

# **New York: Priorities on the road to recovery**



ABOUT EDC. The Economic Development Council of New York City, an independent, non-profit organization of businessmen, was established in November, 1965, to help bring the capabilities of the business community to bear on vital urban problems. Its Officers and Directors are:

OFFICERS

George Champion  
*Chairman of the Board  
 and Chief Executive Officer*

Joseph A. Grazier  
*Vice Chairman*

Thomas F. Creamer  
*Vice Chairman*

Paul Busse  
*President*

Edward H. Tuck  
*Secretary*

Robert S. Hatfield  
*Treasurer*

BOARD OF DIRECTORS

David L. Benetar  
*Aranow, Brodsky, Bohlinger,  
 Benetar & Einhorn*

W. F. Brazeau  
*President  
 American Steel Export Co., Inc.*

Alfred Brittain III  
*Chairman  
 Bankers Trust Company*

R. Manning Brown, Jr.  
*Chairman  
 New York Life Insurance  
 Company*

Walter H. Brown  
*Brown Brothers Harriman & Co.*

L. A. Burcham  
*Chairman  
 F. W. Woolworth Co.*

George Champion  
*Economic  
 Development Council*

E. Virgil Conway  
*Chairman and President  
 The Seaman's Bank for Savings*

Robert J. Duffy  
*President  
 Duffy, Inc.*

Fayette S. Dunn  
*Chairman, Finance Committee  
 Otis Elevator Company*

Oscar L. Dunn  
*Senior Vice President  
 General Electric Company*

William M. Ellinghaus  
*Vice Chairman  
 American Telephone &  
 Telegraph Co.*

Dr. John T. Fey  
*Chairman  
 Equitable Life Assurance Society*

Owen J. Flanagan  
*Hauser, O'Connor & Hyland*

Harold J. Gallagher  
*Willkie Farr & Gallagher*

C. C. Garvin, Jr.  
*Chairman  
 Exxon Corporation*

Willard G. Hampton  
*Chairman  
 The Brooklyn Savings Bank*

Robert S. Hatfield  
*Chairman  
 The Continental Group, Inc.*

Harry B. Holmsiey  
*President  
 Holmsiey-Spear, Inc.*

Dr. Jerome H. Holland  
*Former Ambassador to  
 Sweden and  
 Director of Various Companies*

Lawrence Lachman  
*Chairman  
 Bicomingleate Brothers*

John E. Leslie  
*Chairman  
 Bache Halkey Stuart Inc.*

Gustave L. Levy  
*Senior Partner  
 Goldman, Sachs & Co.*

Charles E. Luce  
*Chairman  
 Consolidated Edison Company*

J. Paul Lye  
*Chairman  
 Sperry Rand Corporation*

James P. McAllister, Sr.  
*Chairman  
 McAllister Brothers, Inc.*

John I. McGillicuddy  
*President  
 Manufacturers Hanover Trust  
 Company*

Edward H. Michaelson  
*President  
 Phelps Dodge Industries, Inc.*

Hamilton E. Mitchell  
*Chairman, Executive Committee  
 Dun & Braistreet  
 Companies, Inc.*

Dr. Edward J. Mortola  
*President  
 Pace University*

John B. Mulhearn  
*President  
 New York Telephone*

Dr. James J. O'Leary  
*Vice Chairman  
 United States Trust Company*

Carl H. Pforzheimer, Jr.  
*Carl H. Pforzheimer & Co.*

Donald C. Platten  
*Chairman  
 Chemical Bank*

Edmund T. Pratt, Jr.  
*Chairman  
 Pfizer Inc.*

Gerald K. Ruggier  
*President  
 Hoine Life Insurance Company*

William J. Schieffelin, III  
*Chairman  
 Schieffelin & Company*

Martin J. Schwab  
*Chairman  
 United Merchants &  
 Manufacturers Inc.*

Donald V. Seibert  
*Chairman  
 J. C. Penney Company, Inc.*

Richard R. Shinn  
*President  
 Metropolitan Life Insurance  
 Company*

Jack I. Straus  
*Chairman, Executive Committee  
 R. H. Macy & Co., Inc.*

Edward H. Tuck  
*Partner  
 Shearman & Sterling*

Richard F. Tucker  
*President, North American  
 Division  
 Mobil Oil Corporation*

Gordon T. Wallis  
*Chairman  
 Irving Trust Company*

Henry G. Waltemado  
*Chairman  
 Dollar Savings Bank of  
 New York*

Walter R. Williams, Jr.  
*Chairman  
 Union Dime Savings Bank*

F. Perry Wilson  
*Chairman  
 Union Carbide Corporation*

Walter B. Wriston  
*Chairman  
 Citicorp*

# Tenth Annual Report 1975

---

## Table of Contents

---

### **New York: Priorities on the Road to Recovery**

Sooner or later, the City will have to reorganize and revitalize its management . . . EDC Chairman George Champion outlines a plan to realign the executive structure, beginning at the top with Deputy Mayors for organization and administration, goals and policies, and intergovernmental affairs

PAGE 2

### **Closing the Management Gap**

**In the Administration of Justice.** In 1975, Task Force studies of the Family Court continued . . . Reorganization of the State Office of Court Administration was implemented

PAGE 5

**In the Human Resources Administration.** EDC's "modular plan" for determining eligibility for public assistance was advanced in 1975 . . . J. Henry Smith became HRA Administrator

PAGE 7

**In the City's Public Schools.** 1975 saw major projects moving toward implementation in the Board of Education . . . Task Force priority was given to restructuring of the Board itself

PAGE 9

**In the City's Mitchell-Lama Housing Program.** Following an EDC research report, a 1975 Task Force completed a reorganization plan to put the program back on a self-liquidating basis

PAGE 11

### **School Self-Renewal—Challenge and Response**

In 1975, eight more inner city high schools joined in the construction of a "model" for self-revitalization of the educational process . . . National application is the goal

PAGE 13

### **The Facts and the Future**

1975 EDC research reports: (1) urged a City salary "freeze" to reduce the deficit by \$420 million a year and (2) threw new light on the City's troublesome rent control problem

PAGE 15

### **Issues and Actions—What Citizens Need to Know—and Do**

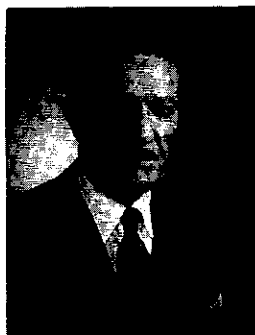
New York can regain its leadership as a great "city of opportunity"—but citizen action is vitally needed. Major problems are identified and answers indicated

PAGE 17

### **Financial Statements of the Economic Development Council**

PAGE 21

# New York: Priorities on the road to recovery



**GEORGE CHAMPION**

*Chairman and Chief Executive Officer  
Economic Development Council of New York City*

**Modern Management—the Vital Need.** In 1975, a series of emergency measures helped New York City to weather the first shock of an unprecedented fiscal crisis. Today, first priority must be given to the vital need for more efficient organization and management of the City's governmental operations. Only by this means can the underlying cause of the crisis be corrected.

In this respect, New York's position is very like that of a troubled business corporation. When a company's credit standing is impaired, financial "first aid" is required. Steps must be taken to reexamine the company's assets and liabilities, cut its losses, revise its debt structure, and gain "breathing time" in which to chart a new course toward competitive strength.

This is Step One—but it is only Step One—on the road to recovery. In Step Two, the company's operating management must be completely reorganized and revitalized. Executives of outstanding ability, experience, and leadership must be assigned to key positions. Lines of authority and responsibility must be clearly drawn. Methods and systems must be thoroughly modernized. Goals, policies, and priorities must be specifically defined.

Unless these things are done, the company will go right on operating at a loss, making the same mistakes, turning out unacceptable products at impossibly high prices, falling further behind its competitors, making ruinous labor agreements, and getting deeper into debt past all hope of repayment. Investment capital is not attracted to bottomless pits. The only alternative to complete disaster, then, is management reorganization.

**The "Management Gap" and the Job Drain.** For the same reason, New York City faces the same choice. New York is, indeed, a giant corporation, ranking in size and expenditures with the nation's

eighth largest industrial company—and facing stiff competition in the urban market place.

New York's "product line" consists of the governmental services it renders to its citizens in public safety, education, health, housing, transportation, and so forth. The quality of these services has deteriorated sharply in recent years while their cost has skyrocketed. In a period of immense expansion, the City's meager managerial capabilities have been overwhelmed. The resulting "management gap" is the real cause of the fiscal crisis.

This brings us to an assessment of the heavy damage which excessively costly and inefficient government has wrought upon the entire New York economy. The City has been literally "pricing itself out of the market" as a location for business investment and development. Mountainous tax burdens have driven thousands of businesses, large and small, out of the city.

Indeed, New York has lost more than 550,000 private sector jobs—the very life blood of any city's economy—since 1969. This tragic trend is self-accelerating. As the tax base narrows, tax rates climb still higher, revenues decline further, and employment continues to sag. At long range, there is only one way in which to turn this trend around—regardless of temporary expedients—and that is to attack the cause of the crisis at its very roots.

**The Choice the Cities Must Face.** Sooner or later, therefore, New York will have to mend its managerial ways, bring its ungainly and extravagant government under control, and get back on the road to fiscal and economic recovery. Sooner or later, the citizens of New York will have to demand—and get—the governmental services they deserve at a price they can afford to pay. This is the choice New York faces now. This, I believe, is the choice many other fiscally-dis-

tressed American cities will have to face, sooner or later.

Since the cities are the primary generators of our national economic strength, there is much at stake in this issue. Taking New York as an example, it is clear that the cities cannot be "saved" by massive infusions of federal funds—nor can the federal government "bail out" urban deficits indefinitely in view of its inability to balance its own budget.

Concern over the expansion of the federal government in cost, size, and power has tended to obscure the fact that local government is today the nation's greatest "growth industry." Its total employment has risen since 1950 from 3.2 million to 9 million—and its expenditures from \$17.4 billion to more than \$132 billion. In an area of such magnitude, inefficiency and mismanagement can inflict a terrible penalty on the entire national economy.

