

# MEMORANDUM

*Date:* 2 December 1985  
*To:* Board of Directors  
*From:* Maxine H. Gillman, Counsel *MHG*  
*Re:* Capital Reserve Funds

MUNICIPAL  
ASSISTANCE  
CORPORATION  
FOR THE CITY  
OF NEW YORK

This memorandum sets forth a description, prepared in consultation with outside counsel, of the establishment and maintenance of the capital reserve funds by the Municipal Assistance Corporation For The City of New York (the "Corporation"), and the Corporation's policy with respect to the deposit or withdrawal of monies in such funds.

The Corporation maintains two capital reserve funds for the purpose of securing the payment of debt service on all bonds issued under each of its general bond resolutions. The capital reserve fund (the "First Reserve Fund") for bonds issued pursuant to the General Bond Resolution adopted July 2, 1975 (the "First Resolution") was established pursuant to the Corporation's enabling legislation (the "MAC Act"), specifically Section 3036 of the Public Authorities Law and Section 602 of the First Resolution. The capital reserve fund (the "Second Reserve Fund") for bonds issued pursuant to the Second General Bond Resolution adopted November 25, 1975 (the "Second Resolution") was established pursuant to Section 3036-a of the Public Authorities Law and Section 602 of the Second Resolution.

*Municipal Assistance Corporation  
For The City of New York*

2 December 1985  
Board of Directors  
Page 2

Both the MAC Act and the First and Second Resolutions require the Corporation to maintain the capital reserve funds at a level not less than the amount of principal and interest coming due on all then outstanding bonds issued pursuant to each respective resolution in the succeeding calendar year (the "Requirement"), an amount which increases over time to the peak year. The current Requirement for the First Reserve Fund is \$142.211 million and for the Second Reserve Fund \$785.808 million, each equal to calendar 1986 aggregate debt service. The Requirements change as the Corporation continues to issue refunding bonds because debt service on new issues enters into the calculation while debt service on any refunded bonds is excluded.

Currently, peak aggregate debt service on First Resolution Bonds occurs in calendar 1995 at \$331.728 million and on Second Resolution Bonds in calendar 1987 at \$846.816 million as shown in Schedule A. The Corporation has on deposit approximately \$300 million in the First Reserve Fund (approximately \$45 million of which is presently invested in a restricted account and scheduled to be applied to our debt service requirements upon maturity) and approximately \$839 million in the Second Reserve Fund.

*Municipal Assistance Corporation  
For The City of New York*

2 December 1985  
Board of Directors  
Page 3

Amounts on deposit in the capital reserve funds in excess of current Requirements remain on deposit in order to generate sufficient investment earnings to ensure that these peak year requirements are met. To do otherwise would require periodic infusions of additional monies into the capital reserve funds as the peak years of debt service are approached.

A deficiency in the Requirement by December 1 in any year would trigger the State's "moral obligation," set forth in Sections 3036(4) and 3036-a(3) of the MAC Act, to restore the capital reserve funds to the required levels upon the Corporation's certification for such deficiency. Further, failure of the Corporation to certify for or of the State to appropriate required amounts at required times to cover any deficiency in the capital reserve funds would constitute an event of default under either of the Resolutions.

On December 31, 1984, the Corporation's State statutory authority to issue bonds to raise funds to deposit into the capital reserve funds expired. Until that time, the Corporation was permitted to use bond proceeds for the capital reserve funds, in addition to its authority to certify for revenues available to it under State law for

*Municipal Assistance Corporation  
For The City of New York*

2 December 1985  
Board of Directors  
Page 4

that purpose and to so apply any other monies of the Corporation. Because, as of January 1, 1985, the Corporation no longer is authorized to issue obligations for purposes other than refunding, it may not augment amounts on deposit in the capital reserve funds with bond proceeds. Therefore, any increase in a Requirement from one calendar year to the next must necessarily be funded with revenues through the certification process, investment earnings, or other monies.

The capital reserve funds have been funded by the Corporation principally with bond proceeds rather than the State revenues available to it through the certification process. Only about 20% of the capital reserve funds were derived from the deposit of certified revenues, all in the initial phase of funding. The remaining 80% of the \$787 million of deposits into the capital reserve funds has come from financings over the years through calendar 1984, as shown in Schedule B.

