budget
- Escrowed proceeds from prior year MAC financings to be used for capital purposes in 1984 and 1985