**Hope Ahead—the Task Force Experience.** Paradoxically, New York, scene of the first major urban fiscal crisis, has made unprecedented progress in the application of business capabilities to problems of governmental management. Since 1970, Task Forces of "on loan" business executives, formed by the Economic Development Council at the request of top City officials, have helped substantially to increase efficiency in four key governmental areas.

It is no longer a theory but a documented fact, therefore, that business and government can work effectively together to close the City's "management gap"—

1. **In the Administration of Justice.** In 1975, an EDC Task Force made an intensive study of the organization and operation of the Family Courts of New York City and State. Its precedent dates from 1970 when the first "on loan" team conducted a top-to-bottom study of the City's vast Criminal Court system. Within three years, the courts' backlog of unfinished cases was reduced from 59,000 to 13,500 with no increase in the number of judges and court personnel (See Page 5).
2. **In the Human Resources Administration.** In 1975, EDC specialists worked with New York State and federal agencies, to perfect a "modular" plan to determine eligibility of public assistance recipients. Here a wide margin of error has long marred the administration of welfare and social services, locally and nationally (See Page 7).
3. **In the Board of Education.** In 1975, a Management Information System was taking shape in the City's huge, 966-school system

of public education. This is one example of the managerial improvements which EDC "on loan" executives have helped the Board of Education to install since 1970 (See Page 9).

4. **In Mitchell-Lama Housing.** In 1975, an EDC Task Force made an intensive analysis of the City's Mitchell-Lama middle income housing program. Recommendations were placed before City officials for the more efficient management of this complex of 139 apartment houses containing 59,000 housing units (See Page 11).

Another significant application of the "on loan" principle is found in the EDC-initiated School Self-Renewal Program designed to improve educational effectiveness in New York's "inner city" high schools. In 1975, this program was extended to a total of 16 schools in disadvantaged areas (See Page 13).

**Aimless Governmental Growth—the "Policy Vacuum."** In no other city in America has the business community responded so strongly to the urban challenge as in New York. All told, some 181 person-years of skilled executive time, valued at \$4.8 million, have been invested in EDC's "on loan" programs by member companies—at no cost to New York City.

Budgetary savings of \$80 million a year in City operations have so far been attributed to the work of the Task Forces—yet potential additional savings of more than \$700 million a year remain to be realized. Why? For one thing, City officials have lacked a sense of urgency, unaware of the force and magnitude of the fiscal crisis which was building up around them like a tidal wave.

Under these circumstances, citizens were simply not getting the facts about the City's deepening plight. By force of habit, officials have allocated expenditures in response to the demands of pressure groups and clubhouse politicians. As a result of the "management gap," the City has drifted into a "policy vacuum" in which immensely expensive commitments have been undertaken with little or no regard for their ultimate cost or benefits.

**Public Information—and Action.** By far the best safeguard of self-government is an informed citizenry. New Yorkers had no way of knowing, for example, that between 1966 and 1975 City labor costs would rise from \$2.1 billion a year to \$6.4 billion, pension costs from \$412 million to \$1.6 billion, debt service from \$559 million to \$2.4 billion—or that public sector salaries would reach a level 25 percent above the private sector, exclusive of fringe benefits.

Research has been a major concern of EDC from its inception. Even after the City's fiscal crisis became a stark reality in 1975, hard facts concerning New York's plight have been difficult to come by in some areas (See Page 15).

### **Reorganization at the Top—a Crucial Need.**

Looking beyond the emergency measures which the crisis has induced, we see the need for basic functional alignments in City Hall's top management. Mayor Beame has lately made some very encouraging moves by bringing executives of real experience and stature into key posts in the City Administration. At long range, I believe, there should be three Deputy Mayors to energize the three functional areas which efficient management requires.

One Deputy Mayor would be responsible for inter-governmental affairs and the maintenance of communications on the complex policy and political problems which confront every Administration.

Under the second Deputy Mayor for organization and administration, all major operating functions would be brought together, including direct supervision of the Bureau of the Budget and the Department of Personnel. In labor relations, this official would provide accurate data on the fiscal impact of collective bargaining agreements—and make their terms known to the public. In addition, the second Deputy Mayor would have responsibility for organizational planning, productivity and performance review in all the City's many administrations, departments, agencies, bureaus, and boards.

Critical to the work of the second Deputy Mayor would be the formation of a continuously functioning advisory committee. This body would review performance reports, evaluate the effectiveness of departmental administrators, serve as a "sounding board" on policy issues, and recommend the selection of the best-qualified candidates for senior managerial positions throughout the government.

To maintain continuity, the advisory committee members would be appointed by the Mayor on a five-year, rotating basis. A majority of the members would be chosen by the Mayor from the recommendations of the City's 60 largest employers. This committee, by its very existence, would give assurance to businesses, large and small, that City operations were being constantly monitored. And it would provide senior City executives with a review board whose members understand management problems.

The third Deputy Mayor would be responsible for setting goals and priorities for the City at long range and short. Thus, for the first time, we would have a mechanism—and a public forum—for determining where the City stands and where it is going—in terms of "the greatest good for the greatest num-

ber." Here, too, an advisory committee should assist in planning and policy review.

**Civic Reawakening—a Year of Decision.** In this crucial year of decision, the road to fiscal and economic recovery is clearly marked. It must be pursued with energy and determination. For this we need a "civic reawakening." Specifically, we need a "citizen constituency," composed, on a non-partisan basis, of people in business, civic, labor, women's and professional groups throughout the city. Informed, aroused, and articulate, these "constituents" can work to close the City's "management gap," fill the "policy vacuum," and insist on policies, priorities, and programs in accordance with the real needs of the people and their ability to pay.

This is not visualized as a political movement focused on the search for some "knight in shining armor." It should be based, instead, on the realization that a citizen can vote for good governmental management every day of the year with letters, phone calls, resolutions, personal visits to officials, speeches, and participation in group discussions. In this way, all officials—and candidates—will have to bend to the wind of a new force in public opinion.

Is this concept "unrealistic?" It might have seemed so a few years ago. But today, we see a city in crisis. Jobs are in jeopardy, futures are clouded, opportunities are being foreclosed on every hand. Already there are strong signs of a "civic reawakening."

### **The Bicentennial Revolution—Why Not Now?**

Thomas Jefferson said: "You will get as bad a government as you will tolerate or as good a government as you deserve." It has been neglect of this principle which has brought New York to its present plight.

Today, the mushroom growth of local government is threatening the stability of the national economy and weakening freedom at the source closest to home.

The first American Revolution was a long time in the making—the second is long overdue. If citizens are going to regain control of government, it is literally "now or never." New York, where so much of the first Revolution took shape, is the best place to begin the second.



Chairman and Chief  
Executive Officer

June 15, 1976

# CLOSING THE MANAGEMENT GAP



## in the Administration of Justice

In the application of business capabilities to governmental management, much depends on executive planning, direction, and leadership. EDC Vice Chairman Joseph A. Grazier has given overall guidance to the Task Force program since its inception in 1970. Major precedents have been set in this uncharted field as "on loan" teams explored ways to help reorganize and modernize the administration of justice in New York City and State. "Blueprints" have thus been developed which may prove nationally significant as the need for reorganization and efficiency in all areas of local government becomes increasingly apparent.

### DEVELOPMENTS OF 1975

**Family Court, the State Courts, CJCC.** New Task Force assignments continued in 1975 to involve EDC in the widening problems of the administration of justice. For example:

- in 1974, a Task Force began a study of the New York City Family Court including related probation functions. In 1975, this project was combined with a federally funded study, still in progress, of Family Courts in other New York State cities. This is a critical area. The Family Court can often affect the destiny of a juvenile who, if not rehabilitated, may become an adult criminal offender
- with the leadership and support of State Chief Judge Charles D. Breitell, an intensive Task Force study of the organization and operation of the State Office of Court Administration was completed in 1974. Implementation was substantially completed by 1975 by State Administrative Judge Richard J. Bartlett
- a Task Force report, made public in 1975, analyzed the organization and operations of the New York City Criminal Justice Coordinating Council (CJCC). This body administers the allocation of \$18 million a year in federal crime-fighting funds to all areas of the City's huge network of criminal justice agen-

cies—police, corrections, and the courts. Substantive recommendations for more effective operation have been made and a complete reorganization of CJCC has been undertaken.

The 1975 developments evolved from a succession of Task Force studies over a period of five years. Each study revealed new needs for application of the "on loan" principle. Implementation of reorganization plans is critically important as the record shows.

### FROM THE BEGINNING

**The Problem: Criminal Court Congestion.** In 1970, New York City's 98-judge Criminal Court system was clogged with a backlog of 59,000 unfinished cases. The jails were jammed with defendants awaiting trial. New cases, pouring in at the rate of 200,000 a year, added to the backlog. This gave rise to a widespread cry for more courts, more judges, more manpower, and more money.

**Indicated Action: Reorganization.** One alternative was the reorganization and improved management of the Criminal Court operation. This had never been tried. But in July, 1970, EDC's first business assistance Task Force was formed at the request of Presiding Justice Harold A. Stevens. Ten management specialists, "on loan" full-time from three major

insurance companies, went to work under the direction of EDC Vice Chairman Grazier, recently retired as Board Chairman of American Standard Inc.

After an intensive, top-to-bottom study, the Task Force made specific recommendations for restructuring the Court system, establishing clear lines of authority and responsibility, and modernizing records management, work measurement, cost control, and personnel administration.

**Implementation and Results.** Newly appointed Administrative Judge David Ross acted promptly and vigorously to implement the Task Force recommendations. In less than three years:

- the backlog of unfinished cases was reduced from 59,000 to about 13,500
- the average time needed to dispose of a case was cut from nine weeks to less than four weeks
- the number of defendants in detention awaiting trial was reduced from 4,000 to about 1,300. This obviated the construction of new jail facilities at an estimated cost of \$45 million
- a complicated tangle of specialized court "Parts" was simplified. (The Task Force had found that a single Criminal Court defendant was often required to appear before five different judges before a case could be disposed of)
- the system's first organization chart was adopted. (When the study started, a top court administrator told the Task Force: "The best thing you people can do for me is to find out who my boss is.")

