

Remaining BAN Bonds Available to Prepay
@ 6/30/83
(\$-000's)

Redemption FY	1984	\$ 11,257
	1985	12,065
	1986	12,423
	1987	12,806
	1988	7,474
	1989	7,924
	1990	6,953
	1991	7,480
	1992	8,047
	1993	8,663
	1994	9,328
	1995	10,049
	1996	10,825
	1997	11,667
	1998	12,576
	1999	13,561
	2000	14,630
	2001	14,396
	2002	982
	2003	<u>1,000</u>
Total		\$194,106

FROM NYC OMB
STOCK COLLING
8-3-83



State of New York
Financial Control Board

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New York, New York 10007
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To: The Financial Control Board
Re: The Disposition of Bond Anticipation
Notes Held by the Municipal Assistance
Corporation
Date: May 15, 1979

STAFF MEMORANDUM

BACKGROUND

Pursuant to Section 6.19(b) of the Agreement to Guarantee, executed last November as part of the City's four year financing program, the Municipal Assistance Corporation for the City of New York (MAC) and the City were required to provide for the disposition of approximately \$1 billion of bond anticipation notes (BANs) then held by MAC. That requirement has been satisfied through a series of agreements that have been submitted for Control Board review and approval.

The first such agreement, dated as of March 30, 1979, provided for the issuance by the City of \$20 million principal amount of general obligation serial bonds in exchange for a like principal amount of BANs. In addition to satisfying, in part, the requirements of the Agreement to Guarantee, this transaction also fulfilled certain requirements of the Bond Purchase Agreement that had been signed by MAC in connection with the financing program. The bonds issued under this agreement bear interest at a rate of 8% per annum and will be paid in installments over a period ending October 1, 2002. The agreement was formally submitted to the Control Board on March 29, 1979 together with modification No. 79-6 to the Financial Plan, reflecting the issuance of the \$20 million of bonds. On March 30, the Control Board approved the Financial Plan modification, the agreement and the issuance of the bonds.

A related agreement, dealing with the remaining BANs held by MAC, was also formally submitted to the Control Board on March 29. Under the related agreement, an additional \$621.2 million of BANs were to be exchanged for a like principal amount of City bonds, \$27.3 million of the BANs were to be redeemed during the current fiscal year and the remaining \$345.3 million of BANs held by MAC were to be redeemed over a ten year period pursuant to a schedule contained in the agreement. The agreement noted that new legislation was required in order to implement the ten year redemption schedule and provided that the agreement was to become null and void unless the necessary legislation was enacted by May 1, 1979. The submission to the Control Board included proposed Financial Plan Modification No. 79-7, which was intended to reflect the transactions contemplated by the agreement.

This submission was not formally considered by the Control Board, pending a decision by the City as to whether it would attempt to obtain the necessary State legislation. New legislation was not sought and, by May 1, it again became necessary for the City and MAC to consider how they would dispose of the remaining \$993.81 million of BANs held by MAC. On May 14, 1979 the City formally presented to the Control Board a new submission dealing with this issue.

THE MAY 14 SUBMISSION

The May 14 submission formally withdraws from Control Board consideration the agreement and Financial Plan modification that had been pending since March 30. In place of those documents, the submission presents a new agreement between MAC and the City (the "Exchange Agreement"), and a revised Modification No. 79-7, reflecting the transactions contemplated by the Exchange Agreement. The submission requests Control Board approval of the Modification, the Exchange Agreement and the issuance of bonds in accordance with the terms of the Exchange Agreement.

The Exchange Agreement provides for the disposition of the remaining \$993.81 of BANs held by MAC as follows:

- \$654.65 million of BANs are to be exchanged by MAC for a like principal amount of general obligation serial bonds issued by the City (the "Exchange Bonds"). The Exchange Bonds will bear interest at 8% per annum and will be paid over a twenty-eight year term ending September 15, 2007. However, during their entire term the Exchange Bonds are subject to call by the City on 30 days notice.
- \$189.16 million of BANs are to be redeemed by the City in three installments. The first payment, consisting of \$52.575 million in principal together

with accrued interest at 6% per annum is to be made on June 11, 1979. The second and third payments will be made on December 1, 1979 and December 1, 1980. Those payments will consist of \$60.0 million and \$76.585 million of principal, respectively, together with accrued interest. The BANS redeemed on those dates will bear interest at a rate of 6% until May 15, 1979, the date of the Exchange Agreement, and 8% thereafter (this is estimated to be the approximate average cost of MAC's outstanding debt).

- \$150.0 million of BANS will initially be held by MAC and either exchanged at a later date for bonds comparable to the Exchange Bonds or presented for cancellation without payment on June 30, 1981. These BANS were originally issued in connection with several Mitchell-Lama projects where the City is considering refinancing existing mortgages. If the City proceeds with a mortgage refinancing, the corresponding BANS will be cancelled; however, current arrangements give the City the option to bond out any BANS where refinancings are not effected.

The Financial Plan Modification presented as part of the May 14 submission reflects only the effects of the transactions contemplated by the Exchange Agreement and does not otherwise modify the Financial Plan as approved by the Control Board on February 14, 1979. There is currently pending before the Control Board a Financial Plan modification covering FY1979, reflecting the results of operation for the first three quarters of the current fiscal year. However, analysis of that modification is not yet complete and it is not anticipated that the Control Board will act on that submission until early June. The scope of Modification No. 79-7 was therefore limited in order to permit prompt action on the submission.

As indicated above, during the time they are outstanding the Exchange Bonds are subject to call, in whole or in part, by the City. Exercise of this right could materially change the redemption schedule for the Exchange Bonds, thereby changing the effect of debt service payments as set forth in Modification No. 79-7. The Exchange Agreement itself requires that the exercise of a call be consistent with the Financial Plan. However, in order to avoid any uncertainty as to whether the exercise of a call in any given instance will require the submission and approval of a Financial Plan modification, in its May 14 submission the City provided certain specific assurances relating to the Financial Plan review process.

The May 14 submission states that at least thirty days prior to the giving of notice in connection with the exercise of any call

of the Exchange Bonds, the City will advise the Control Board of its intention to exercise the call and will either submit a Financial Plan modification reflecting the effect of the call or certify that the exercise of the call is consistent with the Financial Plan then in effect. These arrangements provide appropriate assurances that any changes in the Exchange Bond redemption schedule that have a material effect on the Financial Plan will be subject to prior review and approval by the Control Board in the context of a Financial Plan modification.

