

## I. NEW YORK CITY

### A. Plan of Fiscal Correction

The plan of fiscal correction for the City requires the following steps in addition to those already taken by the State and City:

1. Imposition of a 1¢ increase in the sales tax in the City, and repeal of the bond transfer tax; proceeds of tax will be used solely to accelerate fiscal reforms such as transfer of expense items from capital budget and funding of pension systems.
2. Reduction Increased Take Home Pay by City employees of \$85 million annually.
3. Interest Reduction on approximately \$1.75 billion of MAC paper held by financial institutions and pension systems in New York City.
4. Interest Reduction and lengthening of maturity on approximately \$1 billion of City notes held by banks and pension funds.
5. Exchange by noteholders of approximately \$1.5 billion in notes maturing December 1975 through March 1976 for long-term MAC securities.
6. Commitment of \$2.5 billion from City pension funds to purchase long-term City instruments over the next three years.
7. Increase in City real estate tax to service long-term debt incurred under steps 5 and 6 above.
8. Commitment by the State to continue the \$800 million advance in the 1st quarter of the State's fiscal year at least through the next three years.

B. CITY OF NEW YORK PLAN, DEC. 1975 - JUNE 1978

1. Three Year Financing Summary

a. CASH NEEDS (exclusive of seasonal needs)		(millions)
i) Fiscal Year 1975-76 (12/1 to 6/30)		\$3,797
ii) Fiscal Year 1976-77	Capital	900
	Deficit	470
	State Notes	250
	Total	1,620
iii) 1977-78	Capital	730
	Total 3 years	6,147
b. CASH SOURCES		
	Sinking Funds - New Cash	50
	Pension, Sinking Fund, Bank Conversations	938
	Swap of Maturing Short debt	1,439
	MAC Savings	77
	Real Estate Tax - Net	386
	Pension Funds	2,457
	State Advance	800
	Total	6,147

2. Cash Needs and Sources - Year by Year

a. DECEMBER - JUNE 30, 1976

i. Needs

Current Computer Forecast	\$3,897
Less: Capital	
Transfer (Sales Tax)	100
Total.	3,797

ii. Sources

State Advances	800
Rollovers: Banks, S.F.'s, Pensions	938
Swap of Maturing Debt	1,439
Pension Funds	543
MAC Savings	77
Total	3,797

b. 1976-77

i. Needs

Capital	1,100
Less: Transfer - Sales Tax	(200)
Deficit (Expense Budget)	470
State Notes - Due Oct.	250
Total	1,620

ii. Sources

Sinking Funds	50
Pension Funds	1,433
Real Estate Tax (8.89% Rate), Available for Redemption	137
Total	1,620

## II. STATE AGENCIES

### A. Steps to Control Borrowing and Strengthen State Agencies

1. State to control State agency borrowing through establishment of a State Capital Control Board, and enactment of a moratorium on further agency projects.
2. State action to strengthen HFA:
  - Direct assumptions of 4 weaker programs.
  - Restoration of bond debt-service reserve.
  - Establishment of new debt-service reserve to strengthen HFA security.
3. Appropriation to remove Environmental Facilities Corporation from market and complete projects underway.
4. State action to bring State budget into balance in 1976-77.
5. State action to monitor and supervise agency programs:
  - Annual, public audit of each HFA hospital, nursing home and housing project.
  - Regular review by Health and Housing Departments of quarterly unaudited reports for HFA health and housing projects.
  - Establish a uniform accounting system for HFA health and housing projects.
  - Monitor adequacy and flow of payments into operating reserve funds of health and housing projects.

## B. Financing Requirements for State Agencies

State Agency financing needs of \$2.5 billion may be partially met by the following sources. There are difficulties with all these sources, and they are listed in descending order of probable availability. Even with the inclusion of such proposals as preinvesting state pension contributions, a need of \$650 million remains.

	Amount (\$ Millions)
Miscellaneous State Non-Treasury Funds	50
State Appropriations	90a
Projects to be Stopped	160
Future Availability of Non-Treasury Funds	100
State Treasury Funds	275
Teachers' Retirement Funds	375
1976 Employees' and Teachers' Retirements Pre-Investment	800
Subtotal	<u>1,850</u>
Remainder to be Financed	650
TOTAL	<u>2,500</u>

Explanations of each of these mechanisms are found on the following pages.