These things were done without any increase in the number of judges and court personnel—and at no cost to the City. In fact, savings of \$6.7 million a year were documented by outside accountants as a result of administrative improvements adopted in the first 18 months.

**Unified Administration—the Supreme Court.** The Criminal Court experience set a useful pattern for subsequent Task Force operations. It also uncovered the need for reorganization in other courts. For example, the Criminal Court disposes only of misdemeanor cases while felony cases are sent, after indictment, to the Criminal Branch of the Supreme Court for disposition. Thus increased efficiency in the Criminal Court actually had the effect of increasing the caseload on the "criminal side" of the Supreme Court.

In 1972, a new Task Force, headed by EDC Vice President Richard F. Coyne, studied this prob-

lem. The group recommended the unification of the Criminal Court and the Criminal Branch of the Supreme Court with a common management structure under a single Administrative Judge. Again Justice Ross led the implementation. Duplications were resolved, management procedures were modernized—and, in one year, the number of Supreme Court defendants in detention awaiting trial was reduced by 25 percent.

**"Bench Time" of Judges Increased.** In 1973, a third Task Force, also directed by Mr. Coyne, made a study leading to the restructuring and modernization of the Civil Branch of the Supreme Court in Manhattan. And in 1974, Justice Ross became the first New York City Administrative Judge in charge of the largest urban court system in the country including all Supreme, Criminal, Civil, and Family courts—with 400 judges and 6,000 employees.

In a new spirit of interchangeability, judges from one court are "filling in" to help break bottlenecks in another. The available "bench time" of judges was substantially increased in the Criminal Court and, beginning in 1975, in parts of the Supreme Court served by Acting Supreme Court Justices from the Criminal Court Bench.

## LOOKING AHEAD

**Implementation, New Projects.** Continued implementation of Task Force findings will be a foremost concern in 1976—and beyond. As noted, the Family Court study continues on a statewide basis. Work also continues on the State Court program, certain aspects of the Supreme Court, and the Criminal Justice Coordinating Council.

The feasibility of new Task Force projects in other areas of the criminal justice system was under discussion at the end of 1975. Spurred by the City's fiscal crisis, major new studies may be launched in 1976—if sufficient funds and "on loan" manpower can be marshalled.

**The "Bottom Line."** All told in the period 1970-75, some 36 person-years of "on loan" managerial time valued at \$949,000 were contributed by business to the Task Force programs without cost to the City. Substantial budgetary savings have been documented but the greatest gain lies in the demonstration that the governmental "management gap" can, in fact, be closed. Chief Judge Breitel has said that: "EDC has been one of the brightest lights I have seen in the courts during the past 25 years." Already well known in legal circles throughout the country, the example of the court Task Forces points the way to the revitalization of local government in New York and many other cities.

# CLOSING THE MANAGEMENT GAP



## in the Human Resources Administration

In most cities, the delivery of social and welfare services constitutes a formidable management problem. In New York, an uprush in the number of recipients, beginning in the 1960's, created a towering administrative and financial burden. The welfare rolls increased from 448,000 in 1965 to 1.1 million in 1975, in fact, while total welfare/social services expenditures rose from \$525 million a year to \$2.6 billion during the same period. In 1970, in response to a request from City officials, an EDC Task Force was formed to make a complete study of the City's Human Resources Administration (HRA). The mixed history of this venture—with its “ups and downs”—contains some significant lessons in government reorganization and management.

### DEVELOPMENTS OF 1975

**Progress in Eligibility Determination.** In New York and nationally, a knotty problem is the correct determination of eligibility for recipients of welfare and related services. This process is so complex and cumbersome that wide margins of error have developed. Nationally, in fact, a federal survey showed that more than 10 percent of those receiving public assistance were ineligible, 23 percent were overpaid, and 8 percent underpaid.

In 1975, substantive progress was made toward the completion of an EDC Task Force plan for a “modular approach” to eligibility determination. This plan provides for the use of “decision tables” to clarify and systematize the application of a huge mass of confusing rules and regulations. In 1973, the plan was pilot-tested by HRA in cooperation with the New York State Department of Social Services. The results were reported to the U.S. Department of Health, Education, and Welfare (HEW) which then authorized a grant of \$257,000 for further testing.

National application of the plan is now the objective. New processing procedures were developed in 1975 under state-federal auspices in preparation

for larger-scale testing of the plan during 1976 at two welfare centers in New York City. Further federal support, contingent on these tests, can pave the way to solution of a problem which is currently causing a national loss estimated at more than \$1.2 billion a year.

### FROM THE BEGINNING

**The Problem: Confusion in HRA.** New York City's immense Human Resources Administration (HRA) was created in 1966 to consolidate a variety of welfare and social services into a single “super-agency.” Instead, HRA turned out to be “a body with a head, looking down on but not controlling any of the limbs.” Duplication and delay created confusion in all areas. Tangled lines of authority and responsibility made it all but impossible to fix accountability for the inefficiency and ineffectiveness which threatened a breakdown in the entire operation.

**Indicated Action: New Structures, New Systems.** In 1970, Jule M. Sugarman, newly appointed HRA Administrator, called on EDC for management assistance. Under the direction of Vice Chair-

man Grazier, a ten-member Task Force of "on loan" executives was formed. High priority was given to reorganization. Accordingly, the group joined HRA management in recommending a comprehensive Reorganization Plan to consolidate 19 ill-assorted agencies and bureaus into five "line departments," clarify lines of authority and responsibility, and strengthen the managerial capabilities of HRA in every area.

**Change at the Top—and a Setback.** Things went well at first. By mid-1973, HRA was well on its way to achieving a strong line-delivery system. Potential operating economies of \$356 million a year seemed well within reach. Then came an abrupt change in the HRA top command—and in official cooperation with the Task Force program. By the end of 1973, reorganization came to a virtual halt and Task Force operations were reduced to a bare minimum.

This experience illustrates the vital necessity for strong executive ability, experience, and leadership in governmental top management. The road to reorganization and efficiency is never smooth, in any case, but there must be a driving force to make the program go.

Despite later frustrations, some significant accomplishments were recorded during the early period of close cooperation between HRA and the Task Force headed by EDC Vice President Harold A. Finley, assisted by Vice President Anthony M. Morelli. The "modular approach" to eligibility determination was one of a number of promising projects conceived in the years from 1970 to 1973.

For example, major steps were taken toward the citywide coordination of employment services. The Task Force found three separate but parallel employment systems involving 327 agencies. On its recommendation, a single Department of Employment was established within HRA. A Comprehensive Manpower Center was opened, uniting for the first time the facilities of the City with the "job bank" of the New York State Employment Service. This has worked well. Many other such Centers should be created.

#### **Productivity Improvement Opportunity Found.**

As another example, a pilot study revealed that at least a 20 percent improvement could be achieved in HRA employee productivity through operational change—with further improvements available through work measurement and scheduling. A plan was developed for a comprehensive internal accounting system for HRA. But these and many other noteworthy management improvements haven't gotten beyond the "pilot" stage because the will to implement them was no longer present.

## **LOOKING AHEAD**

**Steps Toward Implementation.** Thus we see that, despite setbacks, substantial gains have been made. We can, in fact, attribute budgetary savings of \$35 million a year to the recommendations of the Task Force which represents an investment, through 1975, of some 32 person-years of contributed executive time valued at \$794,000. But what about the potential savings of \$356 million a year which continued implementation could have achieved? What steps could be taken to stimulate implementation of the Task Force recommendations?

Step One is to analyze HRA's "unfinished business," identify the objectives not yet attained, and determine their priorities. These would include the updating and implementation of the basic concept of the HRA-Task Force Reorganization Plan; reconstruction of HRA's in-house management capability to strengthen fiscal controls and improve productivity; and extension of coordinated employment services. In short, the goal is to make HRA an effective means of "helping people to help themselves."

**A New Administrator Takes the Helm.** Hope for revitalization of HRA on a firm basis is found in the appointment by Mayor Abraham D. Beame on March 15, 1976, of J. Henry Smith as Administrator of this huge governmental operation. Mr. Smith retired as Board Chairman of the Equitable Life Assurance Society in 1975 to become Vice Chairman of EDC. His acceptance of the HRA post will supply the kind of experienced leadership so vitally needed to impart efficiency and effectiveness to a chaotic and sensitive area of government.

# CLOSING THE MANAGEMENT GAP



## in the City's Public Schools

New York City's far-flung public school system, administered by the Board of Education (BOE), includes more than 960 schools serving 1.1 million elementary and junior and senior high school pupils. In the six years before 1971, the BOE budget increased by 80 percent to \$2.5 billion and the number of school employees rose by 25 percent to 130,000—while total enrollment increased by only 7 percent. Yet the educational effectiveness of the system was in drastic decline. This was the challenge which confronted an EDC Task Force, formed by unanimous request of the Board and Chancellor, in 1971. The Task Force, under the chairmanship of EDC Vice President Edward A. O'Rorke, has since been blazing new trails in a vast "administrative wilderness." Significant gains to date have served to reveal additional needs for management action.

### DEVELOPMENTS OF 1975

**Management Information System, "CSD's."** At the end of four years of cooperation between the Board of Education and EDC, a number of major projects, launched at an earlier date, were nearing maturity. Outstanding developments of 1975 include:

- plans for a comprehensive Management Information System for BOE moved closer to reality with key components—audit investigation, payroll processing, purchasing, and inventory control—researched and ready for implementation
- development of a "model" for the organization and operation of the City's 32 Community School Districts neared completion
- the groundwork was laid for the creation of a citywide Council on Education to unite all elements of the public and private sectors—business, the schools, labor, community, and professional groups—in a sustained effort to make public education more effective.

### FROM THE BEGINNING

#### **The Problem: Confusion, Red Tape, and Delay.**

In its initial, top-to-bottom study of the school system, the Task Force found an almost total lack of the most basic tools of modern management. At the BOE central headquarters at 110 Livingston Street, Brooklyn, a topheavy bureaucracy generated confusion, red tape, and delay. An uncharted jumble of bureaus and agencies created an "administrative wilderness" which blocked action and decision at every turn. The more it grew and the more it cost, the more inefficient the school system became.