THE FINANCIAL PLAN EFFECT OF THE TRANSACTIONS

Introduction

During fiscal 1978 and 1979, the City levied real estate taxes at a constant rate of \$8.75 per hundred dollars of total assessed value of City real estate. The Financial Plan recently submitted to the Control Board by the City projects that this constant real estate tax rate will be maintained during the four fiscal years, ending with fiscal 1983, covered by the Plan. One of the principal objectives of the transactions contemplated by the May 14 submission is the creation of a flexible means by which the City can maintain this constant real estate tax rate during at least the period covered by the proposed Financial Plan.

Under the State Constitution, the maximum amount of real estate tax revenues which the City may levy during any year for operating purposes is limited to 2.5% of the average full value of taxable real estate during the most recent five years, less payments of principal and interest on certain short-term indebtedness. In addition, the City may levy real estate taxes without limit as to amount in order to pay principal and interest on its indebtedness.

The maximum permissible tax collections in any year, as well as the resulting tax rate, are thus dependent on the average full value of taxable real estate and on debt service to be paid by the City during the year. To the extent that the City intends, as a matter of policy, to maintain a constant real estate tax rate during any year, it must insure that the maximum permissible tax levy for that year equals or exceeds the total levy to be collected at the constant rate. As a practical matter, the only variable that the City can control in order to implement this policy is the aggregate debt service payable during the year in question.

It should be noted that both the debt service on the Exchange Bonds and the principal and interest payments on the BANS to be

redeemed will constitute debt service costs of the City which may be paid from real estate taxes levied "outside" the 2 1/2% constitutional limit. This has become an important consideration because the City's debt service has been steadily declining since the 1977 fiscal year. As a result, absent some measure of debt-service payments on City debt held by MAC, the City would not be able to support its real estate tax at the current \$8.75 rate beyond the current fiscal year.

This condition has arisen largely because the City has not been able to do all of its own borrowing for the past four years, relying to a substantial degree on the borrowing capacity of MAC. However, the debt service on MAC bonds must be paid from sales taxes and other revenues that would otherwise be available for general City operations rather than from real estate taxes levied "outside" the 2 1/2% limit. To the extent that the City makes debt service payments to MAC, as contemplated in the Exchange Agreement, these amounts (which can be paid from taxes levied "outside" the 2 1/2% limit) become available for MAC debt service funding and thus reduce the amount of the MAC "take-out" that would otherwise be required. The effect of such a transaction is to permit some portion of MAC's debt service costs to be provided for through real estate taxes levied "outside" the 2 1/2% limit, and to permit the City some degree of flexibility in maintaining its real estate tax rate.

Analysis of the Transactions

According to the City's most recent projection of real estate tax trends and debt service trends for 1980-1983, the minimum amount of debt service the City needs to pay on BANs held by MAC and the Exchange Bonds ("BAN-Related Debt Service") in order to maintain the \$8.75 real estate tax rate is as follows:

1980 --	\$121.0 million
1981 --	\$140.5 million
1982 --	\$143.7 million
1983 --	90.8 million

These projections assume modest annual growth in taxable assessed value (approximately 1% per year, until 1983, when the projected growth rate rises to 1.7%), and roughly comparable modest increases in full value and the amount available for operations within the 2 1/2% limit. They also assume issuance of all the debt projected in the City's May 11 Four Year Financial Plan submission. The drop-off of payments projected to be needed in 1983 is largely attributable to an expected increase in other types of City long-term debt service in that year.

In the event that the City experiences no growth in the assessed or full value of its real property during these years, the amount of BAN Related Debt Service needed to maintain the tax rate would be reduced by approximately \$20-25 million in each of 1981, 1982 and 1983. On the other hand, if the City issues less debt than now projected during the four-year period, thus reducing non-BAN Related Debt Service, the need for such payments to MAC to maintain the tax rate would increase.

The actual schedules of payments to MAC provided for in the Exchange Agreement and related agreements (both principal and interest on the BANS to be redeemed, as well as debt service on the Exchange Bonds, and debt service on the \$20 million of City bonds previously exchanged for BANS on March 30, 1979) substantially exceeds the amounts required to maintain the tax rate in 1980 and 1981 (\$213.1 million and \$221.8 million to be paid, compared to \$121 million and \$140.5 million projected to be needed, respectively), and provides a more modest cushion in 1982 and 1983 (\$158.2 million and \$94 million to be paid, compared to the estimated \$143.7 million and \$90.8 million needed, respectively).

This heavy "front-loading" of payments in the early years is primarily the result of two factors: (i) the requirement that approximately \$135 million of BANS still outstanding as of June 30, 1979, be redeemed by June 30, 1981, rather than be converted into Exchange Bonds, and (ii) the structure of the Exchange Bonds themselves, which provide for high levels of maturing principal through fiscal 1983, followed by a considerably lower, flatter debt service schedule from 1984 through the final maturities in 2008. The payment schedule during these latter years ranges from \$35.5 million in 1984, gradually decreasing to \$25.5 million in 2008. (This assumes that the final \$150 million of BANS retained by MAC are ultimately cancelled without payment pursuant to the Agreement, rather than converted into additional bonds. If the full \$150 million were bonded, the annual debt service payments would be increased by approximately \$13.5 million for each year through fiscal 2008).

This level of payments after 1983 represents a substantial drop-off from the \$94.8 million to be paid (and the \$90.8 million projected to be needed to maintain the tax rate) in 1983. As a result, the City may well seek to utilize the call feature of the Exchange Bonds by fiscal 1984 (or conceivably sooner, in the event that the amounts needed to maintain the tax rate exceed projections for 1982 or 1983).

Utilization of the call provision in the Exchange Bonds in order to increase the City's payments to MAC in a given year would, of course, have to be reflected in a modification of the City's four-year Financial Plan submitted to and approved by the Control Board prior to the City's exercise of the call. Consequently, the Control

Board will be assured of an opportunity to assess the full impact of the exercise of such a call on the City's property tax revenue base, debt service expenditure projections and the City's long-range fiscal outlook as a result of its use.

It should be noted that as long as the City maintains its commitment to keep the real estate tax rate at the \$8.75 level, as reflected both in the four-year Financial Plan now in effect and in the Financial Plan submission for 1980-83 submitted to the Control Board on May 11 the amount of budget relief available through City debt service payments to MAC is limited to the amount needed to maintain the tax rate. Additional payments above this level (such as the excess payments scheduled in 1980 and 1981 above the level required to maintain the rate) are simply a "wash." That is, these excess payments (projected to amount to \$92.1 million and \$81.3 million in 1980 and 1981, respectively) will indeed flow to MAC and thus further reduce the MAC "take-out" by that amount (a budget saving); but, with a constant tax rate, they will not result in any increase in aggregate real estate tax revenues.