While the Corporation may withdraw amounts on deposit in the capital reserve funds in excess of the current Requirement at any time and deposit such amounts into the debt service funds, it has as a matter of prudent fiscal policy maintained an amount in each such fund which, together with

*Municipal Assistance Corporation  
For The City of New York*

2 December 1985  
Board of Directors  
Page 5

projected investment earnings, will equal each Requirement in the respective years of peak aggregate debt service. Such practice obviates the need to certify periodically for revenues to make up a deficiency in the funds, which would have a negative impact on revenues flowing to the City for operating purposes in later years.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

CAPITAL RESERVE FUND REQUIREMENTS  
As of November 1985

First Resolution Bonds

<u>Calendar Year</u>	<u>Requirement* (in Thousands)</u>
1985	\$ 142,211
1986	124,856
1987	221,106
1988	285,793
1989	282,293
1990	292,481
1991	257,481
1992	248,043
1993	324,855
1994	331,728

Second Resolution Bonds

<u>Calendar Year</u>	<u>Requirement* (in Thousands)</u>
1985	\$ 785,808
1986	846,816
1987	843,772
1988	835,931
1989	820,075
1990	801,016
1991	786,259
1992	611,500
1993	627,683
1994	628,149
1995	563,583
1996	466,810
1997	456,962
1998	469,699
1999	417,244
2000	387,633
2001	365,262
2002	355,423
2003	335,554
2004	325,581
2005	316,600
2006	307,455
2007	295,328

\*Aggregate debt service for succeeding calendar year.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Funding of Capital Reserve Funds  
(in millions)

<u>Fiscal Year</u>	<u>Sales</u>	<u>Per Capita Aid</u>	<u>Bond Proceeds</u>	<u>Total Deposits</u>
1976	-0-	\$19.8	-0-	\$ 19.8
1977	\$102.9	38.4	-0-	141.3
1978	-0-	-0-	\$196.1	196.1
1979	-0-	-0-	130.0	130.0
1980	-0-	-0-	78.9	78.9
1981	-0-	-0-	60.2	60.2
1982	-0-	-0-	122.5	122.5
1983	-0-	-0-	13.1	13.1
1984	-0-	-0-	-0-	-0-
1985	-0-	-0-	25.3	25.3
	<u>\$102.9</u>	<u>\$58.2</u>	<u>\$626.1</u>	<u>\$787.2</u>

**Internal Revenue Service**

Department of the Treasury

Index No. 0103.07-00

Washington, DC 20224

**FILE COPY**  
**DO NOT REMOVE**

▷ Ms. Heather Ruth  
Executive director  
Municipal Assistance  
Corporation for the  
City of New York  
One World Trade Center - 89th  
Floor  
New York, New York, 10048

Person to Contact:  
Mr. George Masnik  
Telephone Number:  
(202) 566-6650  
Refer Reply to:  
CC:IND:S:2:1 - 8109233535  
Date:

**AUG 10 1984**

- Per Capita Aid = Per Capita state aid to the City which is authorized by section 54 of the State Finance Law and paid by the State from the Municipal Assistance Aid Fund.
- Act = New York State Municipal Assistance Corporation Act
- City = City of New York
- Corporation = Municipal Assistance Corporation for the City of New York
- Government = United States (federal government)
- Guaranty = New York City Loan Guarantee Act of 1978 (P.L. 95-339)
- State = New York
- State Fund = Municipal Assistance State Aid Fund established by New York Finance Law
- State Tax Law = Section 1107 and 1108 of the New York Tax Law
- State Transfer Tax = State Stock Transfer Tax imposed pursuant to Article 12 of the tax law.
- Tax Fund = Municipal Assistance Tax Fund created pursuant to section 92-d of the State Finance Law.
- 1000 = 3036
- 1000(a) = 3036-a

Municipal Assistance Corporation City of N.Y.

\$a = \$5,870,866,000  
\$b = \$2,382,333,000  
\$c = \$4,625,370,000  
\$d = \$4,388,130,000  
\$e = \$100,000,000  
\$f = \$97,660,000  
\$g = \$50,000,000  
\$h = \$29,000,000  
m = 5  
\$j = \$18,433,000  
\$k = \$18,660,000  
\$l = \$600 million  
\$n = \$10,567,000  
aa = July 2, 1975  
bb = November 25, 1975  
cc = 1981  
dd = October 8, 1981  
ee = 1978  
ff = June 30, 1982

Dear Ms. Ruth:

This is in reply to a request for ruling, and subsequent correspondence, submitted by your authorized representative, in which a ruling was requested that all proceeds of the Bonds deposited in the Corporation's Capital Reserve funds may be invested without restriction as to yield.