#### **Indicated Action: Better Management—Where to Begin?**

Top school officials, acutely conscious of their problems, saw the need for sweeping change—but they hardly knew where to begin. The Task Force gave early attention to problems of organization and operation. This was a long and arduous process since basic information was lacking on such questions as budgeting, accounting, auditing, personnel administration, purchasing, inventory control, and many other aspects of management.

Task Force Chairman O'Rorke and his aides worked closely with school officials in the effort to straighten out lines of authority, responsibility, and accountability while installing business systems and procedures commonly found in well-run companies. In the course of its analysis, the Task Force found many examples of the need for change:

- in the BOE warehouses were a 20-year supply of chalk and enough crayons to last 84 years
- qualified teachers and even principals were doing "administrative" work, such as handling card files, at 110 Livingston Street
- new teachers had to wait an average of six months to get their first paychecks—more than 90 percent of which were then incorrectly made out. In fact, \$8 million a year was being paid to teachers who had actually left the payroll.

**Implementation and Results.** In 1973, the Task Force proposed—and the Board of Education unanimously adopted—a far-reaching Reorganization Plan. This reshaped the ill-ordered BOE structure into two main functional lines—one for Educational Services reporting to the Chancellor, and one for Management, reporting to the Deputy Chancellor.

When work began in 1972 on the development of a comprehensive Management Information System for BOE, Chairman O'Rorke estimated that this would take several years to complete. As part of the process, the Task Force was helping to install modern budgeting, auditing, and accounting systems, as well as up-to-date personnel procedures. Among the results:

- 60 different payrolls were reduced to 11. Processing procedures were modernized and, by the end of 1973, paychecks were delivered promptly and accurately throughout the system—and paid only to those whose names belonged on the payroll
- purchasing forms were simplified and expedited and warehouse inventories were brought under control. Some 8,000 different stock items are presently controlled and listed. The Task Force is working to reduce the number—eventually by as much as 50 percent
- at EDC's suggestion, BOE adopted an Educational Accountability Program designed to identify schools which are deficient in educational effectiveness and to initiate remedial projects.

**"Return on Investment."** By the end of 1975, a cumulative total of 45 person-years of executive time,

valued at \$1.2 million, had been contributed by business to the BOE Task Force—at no cost to the City. Operating economies of more than \$10 million a year have so far been documented. Potential additional savings are coming into view as implementation proceeds. These include: \$30 million a year in payroll processing, purchasing, and inventory control; \$70 million a year through the Management Information System; and \$250 million a year through full implementation of the 1973 Reorganization Plan and related management studies.

## LOOKING AHEAD

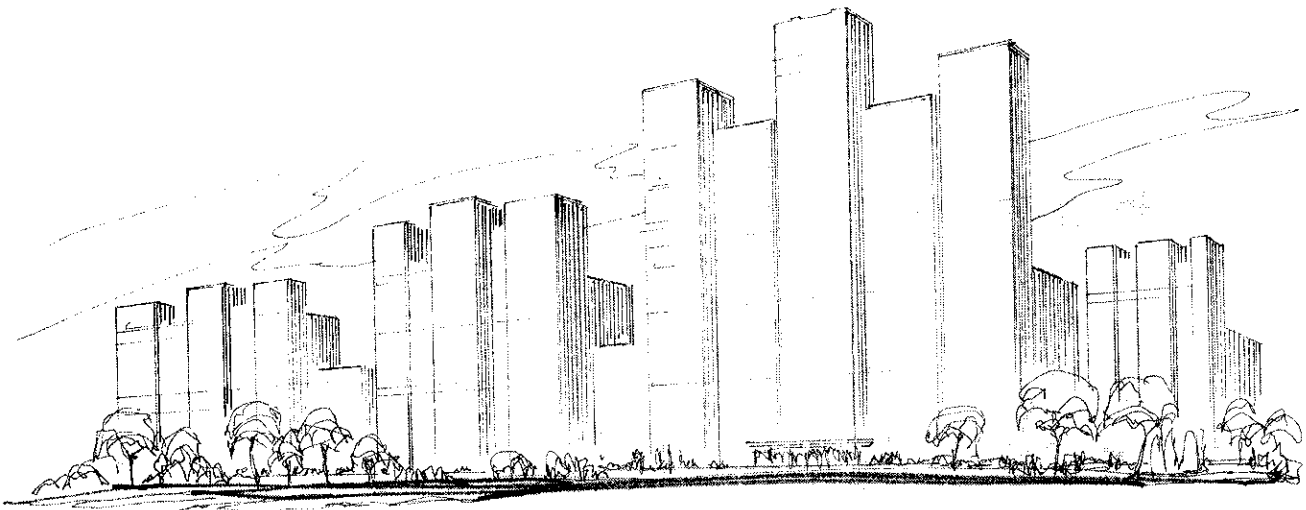
Among 1976 Task Force priorities are: (1) The first operational introduction of the Management Information System (2) Completion of the "model" organization plan for 32 Community School District operations based on in-depth studies of six Districts (3) Further implementation of the plan for warehousing standards, purchasing procedures, inventory control, and distribution (4) Completion of an overall budget and fiscal services study (5) Continuation of executive development and leadership training for BOE managerial employees (6) Introduction of a management compensation grade and evaluation study for administrative employees, and (7) Completion of a Management Priority Review program whereby all facilities of the educational system are reviewed by the full Board, Chancellor, and Deputy Chancellor to determine the proper allocation of available funds and the setting of goals, responsibility, and accountability for each department head.

For the future, there is need for a computerized Educational Information System which will enable the schools, through a central data bank, to schedule all students, by class and subject, keep exact attendance records on a daily basis, and authenticate New York's claims to state and federal educational assistance funds.

Highest priority must be given, however, to the restructuring of the Board of Education itself. The present Board is overly involved in the daily operations of the school system which detracts from its more natural role of policy maker.

As now conceived, the Chancellor, assisted by a policy-making Board of Trustees, must be the head of a clearly defined operational chain of command aided by highly qualified executives both in education and administration at all levels. Legislative change will be required to clarify today's blurred lines of BOE authority, responsibility—and accountability. This is of vital concern to administrators, teachers, parents, community leaders and, in fact, all citizens who want New York's public schools to take a foremost position in educational effectiveness.

# CLOSING THE MANAGEMENT GAP



## in the City's Mitchell-Lama Housing Program

Originally conceived as a "self-liquidating" venture, New York City's Mitchell-Lama middle income housing program includes 139 apartment houses containing 55,000 dwelling units. Under state law, the City subsidizes the program with long-term, low-interest mortgage loans and tax abatements. The City's Housing and Development Administration (HDA) supervises the management of the buildings, extends loans, controls rents, and carries responsibility for conducting the program without cost or loss to the City's taxpayers as a whole.

### DEVELOPMENTS OF 1975

**A "Major Fiscal Crisis" and a Task Force.** In 1975, an EDC research study found that the Mitchell-Lama program was facing "a major fiscal crisis which must ultimately impose serious burdens on the City's already troubled budget." About 75 percent of the buildings were in arrears in their debt service and fee payments. The deficit, already \$26 million, was growing at the rate of \$18 million a year.

At the request of Mayor Beame and HDA Administrator Roger Starr, EDC formed a Task Force to make a comprehensive, in-depth study of the program's organization, management, and policies. The Task Force included 15 "on loan" executives, headed by EDC Vice Chairman Grazier.

After six months of intensive study, the Task Force filed a series of specific recommendations for complete administrative reorganization of the program. The report warned that Mitchell-Lama arrearages could force a charge of \$500 million against the hard-pressed City's debt limit within a year.

**Temporary Notes Prove Costly.** "A special problem results from the \$1 billion of temporary notes that the City has issued in order to advance loans to the projects," the report said. "The cost of borrowing, which is theoretically passed on to tenants, has doubled in the last two years, placing severe upward pressure on rents." The report, while recognizing the City's present financial condition, urged a return to a policy of long-term debt and fixed interest rates as soon as possible.

"By and large, the revenue structure of the program, as represented in rents and carrying charges, is insufficient to cover all operating and debt-service costs," the Task Force said. "There is little hope that adequate rent hikes will be forthcoming under present policies and practices."

Chief Task Force recommendations were: (1) Adjustments in rents and carrying charges to cover the "full cost" of operations (2) Vigorous measures to collect arrearages including foreclosure in some cases (3) The sale of some properties (4) Direct sub-

sidies for low-income tenants where proven necessary, and (5) The use of income tax data to support tenant statements of income status in applications for subsidy aid.

While urging that "full cost" rent and carrying charge schedules should be the goal of Mitchell-Lama administration, the report recognized at the same time that: (1) In some developments, "full cost" rents would exceed the real "market value" suggesting that the property should be liquidated, if possible, and (2) In some other developments, "full cost" rents would work a hardship on lower-income tenants—in which case, direct tenant subsidies should be paid according to needs established in individual cases.

**Tenant Income Facts Needed.** The report urged that HDA be required "to discharge its supervisory responsibilities without political interference and in keeping with the original legislative intent to foster self-liquidating middle income housing."

"Accurate tenant information, corroborated by official income tax data, must be available to HDA," the Task Force said. The report cited two provisions of the City's "Merola Law" governing Mitchell-Lama administration. One provision prevents HDA from verifying tenants' income statements with the City income tax authorities. The other states that rents and carrying charges can be increased only at two-year intervals. The Task Force recommended that the City Council rescind both provisions.

With reliable income information, the City could administer a system of flexible tax abatement geared to each tenant's income, the Task Force said. The report recommended scrapping the present tax abatement system in favor of one that tailors the property tax bill to each tenant's financial condition. Thus higher-income residents would pay proportionately higher taxes.

**Added Subsidies Complicate Problem.** In analyzing the basic causes of the City's Mitchell-Lama problem, the Task Force noted that the program, as originally conceived, provided only two direct subsidies—federal tax-free borrowing advantages and local property tax exemption. But additional subsidies have since crept into the program in the form of increased tax abatement, senior citizen assistance, and restrictions on supervision, and on prompt recovery of increased costs (the Merola Law).