Thus, the City would not be able to convert such "excess" debt service payments to MAC into additional budget relief unless it sought to use them as the basis for actually increasing the property tax rate above the \$8.75 level -- contrary to the Mayor's present commitment and the assumptions underlying the Financial Plan. Such a change in City policy would also have to be embodied in a Financial Plan modification requiring Control Board approval.

Given the City's most current assumptions for the 1980-83 period (and assuming no use of the call provision during that time), the following will be the outlook as of the end of the 1983 fiscal year:

- MAC will still hold Exchange Bonds in the aggregate principal amount of at least \$312.8 million (or as much as \$456.7 million, depending on how much, if any, of the last \$150 million of MAC-held BANs are ultimately converted into bonds);
- The City's 1983 expense budget will have benefitted from approximately \$90 million of real estate tax revenues which would otherwise have been lost to a falling real estate tax rate absent the City's BAN-related debt service payments to MAC in at least that amount;
- The City's scheduled debt-service payments to MAC on the Exchange Bonds will drop to a level of approximately \$35.5 million (or as much as \$49 million, depending on disposition of the last \$150 million of BANs) in 1984, decreasing very gradually each year throughout until 2008;

As a result, as the 1984 fiscal year approaches, the City will need to devote increasing attention to the question of the extent to which it may seek to accelerate its payments to MAC through use of the call provision. Given the unpredictable nature of many of the relevant variables (e.g., amount and terms of future City debt to be issued, trends in assessed and full value of real estate, changes in the "equalization rate," etc.), it is almost impossible to project accurately the extent to which debt service payments to MAC will be needed in order to maintain the tax rate more than three or four years into the future. Indeed, given these variables, the estimates even for 1980-83 may be subject to material change during the four year period.

Nevertheless, given the current assumptions as to the 1980-1983 period, it does appear that MAC will continue to hold a sufficient principal amount of outstanding Exchange Bonds (\$300 to \$450 million) to permit the City, through the use of the call provision, to maintain the real estate tax rate (and the accompanying budget relief) for a number of years.

Assuming reasonably stable assessed value and full value trends for the period following 1983, and taking into account probable debt service levels during the period, it would appear that the need for debt service payments to MAC on the Exchange Bonds will be relatively stable through 1984-85 (i.e., on the order of the \$90 million needed in 1983).

In 1986, however, it may be necessary to increase the use of the call provision in order to maintain the tax rate, to compensate for an anticipated reduction in City debt service in that year (after relatively level projected debt service costs the preceding three years). Thereafter, the City's debt service costs are expected to begin increasing to reflect the expansion of its capital borrowing during the preceding years. Accordingly, the need for the use of the call provision to maintain the tax rate could be expected to decline after 1986.

In any case, it appears likely that the City will have sufficient capacity to maintain the tax rate at \$8.75 at least through fiscal 1985 or 1986, barring drastic changes in the current outlook for the assessed and full value of taxable real estate.

Alternatively, if the City ultimately chooses to limit the extent to which it utilizes the call provision, it could maintain some degree of flexibility with respect to the real estate tax rate (and some degree of budget relief) well beyond 1986. For example, if the City chooses to exercise the call provision in such a way as to provide annual payments to MAC on the Exchange Bonds in the

range of \$90 million (the approximate "going-out" rate for 1983) -- which would provide constant annual budget relief in that amount -- the Exchange Bonds would not be fully redeemed until at least 1988 (assuming no additional bonds exchanged for the last \$150 million of BANs) or 1990 (assuming full bonding of the additional \$150 million). This would not necessarily prevent modest declines in the tax rate from the \$8.75 level (perhaps in 1986), but it would provide for a more gradual decline than would otherwise ultimately occur.

This flexibility, and the four-year planning process embodied in the Financial Emergency Act, provides a reasonable basis for concluding that the execution and implementation of the Exchange Agreement can contribute materially to the City's long-range fiscal stability and health.

CONCLUSION

As indicated above, the May 14 submission requests Control Board approval of Financial Plan Modification No. 79-7 (as revised), of the Exchange Agreement and of the issuance of the Exchange Bonds. The City has provided appropriate certifications in the submission and there appears to be no reason for the Control Board not to approve the matters submitted.

Under Section 8 of the Act, the Control Board must approve a Financial Plan modification which it determines is complete and consistent with the standards set forth in Section 8.1. Modification No. 79-7 reflects the effect of the implementation of the Exchange Agreement, including the issuance of the Exchange Bonds, on the Financial Plan currently in effect. Those changes appear to be complete and consistent with applicable statutory standards and it is therefore recommended that, pursuant to Section 8.3(b) of the Act, the Board approve Modification No. 79-7. Approval of Modification No. 79-7 means that performance of the Exchange Agreement will be in accordance with the Financial Plan, as modified, and the Agreement may therefore be approved by the Board pursuant to Section 7.1(e) of the Act.

Similarly, approval of Modification No. 79-7 means that the issuance of the Exchange Bonds and the redemption of the Exchange Bonds in accordance with the redemption schedule set forth in the Exchange Agreement will be consistent with the Financial Plan, as modified. However, Section 7.1(f) of the Act also authorizes the Board to disapprove a proposed borrowing if it determines that the borrowing is inconsistent with the objectives or purposes of the Act. As part of its submission, the City has affirmatively certified that the proposed terms of the Exchange Bonds are consistent with the objectives and purposes of the Act and there appears to be no

reason for the Board to take issue with that view. It is possible that the interrelationship of real estate tax revenues, debt service on the Exchange Bonds and the exercise of the call provisions of the Exchange Bonds may, in the future, raise issues that concern the City's ability to maintain a balanced budget during the period covered by the Financial Plan or thereafter, or that are otherwise relevant to the objectives or purposes of the Act. However, the Board will review the effect of any exercise of the call provisions and can deal effectively with such issues in the context of its Financial Plan review powers at that time. It is therefore recommended that the Control Board approve the issuance of the Exchange Bonds pursuant to Section 7.1(f) of the Act.

DEPARTMENT OF AUDIT AND CONTROL

INTER-OFFICE MEMORANDUM

To: Theodore M. Berns, Chief
Municipal Consultant

Date: September 21, 1977

From: Bernard J. Kabak



Subject: Payment by New York City of
Interest on Bond Anticipation
Notes Held by the Municipal
Assistance Corporation

I. Background. In fixing its real property tax rate for fiscal year 1978, the City of New York provided for the payment of debt service by levying taxes outside the constitutional tax limit to the extent permitted by section 10 of Article VIII of the State Constitution. The City's financial plan adopted pursuant to section 8 of the Financial Emergency Act reflects these anticipated real property tax revenues and the expenditure for the projected debt service.