The Corporation is a corporate governmental agency and instrumentality of the State formed pursuant to a State statute. The members of the Board of Directors of the Corporation are appointed by the Governor of the State. The Corporation was formed for the purposes of assisting the City in maintaining essential services to its inhabitants and enhancing investor confidence in the obligations of the City in order that the City could gain full reentry to credit markets.

To facilitate its corporate function, the Corporation is empowered to borrow money and issue bonds and notes. The Corporation has adopted two general bond resolutions, the First Resolution on aa and the Second Resolution on bb. All

Municipal Assistance Corporation City of N.Y.

bonds that the Corporation has issued to date have been issued under either the First Resolution or the Second Resolution and a series resolution specifically authorizing such issuance. The Corporation has issued \$a aggregate principal amount of bonds pursuant to the First Resolution of which \$b remain outstanding; and \$c aggregate principal amount of bonds pursuant to the Second Resolution, of which \$d remain outstanding.

Section 602 of the First Resolution established a number of funds; the Debt Service Fund, the Operating Fund, and the Capital Reserve Fund. Amounts deposited in the First Resolution Debt Service Fund will be used to pay principal and interest on First Resolution bonds and the Fund is depleted at least annually except for a reasonable carryover amount (not to exceed the greater of (a) one year's earnings on the Fund, or (b) one-twelfth of annual debt service. Revenues are deposited in the Operating Fund created pursuant to section 602 of the First Resolution. The Capital Reserve Fund created under the First Resolution is intended to qualify as a reserve fund within the meaning of section 1.103-14(d)(1) of the Income Tax Regulations.

Sections 1000 and 1000a of the Act dealing respectively with the Capital Reserve Fund for the First Resolution Bonds and the Capital Reserve Fund established for the Second Resolution Bonds provide:

All moneys held in the Capital Reserve Fund . . . shall be used solely for the payment of the principal of the bonds secured by such capital reserve fund of the Corporation, as the same mature or otherwise become due, the purchase of bonds of the Corporation, the payment of interest on such bonds of the Corporation or the payment of any redemption premium required to be paid when such bonds are redeemed prior to maturity.

Section 602 of the Second Resolution established the Bond Service Fund and the Capital Reserve Fund which perform functions analogous to the functions of the Debt Service Fund and the Capital Reserve Fund created for the First Resolution Bonds.

Municipal Assistance Corporation City of N.Y.

The First Resolution and the Second Resolution provide that any bonds issued under those resolutions shall constitute general obligations of the Corporation payable from and secured by the proceeds of sale of any such bonds, the Corporation's revenues, and all funds established under the respective resolutions (except for the Operating Funds).

Section 1000 of the Act provides that the Chairman of the Board of Directors of the Corporation shall certify at least annually to the State Comptroller and the Mayor of the City the amount equal to the Corporation's anticipated requirements for operating expenses, debt service on First Resolution Bonds, and deposits required to be made in the Capital Reserve Fund for each fiscal year. The State Comptroller is required to pay from the Tax Fund into the appropriate funds the amount so certified. The amounts in the Tax Fund are derived from an additional 4 percent sales and compensating use tax, imposed by State Tax Law, collected within the territorial limits of the City. If there is a deficiency in revenues from such sales and use taxes, an amount necessary to eliminate the deficiency will be provided from revenues collected from the State's Transfer Tax. Amounts remaining in the Tax Fund after meeting the Corporation's requirements are paid to the City.

Section 1000a of the Act provides that payments to the Corporation for debt service payments on the Second Resolution bonds, the Capital Reserve Fund established under the Second Resolution, and to the extent not provided from revenues from sales and use taxes and the State Transfer Tax, for operating expenses, shall be derived from Per Capita Aid and paid by the State from the State Fund. Any surplus remaining after such payment to the Corporation is paid to the City. Subject to the rights of holders of First Resolution bonds, amounts deposited in the Tax Fund are also available to make the required payments for the Second Resolution Bonds.

Beginning with the cc calendar year, the Capital Reserve Funds are required to be maintained at an amount not less than the amount of principal and interest maturing or otherwise becoming due in the succeeding calendar year on all outstanding bonds of the Corporation issued pursuant to the respective resolutions. The amounts necessary to meet the funding requirements for: (1) the Capital Reserve Fund for the First Resolution Bonds are to be derived from amounts paid to the Corporation from the Tax Fund, and (2) for the Capital Reserve

Municipal Assistance Corporation City of N.Y.