"That inflation, political interference, and permissive supervision have eroded the intended self-liquidation of the housing portfolio is unquestioned," the report stated.

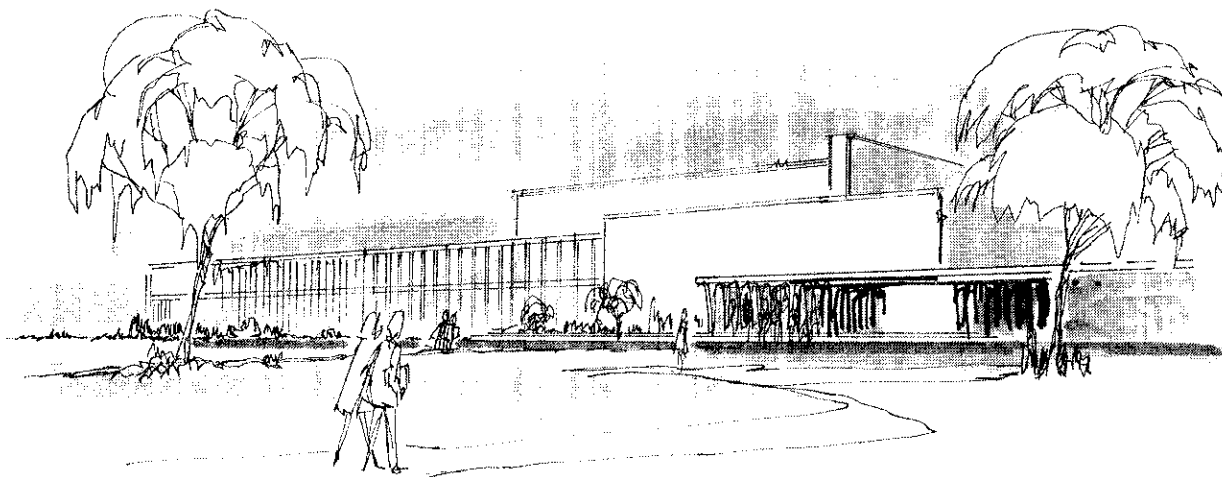
## LOOKING AHEAD

There were strong indications, at the start of 1976, that HDA Administrator Starr and his staff were moving on implementation of the Task Force report in major areas:

- to establish two basic functional arms for the program, one to coordinate all apartment operations, the other to provide all fiscal and support services
- to schedule rent hearings in all houses
- to take a "tougher" attitude on problems of arrearage in debt and service payments, and
- to institute new mortgage billing and accounting procedures, including monthly operating reports from each house.

For the future, the Mitchell-Lama Task Force study, if fully implemented, can have significant influence on governmental management of housing projects—one of the most complex and critical of urban problems in New York and other cities.

# SCHOOL SELF-RENEWAL



## Challenge and Response

In 1968, an EDC research report revealed a dismaying percentage of dropouts and “rejects” in New York’s inner city high schools. In the following year, an EDC survey of the city’s clerical manpower needs showed that the high schools simply weren’t producing enough young people prepared to fill those needs—even at “entry level.”

This was the beginning, in 1969, of the EDC-sponsored School Partnership program in four City high schools in disadvantaged areas. Teams of young, “on loan” executives worked with administrators, teachers, students and parents in a search for new ways to motivate young people toward further education and careers. Scores of innovative projects were tested, many of which proved to have significant “multiplier effect” when adapted for use in other, similar schools.

In essence, the Partnership program was a venture in educational “research and development.” It thus evolved logically into what is now known as the School Self-Renewal Process. This aims to translate the Partnership experience into a working “model.” Acting on its own initiative, a school can thus adapt the “model” to its own needs, using its own resources, and shaping its own future. Ultimately, the Self-Renewal concept can be applied by any inner city school not only in New York but throughout the country.

### DEVELOPMENTS OF 1975

**Eight More Schools—Workshops Tested.** In its first phase, the School Self-Renewal Process involved eight City high schools, including the original Partnership four. In 1975:

- the program was extended to eight more schools. Since participation is wholly optional, this clearly indicates a quickening of interest in the Self-Renewal concept
- the first program-wide series of Professional Development Workshops was completed. This brought together the administrators, teachers, and key personnel of all 16 schools to exchange information and ideas concerning the progress of Self-Renewal in all areas

- the Board of Education’s Self-Renewal Model Team carried forward the development of an overall “blueprint” for future use in schools in New York—and other cities. Within the schools, Action Research Teams were formed to study Self-Renewal progress and pass their findings along to the Model Team.

**The Schools Tap Their Own Resources.** EDC Vice President Floyd O. Flom has directed the project since it began with the first School Partnerships in 1969. In the course of its evolution, School Self-Renewal has had strong support in manpower and funds both from EDC member companies and from the Board of Education’s Division of High Schools. Foundation grants have given added impetus to the program.

Dr. Flom reports that Self-Renewal can now be installed by the schools with a minimum of outside consultation. Meanwhile the schools are discovering, within themselves, untapped sources of initiative, skill, and enthusiasm for new ways to make education more effective.

## FROM THE BEGINNING

**The Problems—Massive and Vexatious.** When EDC and school authorities joined forces seven years ago, the School Partnership concept had been tested, but never fully explored, in several other cities. Only after intensive feasibility studies did the EDC "on loan" teams enter the schools. It was then fully understood that they simply wanted to help solve the massive and vexatious problems of the inner city schools.

Among the scores of projects tested in these laboratories of "Educational R and D" many have shown a definite "multiplier effect." For example:

- the "English-as-a-Second Language" curriculum, developed at George Washington High School, is now being used in 40 City high schools and in other cities
- "Peer-Mediated Instruction," a one-on-one process whereby students learn remedial mathematics by teaching each other, began at Bushwick High School and is now being extended to a number of other schools on a demonstration basis
- the Attendance Information System developed at Louis D. Brandeis High School is being adopted by other schools as a means of reducing absence and class cutting
- the student-led drug information program known as "The Brotherhood Establishment," which originated at James Monroe High School, became a model for use in 30 other schools
- from the start, the Partnership schools stressed job readiness and career orientation programs, typified by the LIFE ("Looking Into Future Employment") project at Bushwick. Career education and motivation has become a major element of the School Self-Renewal Process.

Further to encourage student interest in "the world of work," EDC in 1974 undertook the sponsorship of Open Doors, a non-profit career education service conducted in cooperation with the Board of Education. Open Doors forms a continuous communication link between guidance counselors and teachers in the junior and senior high schools and several hundred potential employers who wish to make career opportunities and requirements better known to candidates.

## LOOKING AHEAD

**Investment, Refinement, Dissemination.** "Educational R and D" in New York City represents a six-year investment, through 1975, of \$4.6 million. EDC member companies have contributed 61 person-years of "on loan" executive time valued at \$1.5 million. Administrative costs of \$1.6 million have been funded by corporate and some foundation sources. Board of Education support has totalled \$1.5 million, largely in the form of the "assigned time" of teachers, administrators, and specialists.

Self-Renewal's potential national significance was recognized when, in 1974, the federal National Institute of Education (NIE) authorized a support grant, totalling \$240,000 over a three-year period. NIE is monitoring the development of the EDC "model" and preparing for its dissemination to urban school systems on a nationwide basis.

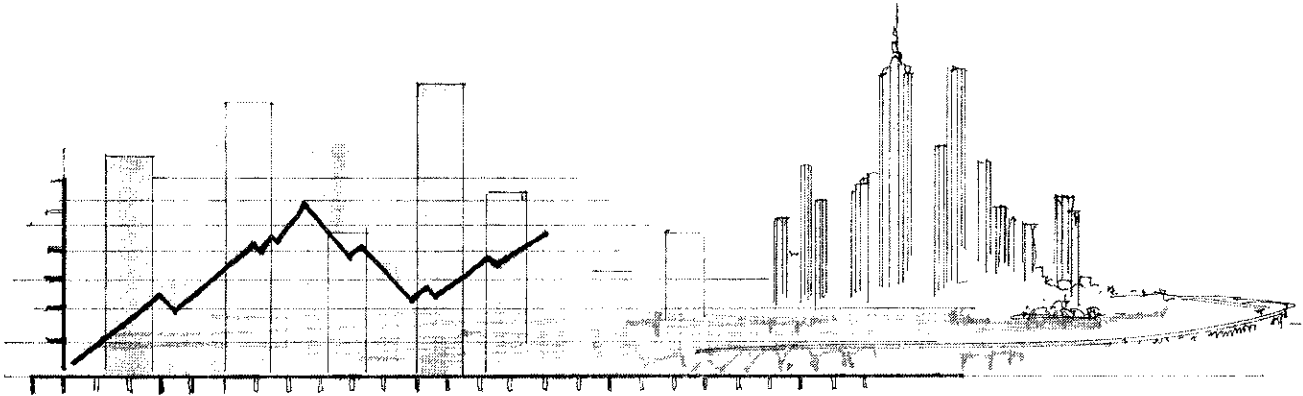
In this type of research and development, the "return on investment" cannot be measured in dollar terms, of course, for there is no way of "pricing out" such things as hope, opportunity, and achievement. But the impact of innovation can be clearly seen in the new spirit in which the entire school community—administrators, teachers, students, and parents—become fused in the Self-Renewal Process.

Increased student involvement has been characteristic of the program in all the participating schools. "Career Days," handbooks on educational and vocational opportunity, school communications centers, student health programs, and lively new ventures in curriculum are among the results.

In the words of George Washington High School Principal Samuel Kostman: "The EDC School Partnerships and the School Self-Renewal Demonstration Projects have had a profound, powerful, and far-reaching impact on the life of the eight schools that have been engaged in the process to date."

Having found the path, School Self-Renewal will move ahead toward goals that are now clearly defined.

# THE FACTS AND THE FUTURE



Continuous fact-finding is essential to the successful management of a business, an institution—or a city. Equally essential is the correct interpretation of the facts. In New York, the City's complex fiscal, economic, and social problems must be understood as they relate to each other and to the future. From the start, EDC's research program has been directed to the identification of fundamental issues affecting New York's economic "climate" and its ability to create employment and opportunity for the city's people.