As a result of events that occurred subsequent to the fixing of the City's tax rate, the City finds that its debt service in fiscal year 1978 is less than the amount projected at the time the real property tax rate was fixed, and, concomitantly, the funds raised outside the constitutional tax limit exceed the amount that will actually be required for paying the related debt service. The use that the City proposes for these excess funds is to apply them to the payment of interest on certain bond anticipation notes of the City held by the Municipal Assistance Corporation. Because it has been the policy of the Corporation not to present any obligations of the City that it holds for the payment of principal or interest, the City had not made provision in its financial plan or budget for the payment of such principal or interest. Now, because of the availability to the City of excess funds, it has proposed and the Corporation has agreed that the Corporation shall present certain bond anticipation notes to the City for the payment of interest only. The Corporation having no real need for this interest income, the money to be paid to the Corporation by the City will ultimately be returned to it, but in a form such that the City will then be able to use it for its general purposes.

This transaction between the City and the Municipal Assistance Corporation is latent in Modification Number 10 to the financial plan, which the City has presented to the Emergency Financial Control Board for approval. The Special Deputy Comptroller for the City of New York is required to advise the Control Board with respect to Modification Number 10, and in this connection seeks your guidance as to the following question:

II. Question. May the City apply real property tax revenues raised outside the constitutional tax limit to the payment of interest on bond anticipation notes of the City held by the Municipal Assistance Corporation as proposed in Modification Number 10?*

* If the answer to the question is yes, a subsidiary issue arises. This subsidiary issue is presented in Part V below.

III. Context for the Question. Because the Municipal Assistance Corporation has no purpose except to assist the City, Public Authorities Law § 3031, and because the revenues the Corporation receives from the sources provided in sections 3036 and 3036-a of the Public Authorities Law (including revenues for paying debt service on its obligations, maintaining certain funds, and financing its own operations) have thus far been adequate for carrying out this purpose, the Corporation has no actual need for the interest income on the bond anticipation notes. (This is the reason for the Corporation's general policy of not presenting the obligations of the City that it holds for the payment of principal or interest.) Consequently, the money the Corporation receives as debt service on City obligations is ultimately returned to the City. Thus, Note 7 to the Corporation's audited financial statements as at June 30, 1977 points out:

Any funds which may be received by the Corporation as interest or principal payments on the City notes have the effect of either (a) reducing the funding required from the State, thereby making additional funds available for payment by the State to the City, or (b) providing additional funds to the Corporation for disbursements to the City for its operating expenses or short-term debt service requirements.

But, although the ultimate return to the City of the monies it pays to the Corporation as debt service suggests that the transaction results in a "wash," this is not so. The monies that the City proposes to apply to the payment of interest on the bond anticipation notes, as monies raised outside the tax limit, are restricted in their use to the payment of debt service. But these monies, when they are returned to the City, are freed from such restriction and are metamorphosed into monies that the City may use for any purpose. It is this very result, salutary from the City's point of view, that is the underlying reason for the whole transaction.

But it is also this very result that gives rise to the question whether the transaction is permissible; for the result would seem to violate the principle that money raised for debt service cannot legally be used for general purposes. This principle was enunciated by the Attorney General as recently as April 13 of this year. In a letter of that date to the Governor, the Attorney General stated that as a consequence of that principle monies collected outside the tax limit that prove not to be required for the payment of debt service in the year in which they are raised are to be applied to the payment of debt service in future years.

IV. Further Considerations. In discussions about the transaction at issue within the Office of the Special Deputy Comptroller and between our office and the City, several arguments have been offered both in favor of the permissibility of the transaction and against it. You may wish to consider these arguments in reaching your conclusion on the question.

A. Arguments That the Transaction Is Permissible

(1) The City is doing nothing more than paying interest on its notes when they are presented for payment, as the notes by their own terms require. The City's legal obligation to pay this interest is no less firmly rooted in the State

Constitution -- the "faith and credit" clause of Article VIII, section 2 -- than is the real property tax limit. Indeed, the City could not legally refuse to pay. The truth of these statements would be beyond peradventure if any other holder of the notes presented them for the payment of interest, and no rule or principle of law can be pointed to that requires a different result merely because the holder of these notes is the Municipal Assistance Corporation. On the contrary, the Public Authorities Law itself requires specifically with respect to bond anticipation notes that, unlike other short-term obligations of the City, such notes, when acquired by the Corporation in exchange for its notes or bonds, may not be delivered to the City for cancellation unless the City pays accrued interest thereon, § 3035(2).

(2) The principle that money raised outside the tax limit for the payment of debt service cannot legally be used for general purposes is here being observed, not violated; for what is the payment of interest on bond anticipation notes if not the payment of debt service? That the monies so paid ultimately return to the City is an incidental effect resulting from the statutory scheme governing the flow of the Corporation's revenues, whereas the principle that money raised for the payment of debt service cannot legally be used for general purposes prohibits only the direct application of such monies for general purposes.

(3) The bond anticipation notes being presented for the payment of interest were acquired by the Corporation pursuant to sections 3035 and 3037 of the Public Authorities Law. Those notes acquired pursuant to section 3035 were exchanged for obligations of the Corporation. Had the City itself rather than the Corporation undertaken the refinancing of these notes, its debt service on the new obligations would have been payable with monies raised outside the tax limit. And with respect to those notes the Corporation acquired pursuant to section 3037, these, too, could have been sold by the City to the general market, and debt service on them would likewise have been payable with monies raised outside the tax limit. It is unnecessarily restrictive, therefore, to prohibit the City from paying the interest here in question with monies raised outside the tax limit, as it otherwise could do, merely because market conditions -- and not any legal impediment -- necessitated the acquisition of the notes by the Corporation.

(4) One of the reasons that the City's actual debt service requirements are less than what was projected when the real property tax rate was fixed is that holders of certain notes of the City (including bond anticipation notes) have agreed to exchange them for bonds to be issued by the Corporation. The City is thus relieved of paying debt service on the exchanged notes, but a further consequence of this exchange is that the Corporation's debt service is increased because of the new bond issue. The Corporation funds this increase in its debt service through an increase in the monies paid over to the Corporation pursuant to sections 3036 and 3036-a of the Public Authorities Law, monies that would otherwise be received by the City and that it could otherwise use for its general purposes. Thus, attached to the goal of retiring the City's short term notes (as to the desirability of which the City, the Corporation, and the Emergency Financial Control Board all agree) is the unfortunate side-effect of reducing the monies available to the City for its general purposes. For reasons of equity and common sense, the City should be permitted to restore the amount of general purpose monies diverted from it as a side-effect of the exchange that reduced its

debt service by using monies raised outside the tax limit that, by virtue of that very same exchange, are no longer required for such debt service.