- a. Additional State appropriations of \$70 million would be required to fund an additional debt service reserve for HFA obligations and to restore an existing reserve.

III. New York State

A. CLOSING THE STATE'S FISCAL GAP

	<u>1975-76</u>	<u>1976-77</u>	<u>two years combined</u>
<u>GAP</u>			
Base estimates	700	800	1,500
<u>PLUS:</u>			
Agency program	100	60	160
MTA		100	100
TOTAL GAP	<u>800</u>	<u>960</u>	<u>1,760</u>
<u>ACTIONS TO BALANCE BY MARCH 1977</u>			
Yield of tax increases, FY 1975-76*	-315*		-315*
SUBTOTAL	<u>485</u>	<u>960</u>	<u>1,445</u>
Monthly sales tax collection	-100		-100
SUBTOTAL	<u>385</u>	<u>960</u>	<u>1,345</u>
Use of liquid assets (Tax Stabilization Reserve Funds)	-55		-55
SUBTOTAL	<u>330</u>	<u>960</u>	<u>1,290</u>
Effect of carrying forward FY 1975-76 deficit by issuing TANs, to be redeemed by impounding revenues in FY 1976-77	-330	+330	
SUBTOTAL	<u>0</u>	<u>1,290</u>	<u>1,290</u>
Yield of tax increases, FY 1976-77*		-600*	-600*
SUBTOTAL		<u>690</u>	<u>690</u>
Cost savings achieved by program cutbacks		-690	-690
STATE DEFICIT BY MARCH 1977	. . . .	. . . .	. . . .
* Two-year yield of tax increases	315	600	915

EXPLANATION OF TABLE ON CLOSING  
THE STATE FISCAL GAP

- A. In State fiscal years 1975-76 and 1976-77, respectively, it is estimated that the State will run budget deficits of \$700 million and \$800 million (a total of \$1.5 billion), prior to provision for emergency financial assistance to public authorities.
- B. Such assistance is expected to cost \$260 million during the two fiscal years, bringing the total two-year projected deficit to \$1,760 million:
1. The cost of assisting those public authorities that have difficulty in gaining access to the market is estimated at \$160 million, \$100 million of which will be incurred in 1975-76.
  2. It is anticipated that MTA will require State financial assistance of \$100 million during State FY 1976-77 beyond temporary loans previously anticipated.

C. It is proposed to eliminate the two-year deficit as follows (millions of dollars):

	1975-76	1976-77	TOTAL
1. Increased taxes	315	600	915
2. Acceleration of sales tax collections	100		100
3. Use of liquid assets (Tax Stabilization Reserve Funds)	55		55
4. Program reductions beyond current efforts		690	690
TOTAL	470	1,290	1,760

- D. None of the expenditure savings would be realized until fiscal year 1976-77, nor would most of the increased revenue.
- E. Nevertheless, the projected \$800 million FY 1975-76 deficit would be reduced by \$470 million (as shown below), to \$380 million:
- |                                                       |               |
|-------------------------------------------------------|---------------|
| 1. New tax revenue                                    | \$ 315million |
| 2. Nonrecurring acceleration of sales tax collections | 100 million   |
| 3. Use of liquid assets                               | 55 million    |
| TOTAL                                                 | \$470 million |

- F. Tax anticipation notes in the amount of \$330 million will be issued to finance the remainder of the fiscal year 1975-76 deficit.
- G. To repay these notes during the period from April through June 1976, incoming tax revenues will be impounded.
- H. This has the effect of raising the fiscal year 1976-77 deficit from \$960 million to \$1,290 million.
- I. Revenues from increased tax revenues will cover \$600 million of the fiscal year 1976-77 deficit.
- J. The remaining \$690 million gap will be closed by program cutbacks and reductions.