## DEVELOPMENTS OF 1975

### "Reducing the Budget Gap"—Housing Issues.

New York City's "policy vacuum" stems in large part from insufficient information—or inadequate interpretation of existing information. In 1975, EDC fact-finding, under Research Vice President Roland J. Delfausse, clarified three issues of major importance to New York's economic future:

- in a report on "Reducing the Budget Gap," EDC reviewed New York City's public employee pay levels over the last two decades. This study cited a 129 percent increase in City salaries during a period when private sector incomes rose by only 85 percent. EDC proposed a "freeze" in City salaries as a means of reducing the "budget gap" by some \$420 million a year while averting the wholesale layoff of as many as 30,000 City employees. The wage freeze became a reality in mid-1975
- new light was thrown on a highly controversial issue when a comprehensive study of New York City's rent control problems was completed in 1975 by a Rutgers University study group under the direction of Dr. George Sternlieb. The resulting report proposed a

single administrative mechanism for rent control, the uniform stabilization of rent increases under a formula based on landlords' operating costs, and a gradual phaseout of controls affecting more than 1.4 million housing units. The Sternlieb study was commissioned and funded by EDC as part of a broad survey of all of New York's housing problems

- an EDC research report on "The Financial Straits of the New York City Mitchell-Lama Program" in early 1975 drew public and official attention to a fast-developing fiscal crisis in the management of the City's big "middle income" housing program. The study, conducted by EDC Senior Research Associate Robert T. Newsom, gave impetus to the formation of an EDC Task Force (See Page 11).

Throughout 1975, EDC's research arm produced a succession of memoranda and occasional reports covering such subjects as City revenue estimates and the fiscal position of the City University of New York. These documents, while not published, provided useful data to the City's decision-makers. EDC also serves as an information center for civic and governmental research organizations, public officials, and the news media.

## FROM THE BEGINNING

**Tax Impact, Pensions, City Labor Costs.** Since its inception in late 1965, EDC has been primarily concerned with the New York economy's capacity to provide employment and opportunity for the city's people. The first EDC research report in 1966 was entitled: "An Analysis of the Impact of Taxes on Jobs in New York City." In the years since then, EDC has delved into the "issue areas" most importantly related to New York's fiscal and economic strength. For example:

- in "A White Paper—Housing, Rent Control, and The Future of New York City's Economy" (1970), EDC offered an eight-point action program to revive the city's dwindling housing industry, stimulate new construction, and reduce abandonments
- a 1971 EDC report on "New York City's Publicly-Financed Manpower Programs" listed 44 different programs costing \$120 million a year which it found were "fragmented, overlapping, and duplicative while, at the same time, inadequate for all important areas of need"
- in 1972, "Pension Changes in New York City" brought out, for the first time, the true dimensions of the fast-growing burden of City pension costs—one of the underlying causes of today's fiscal crisis
- "New York City's Public Sector Collective Bargaining" (1973) analyzed the "leapfrog" process which constantly escalated union demands and contract settlements, lifting City pay scales well above those of the private sector
- "Public Pay Levels and Employee Costs in New York City" (1973) clearly drew the distinction between "assumed" and "real" compensation of City employees. This was a "landmark" report which showed that the base (or "assumed") pay of policemen, for example, was \$14,300 a year but that their total (or "real") compensation, including premium pay, fringe benefits, and pensions, was \$21,359. Similar comparisons were found in the case of firemen, teachers, and sanitation workers.

Today, most research studies and press reports dealing with City employee compensation follow the EDC pattern of including the total compensation "package." This is one of the ways in which research can help to bring about better public understanding of the basic problems of New York City's govern-

mental management. Much of EDC's 1975 research was directed toward the factual support of business-sponsored public information programs.

## LOOKING AHEAD

**Management, Goals, New Tools.** In its constant search for basic issues, EDC has been primarily concerned with the City's fiscal crisis, about which it sounded many "early warning" signals. In the current year and those beyond, research must continue to supply information pointing toward more efficient governmental management as the first priority on the road to New York's fiscal and economic recovery.

But new tools will be needed. To monitor the City's fiscal progress, there must be developed a uniform reporting service on the true governmental costs of all major American cities. Accurate data, not now available, must be found to measure the performance of governmental functions—in public safety, education, health, sanitation, welfare, and so forth—city by city. This will bring us closer to the ultimate objective, the definition of goals, policies, and priorities in the revitalization of the New York economy.

# ISSUES AND ACTIONS

## What Citizens Need to Know—and Do

### CITY OF OPPORTUNITY

**A Magnetic Field of Growth.** New York has always been a great “city of opportunity”—a beacon to millions seeking to improve themselves, their lives, and their families by their own efforts. As “the Gateway to the North American Continent,” New York quickly became a foremost world center of industry, commerce, finance, transportation, communications, science, education, and the arts. All these elements have energized each other, creating a magnetic field of growth and opportunity for the city’s people.

What, then, does opportunity mean? It means, first of all, employment. This, in turn, means self-reliance, identity, and a sense of the future for the individual and for the community. It also means an abundant choice of chances for self-improvement through the city’s rich mixture of educational, cultural, and recreational facilities. These are sustained largely by tax revenues based on business activity. It takes a dynamic economy to support a “city of opportunity.”

**Warning Signals—Employment Declines as Taxes Rise.** Until about ten years ago, the New York economy was moving steadily ahead. Then, slowly at first, the warning signals began to flash. Governmental expenditures were exceeding revenues. The resulting “budget gaps” were papered over with borrowed funds. Debt piled up at fast-rising interest rates. Huge “fixed costs” for debt service and pensions cut heavily into the funds which should have been available for essential City services. These services deteriorated even as their costs increased.

In the business community, mounting tax burdens were driving companies and jobs out of New York long before the City’s fiscal crisis sent shock waves through the nation in 1975. One grim fact tells the story—New York has lost more than 550,000 private sector jobs since 1969. Total employment in the private sector has fallen below 3 million for the first time in decades. Clearly our “city of opportunity” is losing its competitive magnetism in the grip of a trend which threatens to reduce employment still further—in the private and public sectors alike.

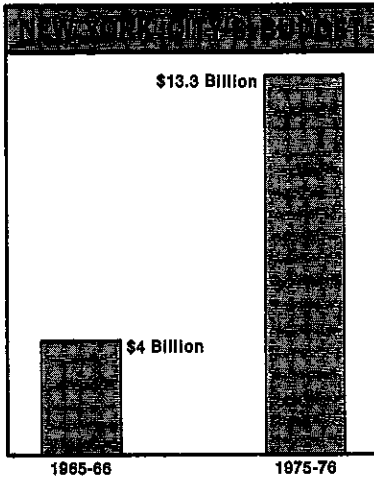
**Citizen Action—Key to Recovery.** What must be done to turn this trend around? Consider New York as a business corporation in distress. Emergency fiscal measures must first be taken to keep the company afloat. But operations must then be reorganized, modernized, and revitalized from top to bottom. Unless this is done, the company will continue to operate “in the red,” producing sub-standard goods at excessive prices, losing out in the competitive market, and plunging more deeply into debt on the road to ruin. The only answer to the fundamental problem, then, is more efficient management.

To close New York’s “management gap” and fill the resulting “policy vacuum,” however, one vital force—citizen action—must be awakened. Citizens, fully informed, must unite in demanding more efficient government for “the greatest good of the greatest number” at a price the public can afford to pay. The aimless, costly, and deadening effect of “government by pressure group” must give way to the spirit of the Town Meeting and the “crackerbarrel.” This is the spirit of responsible self-government which has motivated America’s progress for 200 years.

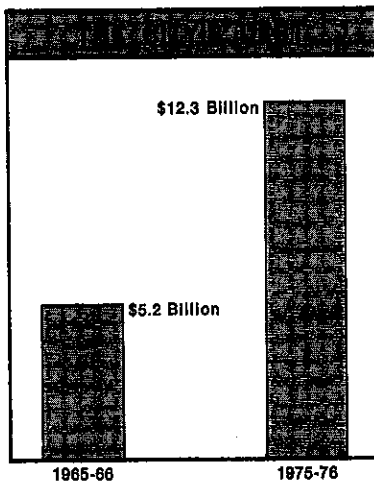
**It Can Be Done—If the Public Demands It.** In the preceding pages, we have seen the impact of business capabilities on the organization and management of City departments and agencies. EDC Chairman George Champion believes that overall governmental efficiency can be improved by at

least 30 percent—if the Task Force principle is generally applied and if the public demands action.

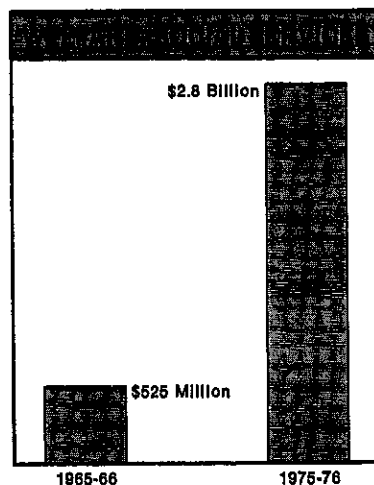
Essential to the City's recovery is the realignment of its top governmental command, grouping responsibility and accountability in three functional areas under three highly qualified Deputy Mayors (See "Reorganization at the Top—a Crucial Need," Page 4). By this means, citizens can be assured of a strong voice in the determination of goals, policies, and priorities for New York's future. This is Step One on the road to the revitalization of our "city of opportunity." In the following pages, the major issues confronting the public and the actions required for their solution are defined.



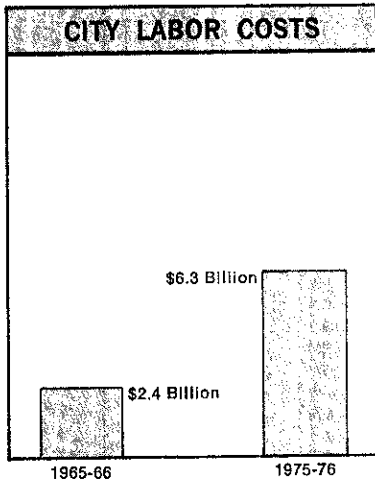
**Issue:** Despite a ten-year budget increase of 225 percent, the City still can't make ends meet. More budget cuts and layoffs are a constant threat in these times of fiscal crisis. The root cause of the crisis is found in a growing succession of "budget gaps" and a mounting burden of debt.  
**Action:** With a balanced budget as the goal, citizens must demand complete reorganization and efficiency in the City's management. This should begin with the restructuring of City Hall's top command creating Deputy Mayors for: (1) Organization and administration (2) The setting of goals, planning, and priorities, and (3) Intergovernmental affairs.