B. Arguments That the Transaction Is Not Permissible

(1) Although it is acknowledged that the notes to be presented by the Corporation are authentic obligations of the City on which interest is due and payable, to stop the inquiry at this point and agree that the proposed transaction is therefore permissible would be to allow form to triumph over substance. The ultimate return to the City of monies formally paid to the Corporation as debt service is no mere "incidental effect;" it is the very reason for the transaction. And what does it matter whether money raised outside the tax limit is transferred from the City's right pocket of debt service money to its left pocket of general purpose money directly or whether the money is shifted to and from the Corporation in the course of being transferred? In either case the result, substantively, is the same: monies raised outside the tax limit for debt service are used for general purposes.

BLAH!

(2) Where the City's bond anticipation notes are held by the Corporation rather than by some other person or entity, the consequences are different. This is so not because of any one rule or principle of law (see Argument A(1) above) but because of all the statutes and practices that taken together establish the underlying reality of the Corporation, the City, and the relationship between them. And that underlying reality is such that for many purposes City obligations held by the Corporation are subject to extraordinary treatment. For some purposes, City notes held by the Corporation and the Corporation's own outstanding obligations are regarded as one-and-the-same. Thus, the City Comptroller in his Annual Report for 1975-76 excludes from his summary of City debt City notes held by the Corporation, giving as his reason that, "corresponding MAC debt is included, and the additional inclusion of these notes would double count the same financing," (p. 23). Nor does the City Comptroller include notes of the City held by the Corporation or accrued interest thereon in the statement of City liabilities (p. 2), because of the Corporation's intention not to present such notes for the payment of principal or interest * (p. 24). Likewise, in the Corporation's financial statements as at June 30, 1977, precisely because funds received by the Corporation as interest or principal payments on City notes are ultimately returned to the City, such notes held by the Corporation are excluded from its Statements of Financial Position (Note 7). Thus, since both the City and the Corporation agree that City notes held by the Corporation are not City debt in the ordinary sense, there is nothing remarkable, much less invidious, in the conclusion that the City may not pay interest on notes held by the Corporation in a way such that monies

* A second reason given by the City Comptroller was that some of the notes were subject to the moratorium legislation. That legislation having been invalidated, this reason would seem no longer to apply.

raised outside the tax limit become usable for the City's general purposes.*

This is not to say that the City may not pay debt service to the Corporation at all. As noted above (Argument A(1)), the City cannot legally refuse to pay. But it must pay with monies raised within the tax limit. Indeed, this is what the City itself did in fiscal year 1977 (before the Corporation established its policy of not presenting City obligations for the payment of debt service) --it provided for the payment of debt service on its notes held by the Corporation in that part of its budget that is funded by monies raised within the tax limit.

(3) The technique employed in the proposed transaction is open to manipulation and abuse. Although for fiscal year 1978 the City did not levy a real property tax for general purposes up to the constitutional tax limit, in future years it may have to do so. If the City then finds that it needs yet additional revenues for its general purposes, it could, if the transaction at issue is deemed permissible, arrange for the Corporation to present City obligations it holds for the payment of debt service, which the City could fund with taxes raised outside the limit. The increase in revenues that would then flow back to the City without restriction as to the purpose for which they may be used would effectively circumvent the constitutional tax limit.

* Moreover, since the City could thus increase its general-purpose revenues almost at will, the use of this device renders illusory any statutory requirement that the City's budget be in balance. The particular use of this device now at issue shows the danger at its height. Much of the interest that is proposed to be paid now was payable in fiscal year 1977, and the payment of the 1977 interest would be accruable as a charge to that year, a year when the Financial Emergency Act did not require the City's budget to be in balance. But the revenues that will flow back to the City will be accounted for as 1978 revenues, and would thus facilitate the City's having a balanced budget for that year. When the legislature required that the City's expense budget for its 1978 fiscal year be in balance, Financial Emergency Act, § 8, it was not balance through such gimmickry that it had in mind.

A third control that might thus be circumvented is in the Public Authorities Law. Although the Public Authorities Law, in section 3037, does contemplate the flow of monies from the Corporation to the City even to enable the City to pay its operating expenses, that end must be accomplished according to the procedures and within the limitations established in that section. In particular, section 3037 provides that the outstanding amounts paid to the City for

* The requirement of section 3035(2) of the Public Authorities Law that in certain circumstances the City must pay interest on its bond anticipation notes held by the Corporation is not to the contrary. This provision, we are informed, was included in the legislation as an accommodation to the City for certain technical reasons not here relevant, and does not reflect a determination by the legislature that bond anticipation notes of the City held by the Corporation are to be treated in the same way as such notes in the hands of a conventional holder.

operating expenses pursuant to that section shall not exceed two billion dollars. That ceiling has already been reached. While it is true that the return of general-purpose monies to the City would be a result of the proposed transaction and would thus not be "pursuant to" section 3037, it cannot be argued that therefore the statutory ceiling does not apply; for it is the clear implication of section 3037 that whenever the Corporation is to provide money to the City for operating expenses the transaction must be pursuant to section 3037. Other techniques, however imaginative and however indirect, are not permitted.

V. Subsidiary Issue. Most of the notes held by the Corporation that are proposed to be presented for the payment of interest have already matured. Assuming that the City may pay interest on the notes as proposed, how is the amount to be paid computed? May the City pay only that amount of interest that was due and payable as of the date of maturity, or is interest to be computed to the date when the notes are presented for payment?

VI. Appendices. The following materials referred to in this memorandum are attached as appendices.

Appendix A -- Note 7 to the audited financial statements of the Municipal Assistance Corporation as at June 30, 1977 prepared by Price Waterhouse & Co. and included in the Official Statement of the Corporation dated August 24, 1977.

Appendix B - Letter of April 13, 1977 from the Attorney General to the Governor.

Appendix C - Annual Report of the City Comptroller for 1975-76, excerpts.

APPENDIX A

claim on per capita aid funds available to the Corporation, have a secondary claim on amounts remaining on deposit in the Municipal Assistance Tax Fund, after the certification of the amount required for First General Bond Resolution debt service and Capital Reserve Fund, but before the remaining amounts are released to the City.

NOTE 6—INVESTMENTS IN MARKETABLE SECURITIES:

Debt service funds transferred to the Corporation in advance of disbursement to bondholders are temporarily invested for the Corporation by United States Trust Company of New York acting as Trustee under the bond resolutions, and the income therefrom is credited to the Debt Service Fund for which such investments are made. Proceeds of debt issues may also be invested by the Trustee in advance of disbursement to the City or transferred to other accounts of the Corporation held by the Trustee.