B. Short-Term Financing Requirements - State Fiscal Year 1976-77

Operating on the premise that the City is properly funded for three years, that the State agencies are financed and capped and that the State's own deficit has been addressed and the State budget balanced for 1976-77, there is some possibility of an adequate public market for the sale of State notes in the spring of 1975. Nevertheless, both because of the size of the potential sale (\$4 billion) and because the present negative psychology with regard to all securities associated with New York may not have been overcome, some Federal help may be necessary at that time to finance the State itself.

Hopefully, the form of such help would not have to encompass a full Federal guarantee of New York State securities. Rather, the assistance of the Federal Reserve Board in encouraging a national consortium of banks to underwrite and purchase the securities might be sufficient. In any case, it should be pointed out that while every effort will be made by the State to provide its own financing -- both through the public market and the potential involvement of the State's pension system -- at this point of time it is only realistic to anticipate the need for some Federal sponsorship for New York State's seasonal borrowings early in 1976.

APPENDIX A

Supporting material to I-A and I-B.

1. Changes in City Employee Pension Contribution
2. MAC Debt Service
3. Real Estate Tax Rate
4. Cash Needs and Sources by Month, 1975-76

## I. Changes in City Employee Pension Contribution

By legislation, members of the various City employees retirement systems would have to increase their contributions to the retirement program by the annual amount of \$107 million. The annual saving to the City is \$85 million; for the 1975-76 fiscal year this would result in a cash savings in the City's expense budget of \$45 million.

To achieve this cost savings, the State statute allowing "increased take home pay" (ITHP) would be modified during the special session. The impact of the change means an approximate 2.5% pay cut for City employees.

In addition, to secure long-term improvements in the actuarial soundness of the City's Pension system, the City Management Improvement Committees, Chaired by Richard Shinn, will prepare recommendations for consideration by the City and State. These recommendations will encompass the following subjects:

1. Increased service requirements, such as length of service and minimum age requirements.
2. Restrict determination of final average salary, including the three year FAS, restriction of salary definition to base pay, and elimination of overtime in the computation of FAS.
3. Evaluation of the City's variable annuity program seeking the integration of these benefits with the retirement program.
4. Change in City practice of retaining "pension surplus" included in City financial plan.

5. Integration of the Federal Social Security Program with the public employee retirement systems.

Changes in any of the above provisions would require State legislation. Moreover, because of the State Constitutional restrictions against the impairment of benefits, these changes would affect only entrants into any of the systems after 7/1/73.

2. MAC DEBT SERVICE

	<u>Take in EFCB Financial Plan</u>	<u>New Takeout</u>	<u>Debt Service Charge to Real Estate Tax</u>	<u>Net Takeo</u>
1976-77	628	736	108	628
1977-78	632	736	104	632

3. REAL ESTATE TAX RATE

BORROWINGS

REDEMPTIONS

	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-</u>
Tax Rate	8.89	8.89	* +5%	* +5%	* +5%	* +5%
Tax Yield Outside Limit	\$1,570	1,483	1,586	1,697	1,815	1,942
Other, Special	88	88	88	88	88	88
Total	\$1,658	1,571	1,674	1,785	1,903	2,030
Existing Debt Service	\$1.213	936	754	565	491	440
Available	445	635	920	1,220	1,412	1,590
New Funded Debt*	127	127	127	127	127	127
BANS at 8.5%	73	155	213	248	262	260
Available for Redemption	137	249	480	744	923	1,103
Payments to MAC	100	104	100	100	100	100

4. CASH NEEDS AND SOURCES BY MONTH TO DERIVE SEASONAL BORROWING

December 1975 - June 1976

Month	Need per Forecast	Total Sources	MAC Adjustment	Sales Tax	Bank, Pension, Sinking Funds	Swap at 90%	State Advance	Subtotal	Pensions Net	Seasonal Cumulative
DEC	829	829	21		91	305	--	412	271	141
JAN	1306	1306	--		173	537	--	596	272	324
FEB	571	571	--		8	253	--	310	--	310
MAR	953	953	--		109	344	--	500	--	500
APR	144	144	28	50	--	--	400	(334)	--	(334)
MAY	75	75	--		220	--	200	(345)	--	(345)
JUNE	19	19	28	50	337	--	200	(596)	--	(596)
TOTAL	3897	3897	77	100	938	1439	800	543	543	0