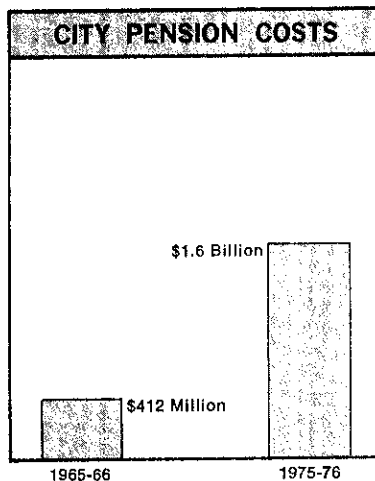
**Issue:** Overspending, deficits, and borrowing at ever-increasing interest rates brought New York City to the brink of default on its debt payments in 1975. Today debt service alone is costing \$2.3 billion a year. Only when the City shows that it can reduce its debts and live within its means can it regain its credit standing in the financial market place. **Action:** Citizens must insist on: modernized budgeting and accounting for more accurate forecasts of City revenues; close adherence to the three-year plan for a balanced budget; and an early end to the use of borrowed funds to meet current operating expenses.



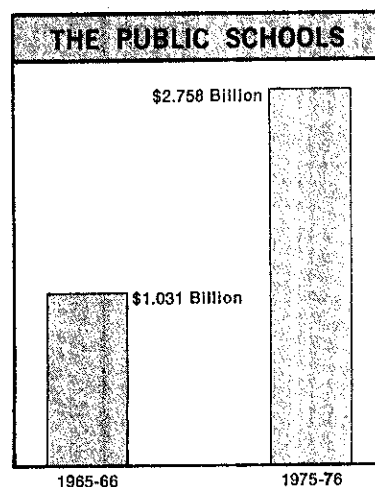
**Issue:** A 433 percent increase in welfare and social service costs is a foremost factor in the ten-year history of New York City's governmental growth. Expanded programs now reach one out of every seven residents with some form of public assistance or social service. While federal and state funds cover most of these costs, the City's share now comes to \$790 million a year. Inefficiency, red tape, and delay characterize the City's huge Human Resources Administration (HRA). **Action:** Citizens must press for more effective programs to transfer people from the welfare rolls to payrolls and for complete reorganization and modernization of HRA's management.



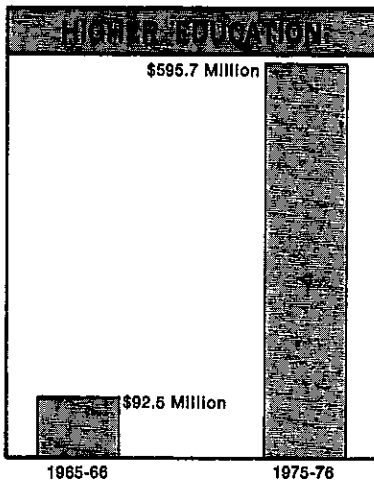
**Issue:** At one time, New York City employees sought to “catch up” with the private sector on pay and benefits—today they are well ahead in almost all categories. City labor costs increased 162.5 percent, as this chart shows, during a ten-year period when the cost of living went up 70 percent. Few citizens are aware of the impact of collective bargaining agreements on pensions, fringe benefits and time off which now cost the City \$2 for every \$3 in base pay. As one example, a sanitationman’s base pay is \$15,731 a year but his total compensation (including fringe, pension, and other benefits) is \$23,657. Then add leave benefits (“time off”) of \$4,376—and his total labor cost to the City is \$28,033. **Action:** New Yorkers have a right to expect: increased productivity to offset the rise in City labor costs; full disclosure concerning collective bargaining contracts and their fiscal consequences; City compensation levels in line with those of the private sector; City worker contributions to the cost of basic health insurance, and standardized procedures in City labor relations and collective bargaining.



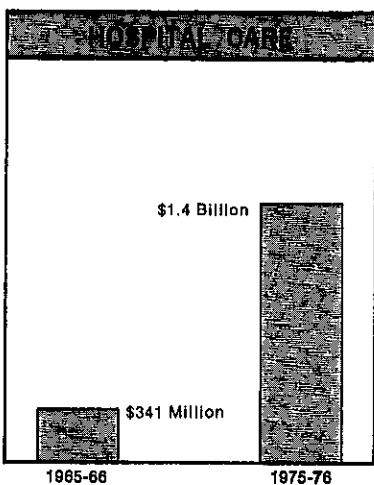
**Issue:** In many cases, the City’s financial commitments seem modest at first—then, because of “built-in” increases, they mushroom in later years. As an example, New York City’s pension costs have increased 288 percent in ten years. And, while continuing increases threaten to go “through the ceiling,” the City’s pension reserve funds have been falling below the standards of adequacy. **Action:** Some modifications in pension costs have resulted from the work of the State Pension Commission (Kinzel Commission) appointed in 1973. Now citizens must give strong support to measures: (1) to insure full actuarial funding of pensions as recommended by the Mayor’s Management Advisory Board (the Shinn Report) and (2) to make permanent the temporary legal ban on collective bargaining on pension issues.



**Issue:** The budget of New York City’s Board of Education (BOE) has gone up 168 percent in ten years while total student enrollment is about where it was ten years ago. Yet the quality and effectiveness of the public schools declined sharply. All too often, young people are “graduated” from high school (twelfth grade) although they have achieved only the eighth grade level in reading and math skills. Clearly more money is not the answer to the problems of the schools. One big, basic problem is lack of organization and inefficiency in the management of the system as a whole. **Action:** Citizens should insist on complete reorganization of the Board of Education, relieving it of all operating responsibilities. Clear organizational lines must be drawn with the Chancellor, assisted by a policy-making Board of Trustees, as Chief Executive Officer. Efforts to modernize the management of BOE, including the Community School Districts, should be intensified.



**Issue:** The City's tendency to overcommit itself to programs without measuring their ultimate cost is reflected in a ten-year, 544 percent increase in the budget of the City University of New York (CUNY). New Yorkers have always taken pride in their free City universities. But "open enrollment" and the proliferation of community colleges have lowered CUNY's academic standards while driving costs beyond the City's means. Unable to meet its payrolls and operating expenses, CUNY was temporarily shut down in June, 1976. Students must pay tuitions in the future but other problems remain. **Action:** At long range, citizens must support measures: to coordinate CUNY more closely with State and private institutions; to the possible merger of the City and State University systems; and to the upgrading of academic and admissions standards throughout the City system.

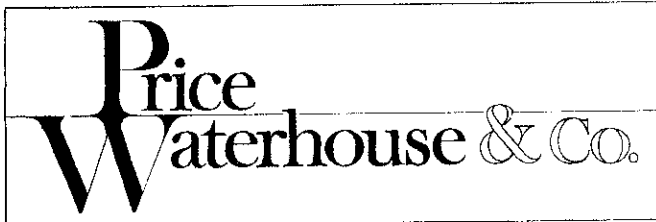


**Issue:** New York City's budgeted support of hospital care for its people has increased by 400 percent in ten years. This includes the cost of the 16 hospitals, operated by the City-owned Health and Hospitals Corporation and the sums paid by the City to the voluntary hospitals for the care of indigent patients. Inflation and the expansion of federal and state health programs have caused most of the increased costs—the bulk of which are borne by federal and state funds. But the City's share has increased from \$192 million to \$438 million in ten years. Since 1965, occupancy rates in City hospitals have fallen to about 75 percent while the voluntary hospitals are operating at about 87 percent of capacity. **Action:** Under impetus of the fiscal crisis, City officials are trying to make more rational use of the municipal hospitals. Citizens should support these efforts as well as a top-to-bottom analysis of the two hospital systems, the elimination of duplication between them, consolidation where feasible, and more efficient operation of both.

**New York Can Have a Great Future.** In its relatively brief history, New York City has been through fires, panics, plagues, riots, recessions, and depressions—always coming back to new high levels of economic, social, and cultural achievement. Despite recent erosions, the essential economic elements of our "city of opportunity" are still in place—awaiting the return of a "climate" favorable to growth and progress.

Economic analysts foresee a national "knowledge explosion" in the early 1980's and an upsurge in economic activity spurred by scientific and technological development. New York City, as America's foremost center of the "knowledge-oriented" industries, can experience a new period of great growth in finance, communications, advertising, marketing, and other business services as well as education and personal development. Says Herbert Bienstock, regional commissioner of the U. S. Bureau of Labor Statistics: "If the country is in a slump then, the city's expansion will be moderate. If the country is in the expansion phase of a boom, the city's expansion could be unprecedented."

New York can have a great future—but its future is in the hands of its citizens today. The problems of the fiscal crisis must be solved primarily within the City. Ten years ago, New York received \$1.3 billion in state and federal aid. Last year it received more than \$4 billion from these sources—a sum equal to the City's entire budget in 1965-66. In the last analysis, only reorganization and improved management of the City's huge governmental machine can put New York's economy back on the road to recovery. And only a strong civic reawakening can bring this about.



SIXTY BROAD STREET, NEW YORK, NEW YORK 10004 212-422-6000

February 1, 1976

To the Board of Directors of  
Economic Development Council  
of New York City, Inc.

In our opinion, the accompanying balance sheets and the related statements of income, expenses and changes in fund balances and statements of functional expenses present fairly the financial position of Economic Development Council of New York City, Inc. at December 31, 1975 and 1974, and the results of its operations and the changes in its fund balances for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse & Co.*

# Financial Statements

ECONOMIC DEVELOPMENT COUNCIL OF NEW YORK CITY, INC.