Such investments may be made only in direct obligations of, or obligations guaranteed by, the State or the United States of America, or in certain other permitted investments, and comprised the following at June 30, 1977:

U. S. Treasury Bill Repurchase Agreements maturing through August 1977.....	\$147,632,000
U. S. Treasury Bills maturing through December 1977.....	98,207,475
U. S. Treasury Notes maturing through January 1978.....	48,115,712
Total Debt Service Fund investments.....	<u>\$293,955,187</u>

NOTE 7—NEW YORK CITY NOTES HELD BY THE CORPORATION:

The Act requires that the Corporation receive obligations of the City in connection with all payments made to the City for the purpose of paying its operating expenses and authorizes the Corporation to purchase obligations of the City in connection with payments made to the City to enable it to meet short-term debt service. In addition, as a result of exchange offers made by the Corporation, holders of short-term notes of the City exchanged such notes for bonds of the Corporation issued under the Second General Bond Resolution. As a result of such transactions, the Corporation held \$3,417 million of such City notes at June 30, 1977. It is the Corporation's present intention that City notes held will not be presented for payment of principal or interest, except for interest on certain Bond Anticipation Notes.

Any funds which may be received by the Corporation as interest or principal payments on the City notes have the effect of either (a) reducing the funding required from the State, thereby making additional funds available for payment by the State to the City, or (b) providing additional funds to the Corporation for disbursements to the City for its operating expenses or short-term debt service requirements.

Because of these circumstances, the City notes held by the Corporation have not been included in the accompanying Statements of Financial Position.

NOTE 8—OPERATING FUND:

The Operating Fund includes those expenses of carrying out the Corporation's duties and functions, as authorized by the Act, including the expenses of issuing debt, exercising its oversight responsibilities and the general administration of the Corporation. These expenses are to be funded from the Special Account in the Municipal Assistance Tax Fund. The amount funded for the 1977 fiscal year of the Corporation is \$14 million (1976—\$6.8 million), consisting of \$6 million estimated by the Corporation as necessary for its operating expenses and \$8 million for solicitation fees paid by the Corporation in connection with its recent exchange offer.

At June 30, 1977, \$13,667,559 of funds from the State had been allocated to the Corporation for Operating Fund purposes. At June 30, 1977 \$3,255,938 of funds allocated in 1977 and \$942,292 of funds allocated in 1976 had not been expended and were held for the Corporation's account by the State.

APPENDIX B



STATE OF NEW YORK
DEPARTMENT OF LAW
ALBANY 12224

IRVING J. LEFKOWITZ
ATTORNEY GENERAL

April 13, 1977

Hon. Hugh L. Carey
Chairman
New York State Emergency Financial
Control Board for the City of New York
270 Broadway
New York, New York 10007

Dear Governor Carey:

This is in reply to your letter dated March 31, 1977, requesting my opinion as to whether the City of New York may, in fixing its real estate tax rate outside the constitutional tax limit of 2-1/2% of the average full value of taxable real estate in the City, take into consideration the fact that a portion of those taxes will be uncollectible and, fix the rate at a level which, considering such uncollectible taxes, will produce a tax income sufficient to meet budgeted expenses for debt service. In considering the questions posed in your request for my opinion, we have also ascertained that approximately 10% of New York City's tax levy remains uncollected each year.

Article VIII, § 10, of the State Constitution provides as pertinent here:

"Hereafter, in any * * * city * * *,
the amount to be raised by tax on real
estate in any fiscal year, in addition to
providing for the interest on and the
principal of all indebtedness, shall not

exceed an amount equal to the following percentages of the average full valuation of taxable real estate of such * * * city * * *;

"(f) * * * the city of New York and the counties therein, for city and county purposes, a combined total of two and one-half per centum." (Emphasis added.)

Article VIII, § 10, further provides that the "amount to be raised by tax" for general purposes shall be "in addition to providing for" debt service, thus separating a municipality's power to tax for general purposes, subject to a tax limit, from the power to tax, outside the tax limit, for debt service (see also, Article VIII, § 2, fourth unnumbered paragraph, *id.*, § 12, last sentence).

While the precise question of whether taxes levied for debt service and thereby excluded from a tax limit may include in the levy an amount for the portion of the taxes anticipated to remain uncollected has never been answered, there is, however, substantial authority both for the proposition that the authority to levy a tax for a purpose includes the power to add an amount for anticipated uncollected taxes (e.g., People v. Axelrod, 373 Ill. 446, 26 N.E. 2d 512 [1939]; Dobyns v. Cheshire, 9 Cal. App. 2d 77, 48 P. 2d 743 [Dist. Ct. Cal., 1935]; Burnett v. Grand Rapids, 254 Mich. 593, 250 N.W. 32 [1933]; Norris v. Montezuma Valley Irrigation District, 248 F. 369, 373 [8th Cir., 1918], cert. den. 248 U.S. 569; McQuillin, Municipal Corp. [3d Ed.], § 44.99) and for the proposition that the power to levy a tax sufficient to pay a debt is implied from the grant to a municipality of the power to incur the debt (e.g., Scotland County Court v. Hill, 140 U.S. 41 [1891]; Quincy v. Jackson, 113 U.S. 332 [1885]; People v. Schlaeger, 391 Ill. 314, 63 N.E. 2d 382 [1945]; Wilson v. High Point, 238 N.C. 14, 76 S.E. 2d 546 [1953]). From this it must be concluded that the power to incur a debt presupposes the power to provide sufficient actual funds to pay the debt and to levy a tax which, by virtue of anticipated tax delinquencies, will be adequate to pay the debt.

Article VIII, § 10 does not prescribe the procedure for determining whether amounts levied for debt service are properly so levied. Section 54-a of the State Finance Law provides a statutory procedure for determining when a municipality has exceeded its tax limit. Thus, the constitutional provision is subject to statutory construction.

I am aware that in 1948, special legislation was adopted for the City of Rochester (L. 1948, ch. 451) which apparently authorized that city to include a reserve for uncollectible taxes in its tax rate for debt service and general purposes, and, in addition, required that any excess taxes collected be applied to future debt service or general purposes in proportion to their share of the reserve. In implementing section 54-a of the State Finance Law, the State Comptroller has construed the Rochester statute as valid authority for the exclusion of this part of the levy from the tax limit (see, e.g., Op. St. Compt. 76-96, 76-96A). Section 1515 of the New York City Charter, as adopted by the voters of the City in 1975, effective January 1, 1977, provides:

"§1515 Fixing of tax rate.- The council shall meet not later than the twenty-fifth day of June to fix the annual tax rate. The council shall deduct the total amount of receipts as estimated by the mayor from the amount of the budget, as fixed for the ensuing fiscal year, and shall cause to be raised by tax on real property such sum as shall be as nearly as possible but not less than, the balance so-arrived at, by fixing a tax rate in cents and thousandths of a cent upon each dollar of assessed valuation. The tax rate shall be such to produce a balanced budget within generally accepted accounting principles for municipalities."