APPENDIX B

(Supporting Material to II.B)

1. Miscellaneous State Non-Treasury Funds -- \$50 million

Investable balances of \$50 million (not otherwise used or committed) can be found in several of the non-Treasury funds held by the State Commissioner of Taxation and Finance that are permitted by statute to be invested in State agency paper. These funds include: The Fund for Reopened Cases; The Stock and Mutual Insurance Funds; State University of New York Endowment Funds;

2. State Appropriations -- \$90 Million Plus \$60 Million for New HFA Reserve to Strengthen Agency Credit and \$10 Million for Existing Reserve

State appropriations of \$160 million would be provided for the following items:

<u>Item</u>	<u>1975-76</u>	(Millions of Dollars) <u>1976-77</u>	<u>TOTAL</u>
Buy-out of weaker programs	33	7	40
EFC build-out		20	20
November 1975 State Participation	30		30
SUB-TOTAL: Appropriations for financing needs	63	27	90
Restoration of HFA debt service reserve	10		10
New reserve for HFA debt service	30	30	60
TOTAL	103	57	160

A. Buy-out of weaker programs -- \$40 million

State appropriations would be provided to retire obligations for the following four HFA programs whose fiscal stability is not assured over the long-run:

<u>Program</u>	<u>Amount (\$ millions)</u>
Youth Facilities	20.3
Community Mental Health Centers	16.8
Senior Citizen Centers	2.2
Equity Loans	0.4
TOTAL	39.7

All present building commitments are completed or funded; therefore, no additional monies are required for construction progress payments.

B. DEBT DEFICIT OF \$20 MILLION

The funds are required to finance present construction commitments through September 1976.

C. November 1975 State Participation -- \$30 million

After the above items have been provided, over \$90 million of HFA November maturities will not be covered. A State appropriation of \$30 million will be provided to refinance these maturities. The remainder would be provided by other institutional sources.

D. Restoration of HFA Debt Service Reserve -- \$10 million

As the debt service reserve fund for certain HFA obligations has been drawn down by \$10 million to meet existing commitments, the State is required, under "moral makeup" provisions of the HFA statutes to provide funds to restore the reserve to its mandatory level, after certification of such need by the Agency. That certification is being provided, and the Governor will request the Legislature to approve the necessary appropriations.

E. New Reserve for HFA Debt Service -- \$60 million

It is proposed that an additional debt service reserve be provided to back HFA obligations whose fiscal stability is not assured over the long-run, in an amount equal to 20 per cent of the existing (annual) bond debt service reserves. In the event HFA income were insufficient to meet debt service costs, the new reserve would be employed prior to the use of the existing reserves.

3. Projects to Be Stopped --- \$160 million

Several projects already under way can either be slowed down or stopped (either by closing down construction or building to a smaller or less-complete extent) in order to reduce the need for construction progress payments over the period by \$160 million.

4. Future Availability of Non-Treasury Funds -- \$100 million

As current non-liquid investments of the non-Treasury funds mature, and as certain other funds are relieved of their current investment commitments, for instance in UDC, additional investable balances will be available for the purchase of State agency paper, in the amount of \$100 million. Such balances include those in the Property and Liability Insurance Security Fund.

5. State Treasury Funds -- \$275 million

Minimum investable balances in the several State Treasury Funds (exclusive of the General Fund, Federal Funds, and bond funds) averaged \$233 million, in the three years prior to the current State fiscal year. By the next State fiscal year, an estimated \$275 million will be available for investment in State agency paper from this source.

6. Teachers' Retirement System -- \$375 million

In addition to the commitments for the purchase of State short-term obligations, it is anticipated that the Teachers' Retirement System will be requested to commit \$375 million of State agency paper.

7. Employees' and Teachers' Retirement System Contributions

In the first quarter of State fiscal year 1976-77, the following estimated contributions will be made from State funds to the two systems:

Direct State Contribution to ERS	\$450 million
ERS contributions withheld from State education aid.	<u>350</u>
TOTAL	800