Fund for the Second Resolution Bonds from amounts paid to the Corporation from the State Fund or the Tax Fund; unless the funding requirements have been met from the proceeds of sale of obligations of the Corporation or from other sources. Amounts in the Capital Reserve Funds in excess of the then-current funding requirements may be retained to meet future funding requirements or transferred to the Debt Service Fund in the case of the First Resolution Bonds and the Bond Service Funds in the case of the Second Resolution Bonds.

Because of the financial circumstances existing at the time the Act was passed, the Corporation was permitted to fund each Capital Reserve Fund over a six year period in order to allow more of the proceeds from the sale of the the Corporation's bonds in the early years to be made available for City use. The Corporation was required to maintain in each Capital Reserve Fund an amount at least equal to the following percentage of principal and interest maturing or otherwise becoming due in each such calendar year on all bonds of the Corporation for which the Capital Reserve Fund was established: 1975, 0%; 1976, 0%, 1977, 25%; 1978, 50%, 1979, 75% and 1980 100%.

The Corporation issued bonds (the "Bonds") in the face amount of \$e on dd. Of the original bond proceeds of \$f, the Corporation allocated \$g to the purchase of the City's obligations pursuant to a modification to and extension of the four year plan of financing developed in ee with the goal of facilitating the City's full reentry to the public credit markets. Original proceeds of \$h were deposited in the Capital Reserve Fund established under the Second Resolution. The Corporation invested \$n of that amount upon receipt without restriction as to yield (an amount equal to average annual debt service on the bonds) as an amount intended to qualify as a reasonably required reserve fund pursuant to section 1.103-14(d)(1) of the Income Tax Regulations. The balance of the \$h, \$j, was invested without restriction as to yield pursuant to section 1.103-14(b)(13) of the Regulations. The remaining amount of the original proceeds of the bonds, \$k, will be held for the Corporation for deposit into the Guaranty Fund established under the Guaranty in connection with the Government's guaranty of certain bonds issued by the City.

The Guaranty requires the Corporation to maintain on deposit in the Guaranty Fund an amount equal to m percent of the principal amount and the maximum interest payable in any year on City bonds subject to the Government guarantee. Amounts in the Guaranty Fund are available to reimburse the Government in the event it is called upon to pay debt service pursuant to the guaranty provisions. The City expected to

Municipal Assistance Corporation City of N.Y.

issue \$1 of federally guaranteed bonds on or prior to ff and allocated proceeds from the Bonds to assure that amounts would be available for deposit into the Guaranty Fund at the time they are required.

The Corporation has requested a ruling that it may invest all proceeds of the Bonds which will be deposited in the Corporation's Second Resolution Capital Reserve Fund without restriction as to yield as an amount deposited in a reasonably required reserve fund although such amount will exceed the average annual debt service on the bonds and fifteen percent (15%) of the original proceeds of the issue.

Corporation represents that the total amount on deposit in the Capital Reserve Fund will never exceed the lesser of (i) 1.25 times average annual debt service or (ii) maximum annual debt service on all bonds issued under the Second Resolution. Further, Corporation represents that the amount on deposit in the Capital Reserve Fund will never exceed 15 percent of all bonds issued under the Second Resolution.

Section 103(a)(1) of the Code provides the general rule that gross income does not include interest on the obligations of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia.

Sections 103(b)(1) dealing with industrial development bonds and 103(c)(1) dealing with arbitrage, set forth instances in which the interest on obligations issued by a State or political subdivision will be includible in the recipient's income.

Section 103(c)(2) of the Code provides that the term "arbitrage bond" means any obligation which is issued as part of an issue all or a major portion of the proceeds of which are reasonably expected to be used directly or indirectly to acquire securities (within the meaning of section 165(g)(2)(A) or (B)) or obligations (other than obligations described in subsection (a)(1) or (2)) which may be reasonably expected at the time of issuance of such issue, to produce a yield over the term of the issue which is materially higher (taking into account any discount or premium) than the yield on the obligations of such issue, or to replace funds which were used directly or indirectly to acquire securities described in section 103(c)(2)(A) (emphasis added).

Section 1.103-14(d)(1) of the regulations provides, in part, that an obligation shall not be treated as an arbitrage bond solely by reason of the fact that a portion of any proceeds of the issue of which such obligation is a part may be invested in materially higher yielding acquired obligations

Municipal Assistance Corporation City of N.Y.

which are part of a reasonably required reserve fund or replacement fund. Except as provided in section 1.103-14(d)(2) and (4), a reserve or replacement fund will be considered to be reasonably required only if the amount so invested at any time during the term of the issue does not exceed 15 percent of the original face amount of the issue.