That Charter provision clearly requires a balanced budget and must be construed as authorizing the inclusion of a reserve for uncollected taxes in the debt service levy since that would be in accord with generally accepted accounting principles for municipalities and necessary to a balanced budget (see, e.g., Leon E. May and R. M. Mikesell, *Governmental Accounting* [5th ed.], p. 70; New York State Department of Audit and Control, *Uniform System of Accounts for Cities* [1966 ed.], p. 3; State of New York, *Budget Manual for Cities*, [1976 ed.], p. 10). Indeed, the State Comptroller's Accounting Directive issued pursuant to Public Authorities Law, § 3038(2) requires such a reserve. (Of course, the City should make every effort in succeeding years to collect taxes uncollected in prior years.) The New York City Charter has the same force and effect as a State statute (*Schlakman v. Board of Education*, 306 N.Y. 532, 538, *affd.*, 282 App. Div. 719, *revd.* on other grounds, 350 U.S. 551), enjoys the same

Hon. Hugh L. Carey

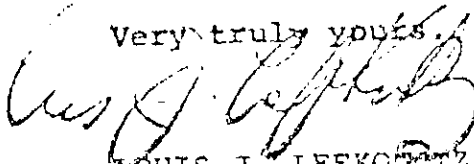
4.

strong presumption of constitutionality which attaches to all statutes, and is equivalent in both substance and effect to the special act relating to the City of Rochester. With respect to the tax levy for debt service, neither the Rochester statute nor the New York City Charter provision is in conflict with the Constitution but rather construes it.

It should also be noted that since money raised for debt service cannot legally be used for general purposes (Matthaei v. Housing Authority of Baltimore City, 177 Md. 506, 9 A 2d 835 [Ct. of App. Md., 1939]), the requirement of the Rochester statute that any surplus be applied to future debt service is consistent with general principles of law. Those principles are likewise applicable here.

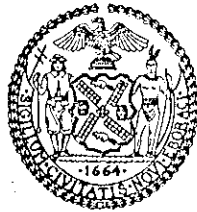
I, therefore, conclude that New York City may include a reserve for those taxes, which it estimates in each budget year in good faith will be uncollectible, in a tax levy for debt service and, by virtue of the fact that such taxes are restricted to payment of debt service only, the entire amount of a tax levy for debt service would be excluded from the City's tax limit.

Very truly yours,



LOUIS J. LEFKOWITZ
Attorney General

Annual Report
of the
Comptroller
of
The City of New York
for the
Fiscal Year 1975-1976



HARRISON J. GOLDIN
Comptroller

MARTIN IVES
First Deputy Comptroller

SOL LEWIS
Acting Third Deputy Comptroller

WALTER PRAWZINSKY
Second Deputy Comptroller

SOL LEWIS
Chief Accountant

Comptroller's Report for 1975-1976 Part I-A—Summary of Operations and Financial Position—Statement I (Cont.)

COMBINED FINANCIAL STATEMENTS (Unaudited—000's omitted)

June 30, 1976

	General Fund	Trust and Agency Funds	Capital Projects Fund	Housing Enterprise Fund	General Long-Term Debt Group of Accounts	Debt Service Fund	MAC Long-Term Debt of Accounts	MAC Debt Service Fund
LIABILITIES, RESERVES, FUND BALANCE/(DEFICIT)								
Encumbrances and Accounts Payable	\$611,319	\$28	\$79,749	\$871				
Notes Payable:								
Revenue Anticipation	624,800		120,000					
Tax Anticipation			150,000	357,170			\$23,500	
Bond Anticipation								
MAC							23,500	
Total Notes Payable	624,800		270,000	357,170				
Accrued Pension Liability	2,367,000							
Deferred Income:								
State Advances	800,000							
Real Estate Tax Payments Received in Advance	646							
Other	50,956							
Total Deferred Income	851,602							
Due to General Fund	37,379		1,360,386	77,493				
Due to Trust and Agency Funds								
Long-Term Debt:								
Revenue Anticipation Notes					\$99,050			
Tax Anticipation					280,000			
Bond Anticipation				440,175	1,142,544			
Term Bonds				176,630	6,108,298		3,676,820	
Serial Bonds								
MAC Bonds								
Total Long-Term Bonds				616,805	7,629,892		3,676,820	
Commitments and Contingencies:								
Reserve for Contract Liability	99,540	205	945,852	14,652				
Reserve for Disallowances of Aid Revenues	308,713			769,779				
Retained Earnings/(Deficit)	6,245,895	38,371				\$884,821		\$154,526
Fund Balance/(Deficit)	883,522							
Less: Contributions from Long-Term Bonds Borrowed by MAC	2,372,670			422,830				
Fund Balance Credits Arising from MAC Acquisition of Short-Term Debt								
Fund Balance Credits Arising from Extension of Short-Term to Long-Term Debt	379,050							
Total	2,610,653	38,371		346,949		884,821		
Net Fund Balance, Retained Earnings (Deficit)							19,824	
MAC Capital Reserve Account			2,528,192					
Amounts to be Financed by Issuing Debt	\$2,289,700	\$38,604	\$127,795	\$720,042	\$7,629,892	\$884,821	\$3,720,144	\$154,526

The accompanying notes are an integral part of this statement.

2. The following obligation was issued to the State in connection with advances by the State and was secured by the assignment by the City to the State of all mortgages on Mitchell-Lama housing projects. This obligation was redeemed at its maturity.