## Statements of Income, Expenses and Changes in Fund Balances

|   | Years ended<br>December 31, |                   |
|---|-----------------------------|-------------------|
|   | 1975                        | 1974              |
| <b>Income:</b>  |                             |                   |
| Contributions (including restricted income of \$415,419 in 1975 and \$154,939 in 1974)                      | \$1,298,034                 | \$ 976,477        |
| Interest  | 28,147                      | 35,263            |
| Contributed services of "on loan" executives (Note 2)   | 745,000                     | 655,000           |
| Total income  | <u>2,071,181</u>            | <u>1,666,740</u>  |
| <b>Expenses:</b>  |                             |                   |
| Program projects (Note 2):  |                             |                   |
| School research and development (including \$226,639 for restricted purposes in 1975 and \$139,332 in 1974) | 467,860                     | 480,933           |
| Board of Education reorganization   | 273,381                     | 355,428           |
| Public safety and courts (including \$81,917 for restricted purposes in 1975 and \$22,551 in 1974)          | 413,730                     | 207,575           |
| Housing and Development Administration on improving Mitchell-Lama Housing Supervision                       | 192,438                     | —                 |
| Human Resources Administration reorganization   | 18,556                      | 94,318            |
| Brownstone Revival Project  | 10,815                      | 12,920            |
|   | <u>1,376,780</u>            | <u>1,151,174</u>  |
| Supporting services (Note 2):   |                             |                   |
| Management and general  | 574,466                     | 457,904           |
| Fund raising  | 16,417                      | 15,903            |
|   | <u>590,883</u>              | <u>473,807</u>    |
| Total expenses  | <u>1,967,663</u>            | <u>1,624,981</u>  |
| Excess of income over expenses  | 103,518                     | 41,759            |
| Fund balance at beginning of year (including restricted funds of \$23,757 in 1975 and \$30,701 in 1974)     | 375,288                     | 333,529           |
| Fund balance at end of year (including restricted funds of \$130,620 in 1975 and \$23,757 in 1974)          | <u>\$ 478,806</u>           | <u>\$ 375,288</u> |

## Balance Sheets

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 1975             | 1974             |
| <b>Assets</b>   |                  |                  |
| <b>Current assets:</b>  |                  |                  |
| Cash including time deposits and certificates of deposit of \$300,000 in 1975 and \$325,000 in 1974               | \$407,009        | \$350,915        |
| Prepaid expenses and other assets   | 98,297           | 37,229           |
| Total current assets  | <u>505,306</u>   | <u>388,144</u>   |
| <b>Fixed assets (Note 2):</b>   |                  |                  |
| Office furniture and equipment  | 54,480           | 40,019           |
| Leasehold improvements  | 8,015            | 3,465            |
| Less—Accumulated depreciation and amortization  | 62,495           | 43,484           |
|   | <u>30,120</u>    | <u>25,203</u>    |
|   | 32,375           | 18,281           |
| <b>Other assets (Note 2):</b>   |                  |                  |
| Cash surrender value of life insurance  | 87,896           | 71,834           |
| Less—Liability for deferred compensation  | (87,896)         | (71,834)         |
|   | <u>\$537,681</u> | <u>\$406,425</u> |
| <b>Liabilities and fund balances</b>  |                  |                  |
| Accounts payable and accrued expenses   | \$ 58,875        | \$ 31,137        |
| Fund balances (per accompanying statement) (including restricted funds of \$130,620 in 1975 and \$23,757 in 1974) | 478,806          | 375,288          |
|   | <u>\$537,681</u> | <u>\$406,425</u> |

## Statement of Functional Expenses

Year Ended December 31, 1975  
(with comparative totals for 1974)

|                                 | PROGRAM PROJECTS                |                                   |                          |   |   |                              | SUPPORTING SERVICES    |              |                     |
|---------------------------------|---------------------------------|-----------------------------------|--------------------------|---|---|------------------------------|------------------------|--------------|---------------------|
|                                 | School research and development | Board of Education reorganization | Public safety and courts | Housing and Development Administration on improving Mitchell-Lama Housing Supervision | Human Resources Administration reorganization | Brownstone Revival Committee | Management and general | Fund raising | Total expenses 1975 |
| Contributed services ..         | \$ 75,000                       | \$237,500                         | \$210,000                | \$160,000   | \$18,411                                      | \$ 6,606                     | \$ 62,500              | \$ 745,000   | \$ 655,000          |
| Salaries and benefits ..        | 99,774                          | 11,602                            | 117,209                  | 32,078  |   |                              | 282,564                | 580,892      | 519,406             |
| Consulting fees .....           | 124,647                         | 12,000                            | 62,995                   |   |   | 4,209                        | 60,137                 | 259,779      | 188,259             |
| Occupancy .....                 | 22,959                          | 4,209                             | 6,676                    |   |   |                              | 41,769                 | 82,242       | 80,267              |
| Travel and meetings ..          | 9,548                           | 7,854                             | 6,477                    | 137   | 95  |                              | 41,918                 | 67,218       | 64,708              |
| Project-related expenses .....  | 120,883                         |                                   | 2,599                    |   |   |                              |                        | 123,482      | 35,257              |
| Office and other expenses ..... | 15,049                          | 216                               | 7,774                    | 223   | 50  |                              | 85,578                 | 109,050      | 82,084              |
|                                 | \$467,860                       | \$273,381                         | \$413,730                | \$192,438   | \$18,556                                      | \$10,815                     | \$574,466              | \$1,967,663  | \$1,624,981         |

## Notes to the Financial Statements — December 31, 1975 and 1974

### Note 1—The Organization:

The Economic Development Council of New York City, Inc. (EDC) is a nonprofit organization whose purpose is to bring the capabilities of the business community to bear on the vital urban problems of New York City. In this way EDC seeks to improve New York's economic "climate" and thus provide employment and opportunity for more people.

EDC business assistance task forces, composed of "on loan" managerial personnel, work to improve the organization and operation of major city government agencies. At the request of city officials, task forces have made intensive studies of the city-wide Criminal Court System including the criminal division of the Supreme Court, civil division of the

Supreme Court in two New York City counties, Mayor's Criminal Justice Coordinating Council, the State Administrative Judge and Office of Court Administration, central Board of Education, the Human Resources Administration and the Housing and Development Administration on Improving Mitchell-Lama Housing Supervision.

EDC also sponsors "School Research and Development Programs" in eight city high schools and one junior high school in disadvantaged areas. There, teams of business executives from EDC and consultants employed by EDC work with school administrators, teachers, students, and parents on projects aimed to increase educational effectiveness and motivate young people toward continued education and careers.

In addition, EDC seeks to stimulate economic development through research department reports on housing, private sector manpower needs, publicly financed training programs, and the impact of city government personnel policies in such areas as pensions and collective bargaining. EDC also sponsored the formation of the Brownstone Revival Committee which encourages their restoration for family living.

In October, 1974, EDC and The New York State Chamber of Commerce and Industry, Inc. moved toward "a coordinated working relationship" by having each organization elect the same persons as members of its board of directors and Mr. George Champion as its chairman and chief executive officer. The organizations remain separate entities

each with a separate business purpose and separate direct and indirect expenses.

**Note 2—Summary of Accounting Policies:**

Contributed services:

EDC-sponsored programs were staffed by executives on loan from various companies. These loaned executives worked on a full-time basis for periods ranging from one to twelve months. In total 50 executives were loaned to EDC for an aggregate of 298 months during 1975 and 57 executives were on loan for an aggregate of 262 months during 1974. The on-loan executives worked directly under the supervision of EDC's staff with the loaning company paying all of the executive's salary.

EDC adopted the accounting policy of recording as income a value for these contributed services, offset in the same amount as expense, allocated among the appropriate program projects. EDC has arbitrarily established a value of \$30,000 per annum in 1975 and 1974 for each loaned executive.

Program projects:

Salaries of employees that devote all of their time to a particular project have been charged to program projects. Salaries of other EDC permanent staff have not been allocated to the various projects.

Depreciation and amortization:

Office furniture and equipment are being depreciated over their estimated useful lives of 10 years on a straight-line basis. Leasehold

improvements are being amortized over the life of the lease.

Cash surrender value of life insurance policies:

EDC is the owner and revocable beneficiary on life insurance policies. The Council under separate agreements with the insured officers and employees has agreed to pay the cash surrender value of the policies to such officers and employees or the proceeds of the policies to their designated beneficiaries, provided that they comply with the terms of the agreements.

**Note 3—Lease Commitments:**

At December 31, 1975, EDC was obligated under leases, expiring in 1985, providing for annual rental of approximately \$70,000.

**Note 4—Retirement Plan:**

EDC has a defined contribution retirement plan covering substantially all of its salaried employees. Payments, which are based upon a percentage of each participating employee's salary, are made to an insurance company for premiums under individual annuity contracts purchased for each member of the plan. Expense of the plan was \$24,594 and \$23,703 for the years ended December 31, 1975 and 1974, respectively. Employees have the option to contribute additional premiums on their own behalf.

The effect, if any, on future annual costs of the plan resulting from the Employees Retirement Income Security Act of 1974 is not expected to be material.

|                                  |       |           |      |
|----------------------------------|-------|-----------|------|
| <b>RECEIVED</b>                  |       |           |      |
| MUNICIPAL ASSISTANCE CORPORATION |       |           |      |
|                                  |       | FEB 2 '78 |      |
| EBA                              | _____ |           |      |
| HAD                              | _____ |           |      |
| ISD                              | _____ |           |      |
| MFF                              | _____ |           |      |
| FGG                              | _____ |           |      |
| LAR                              | _____ |           |      |
| EJK                              | _____ |           |      |
| WJL                              | _____ |           |      |
| FGR                              | _____ |           |      |
| LWS                              | _____ |           |      |
| MCS                              | _____ |           |      |
| SJW                              | _____ |           |      |
|                                  |       |           | A.M. |
|                                  |       |           | P.M. |
|                                  |       |           | MAIL |
|                                  |       |           | HAND |



ECONOMIC DEVELOPMENT COUNCIL OF NEW YORK CITY, INC.  
 260 Madison Avenue, New York, N. Y. 10016 949-0600