If the original proceeds of an issue (determined without regard to issuing expenses) are less than 98 percent of the original face amount of such issue, then the percentage specified in the preceding sentence shall be based on the amount of such original proceeds. Section 1.103-14(d)(1) also provides that a reasonably required reserve or replacement fund may consist of one or more funds, or portions of funds derived from one or more sources. Thus, a sinking fund described in section 1.103-13(g)(2) might also be a reasonably required reserve or replacement fund.

Section 1.103-14(d)(2) of the Regulations provides that if an amount in excess of the amount specified in section 1.103-14(d)(1) is invested in a reserve or replacement fund, such excess will be considered to be invested in a reasonably required reserve or replacement fund if the issuer applies for a ruling that the specified reserve or replacement fund is necessary, and a ruling to that effect is subsequently issued to the governmental unit (before or after the date of issuance of the obligations).

After consideration of the facts in the case and based strictly on the information submitted, we conclude:

All amounts deposited in the Capital Reserve Fund established under the Second Resolution which are allocable to the Bonds, including any such amounts consisting of investment proceeds to be deposited in the future, to the extent required to meet such fund's peak requirement for all bonds issued under the Second Resolution (as such requirement may change from time to time), may be invested without restriction as to yield, provided that the amount on deposit in such fund does not exceed the lesser of (i) 1.25 times average annual debt service or (ii) maximum annual debt service, on all bonds issued under the Second Resolution calculated as of the date of issue of the Bonds.

No opinion is expressed as to the Federal Income tax consequences of the transaction under any other provisions of the Code. Specifically, we express no opinion concerning

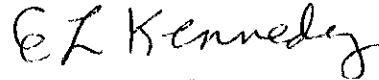
Municipal Assistance Corporation City of N.Y.

whether the amounts that the Corporation has deposited in the Capital Reserve Fund as part of a reasonably required reserve fund are reasonable.

In addition we express no opinion concerning whether investment of the bond proceeds in the Guaranty Fund, pursuant to the Guaranty, at a yield materially higher than the yield on the bonds will result in characterization of the bonds as arbitrage bonds under section 103(c) of the Code.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely yours,



E. L. Kennedy  
Chief, Specialty Tax Branch

**MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK**

**Summary of Maximum Annual Debt Service; 125% of Average  
Annual Debt Service By Calendar Year For Remaining  
First Resolution Bonds Outstanding**

<u>Series</u>	<u>Amt. Outstanding</u>	<u>Max</u>	<u>1.25 X Annual</u>
J	\$ 1,090,000	\$ 634,925	\$ 756,188
BB	47,755,000	17,415,300	21,734,979
EE	250,000,000	66,875,000	44,596,354
FF	53,475,000	55,480,313	26,458,985
GG	70,200,000	73,008,000	28,080,000
HH	1,414,738,000	279,853,175	241,153,596
II	<u>11,170,000</u>	<u>11,588,875</u>	<u>4,406,914</u>
	<b>\$ 1,848,428,000</b>	<b>\$ 504,855,588</b>	<b>\$ 367,187,016</b>

FILE COPY  
DO NOT REMOVE

TO: D.J. Robinson  
J.J. Keohane  
E.R. Dale  
J.P. Rogers  
J.R. Eustis  
J.M. Bond  
G.F. Durkin, Jr.

FROM: J.M. Schrager

DATE: October 6, 1983

RE: MAC Capital Reserve Fund

Enclosed is a copy of the supplemental request for ruling of the Municipal Assistance Corporation For The City of New York, requesting clarification of the meaning of the now-famous parenthetical to permit MAC to invest without restriction as to yield an amount in its capital reserve fund in excess of the then current requirement, in order to produce an amount equal to its peak requirement at the time of its scheduled occurrence. This request was sent to the I.R. S. today.