<u>As at June 30, 1976</u>			
<u>Type</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
		(In Millions)	
BAN	October 1, 1976	\$250	8.875%

3. The following obligations were held by MAC as at June 30, 1976. As shown below, \$598.125 million of the City notes held by MAC was received in exchange offers and \$2,197.3 million of such notes was received by MAC in connection with certain payments by MAC to the City. (In addition, \$18.215 million of City notes have been received by MAC subsequent to June 30, 1976 in an additional exchange offer.) All of such \$598.125 million notes (and such \$18.215 million notes received in an additional exchange offer) and substantially all of such \$2,197.3 million of such notes are subject to the moratorium. The MAC Act requires MAC to receive City notes in connection with all payments to the City for the City's operating expenses and authorizes MAC to receive said notes in connection with other payments to the City. With the exception of certain City notes received by MAC in exchange for MAC obligations, the MAC Act does not expressly authorize MAC to cancel or otherwise release the City from its liability under City notes held by MAC. The resolutions of MAC creating its funded debt provide that amounts payable by the City on City notes may not be considered by MAC in making certifications for sales tax, stock transfer tax and State per capita aid funds from the State. The City understands that MAC does not presently intend to present any City notes held by it for payment of principal or interest (other than certain BANs which will be presented for payment of interest only). These notes are, however, valid obligations of the City, and no assurance can be given that the City will not be called upon to pay them although no provision for such payment has been made in the Financial Plan. To the extent that the City pays such notes, MAC will have additional funds which it may apply in furtherance of its corporate purpose to assist the City in providing essential services and creating investor confidence in the City's obligations. The City expects to recover all interest paid to MAC on any of these obligations pursuant to certifications that such funds are needed for the payment of principal and interest on short-term obligations. See "Municipal Assistance Corporation Indebtedness".

<u>As at June 30, 1976</u>		
<u>Type</u>	<u>Original Maturity Date</u>	<u>Principal Amount</u>
		(In Millions)
Notes received by MAC in exchange offers:		
RAN	December 11, 1975	\$ 118.105
RAN	January 12, 1976	252.445
RAN	February 13, 1976	102.28
BAN	March 12, 1976	125.305
		<u>\$ 598.135</u>
Other Notes held by MAC:*		
TANs	February 13, 1976- June 30, 1976	\$1,171.27
RANs	May 31, 1976	647.5
BANs	August 20, 1976- October 15, 1976	297.53
Budget Notes	February 13, 1976	81.0
		<u>2,197.3</u>
		<u>\$2,795.435</u>

*With the exception of BANs in the principal amount of \$110.53 million which bear interest at 7.5% per annum, these notes bear interest at 5.75% per annum.

*11-15-76 MAC
PROSPECTUS*

898468

Analysis of BANs Held by MAC

I. From Exchange Offers

<u>Series</u>	<u>Closing Date</u>	<u>Amount Received</u> (millions)	<u>Interest Rate*</u>
4	1/9/76	\$97,960	6%
5	6/30/76	27,345	6%
6	8/6/76	4,405	6%
7	4/7/77	98,410	6%
9	9/14/77	440,160	6%
TOTAL		\$668,280	6%

II. From Payments to NYCDate Issued to MAC

8/22/75	\$141,000	5.75%
9/4/75	30,000	5.75%
9/11/75	16,000	5.75%
10/17/75	64,530	7.5 %
10/17/75	46,000	7.5 %
6/28/77	48,000	5.75%

TOTAL	<u>\$345,530</u>	
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TOTAL BANs HELD BY MAC (millions)	<u>\$1,013,810</u>
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Comptroller's Report for 1975-1976

Part I-K—Notes to Financial Statements (Cont.)

Summary of Long-Term Debt and Notes payable at June 30, 1975

	Long-Term Debt		Notes Payable				Total
	Term Bonds	Serial Bonds	Bond Anticipation Notes	Tax Anticipation Notes	Revenue Anticipation Notes	Urban Renewal Notes	
(000's omitted)							
Debt Maturing in Fiscal Year Ending:							
June 30, 1976	\$106,507	\$962,599	\$1,570,175	\$380,000	\$2,560,000	\$29,963	\$5,609,244
June 30, 1977	151,950	856,842	.....	.....	.....	.....	1,008,792
June 30, 1978	78,100	640,663	.....	.....	.....	.....	718,763
June 30, 1979	46,935	499,043	.....	.....	.....	.....	545,978
June 30, 1980	390,881	342,898	.....	.....	.....	.....	733,779
Five Years Ending June 30, 1985	176,603	1,267,110	.....	.....	.....	.....	1,443,713
Subsequent to July 1, 1985	298,075	1,948,372	.....	.....	.....	.....	2,246,447
	<u>\$1,249,051</u>	<u>\$6,517,527</u>	<u>\$1,570,175</u>	<u>\$380,000</u>	<u>\$2,560,000</u>	<u>\$29,963</u>	<u>\$12,306,716</u>
Summary of Funds:							
General Fund .....	.....	.....	.....	\$380,000	\$2,440,000	.....	\$2,820,000
Housing Enterprise Fund .....	.....	\$178,270	\$1,220,175	.....	.....	.....	1,398,445
Trust and Agency Funds .....	.....	.....	.....	.....	.....	.....	.....
Capital Projects Fund .....	.....	.....	350,000	.....	120,000	\$29,963	499,963
General Long-Term Debt Group of Accounts	<u>\$1,249,051</u>	<u>6,339,257</u>	.....	.....	.....	.....	7,588,308
	<u>\$1,249,051</u>	<u>\$6,517,527</u>	<u>\$1,570,175</u>	<u>\$380,000</u>	<u>\$2,560,000</u>	<u>\$29,963</u>	<u>\$12,306,716</u>

The City's authority to issue debt is governed by the Constitution of the State of New York, the local finance law, and other applicable statutes.

City notes totalling \$2,795 million acquired by MAC in connection with MAC financing and currently held by MAC (Note I) are not included in the above debt summary, since corresponding MAC debt is included, and the additional inclusion of these notes would double count the same financing.

In the event that moneys in the Capital Projects Fund or in the Housing Enterprise Fund are insufficient for the payment of principal of and interest on certain City notes which represent liabilities of such funds, the principal and interest will be paid from the General Fund.

See Note H for long-term commitments to public agencies.

The City's term and serial bonds were held by:

	June 30, 1976	June 30, 1975
(000's Omitted)		
N. Y. C. Sinking Funds	\$601,672	\$418,757
N. Y. C. Retirement Systems	860,732	330,732
Public	5,965,068	7,017,089
	<u>\$7,427,472</u>	<u>\$7,766,578</u>

H. LONG-TERM COMMITMENTS TO PUBLIC AGENCIES

Estimated outstanding principal amount of Lease Purchase Arrangements, as of June 30, 1976, is as follows:

	(In Millions)
City University Construction Fund/New York State Dormitory Authority	\$444.7
Municipal Health Facilities/State Housing Finance Agency	456.4
New York City Transit Authority	58.6

The funds paid by the City to the above-listed Authorities pursuant to Lease Purchase Arrangements are used by them primarily for the payment of their debt obligations.

The City has agreements with various public authorities pursuant to which such authorities agree to be primarily liable for the principal of and interest on certain debt obligations they issue, and for the maintenance of capital reserve funds (CRF) securing such