*Hawkins, Delafield & Wood*  
*67 Wall Street, New York 10005*

*(Area Code 212) 820-9300*  
*Cable Address: "Hawfield New York"*

*Writer's Direct Dial Number* (212) 820-9442

6 October 1983

INTERNAL REVENUE SERVICE  
Assistant Commissioner (Technical)  
111 Constitution Avenue  
Washington, D. C. 20224

Attention: Mr. George Masnik  
Room 5201

Re: Municipal Assistance Corporation For The  
City of New York (the "Corporation")

Supplementary Request for Ruling to Request  
for Ruling dated September 22, 1981

Dear Sir:

The Corporation filed a request for ruling on September 22, 1981 (the "Original Request"), to allow certain proceeds of its Series 31 Bonds deposited in a debt service reserve fund to be invested without restriction as to yield as part of a reasonably required reserve fund. That request is still pending as of the date hereof. The factual representations and discussion contained in the Original Request are incorporated herein and made a part hereof.

The Corporation has received two prior rulings arising from similar or identical issues raised in the Original Request, on April 29, 1980 (as supplemented and clarified), and March 23, 1981 (the "Prior Rulings"). The essence of both Prior Rulings may be summarized by the precise language of the March 23, 1981 ruling:

All amounts deposited in the (Capital Reserve) Fund that are allocable to the Bonds, including any such amounts constituting investment proceeds to be deposited in the future, to the extent

required to meet such Fund's requirement under the Law (including any increase or decrease in such amounts reasonably expected within the then current or succeeding fiscal years), may be invested without restriction as to yield pursuant to section 103(c)(4)(B) of the Code.

The purpose of this letter is to request clarification of the parenthetical language cited above. Specifically, the Corporation requests that the ruling to be issued in response to the Original Request makes clear, beyond any reasonable doubt, that the Corporation may retain an amount (the "Base Amount") in the Capital Reserve Fund established under the Second Resolution, which, when invested without restriction as to yield, will produce, taking into account projected investment earnings, an amount equal to such fund's maximum Requirement. The Corporation represents that the amount on deposit in the Capital Reserve Fund will never exceed the lesser of (i) 1.25 times average annual debt service or (ii) maximum annual debt service on all Second Resolution Bonds, as described below. The Corporation believes that a favorable response to this request will be consistent with its representation that it does not intend to maintain in the Capital Reserve Fund an amount substantially in excess of its Requirement "(including any increase ... reasonably expected in the then current and succeeding fiscal years)".

The facts from which this issue arises were discussed at a meeting among representatives of the Internal Revenue Service, certain of the Corporation's officers, and Hawkins, Delafield & Wood, Bond Counsel, on April 7, 1983 at the Service's Washington, D. C. offices. The Service was informed, both at that meeting and by letter dated March 1, 1983, from Heather L. Ruth, then Executive Director of the Corporation, to Mr. Thomas Hennessey, that the Corporation does not have level debt service requirements. Debt service on all bonds issued under the Second Resolution is at its maximum in calendar 1986, as of the date hereof, but future issuances of Second Resolution Bonds may cause the year of peak debt service to change. A schedule of debt service requirements by calendar year, calculated as of the date hereof, on Second Resolution Bonds is attached hereto as Exhibit A.

The receipt of such an unequivocal ruling as requested herein is vitally important to the Corporation for several reasons. The Corporation's statutory authority to issue obligations for purposes other than refunding will expire on December 31, 1984. Even if the Corporation issued no Second Resolution refunding obligations after that date, a situation which is not presently foreseen, the exigencies of funding the Capital Reserve Fund in order to meet the Requirement year by year would require deposits, in certain years, beyond what one could expect to receive in investment earnings on the previous year's base (i.e., an amount which is, pending receipt of this supplementary request for ruling, substantially equal to that year's or the immediately succeeding year's Requirement). Since the Corporation could not issue additional bonds to provide proceeds for these deposits, it would be required to certify for revenues from the State in order to restore the Capital Reserve Fund to the required level, depriving the City of those funds for expense budget purposes. Since the Corporation was organized to provide fiscal aid to the City, situations resulting in just the opposite - financial deprivation - should be avoided whenever possible.

The retention of the Base Amount would obviate the need to issue additional debt for this purpose, an impossible alternative after December 31, 1984, or to certify for revenues from the State, an impractical and undesirable alternative. The Corporation would not retain an amount substantially in excess of the Base Amount at any time, but rather would transfer such substantial excess amounts to the Bond Service Fund, a bona fide debt service fund, on a regular basis and would use such amounts to pay debt service on Second Resolution Bonds within 12 months thereafter.

At the April 7, 1983 meeting referred to above, the Corporation was informed of a "rule of thumb" used by the Service in determining whether amounts on deposit in a reserve fund for an issue are "reasonably required" - on date of issue, 1.25 times average annual debt service on the issue or maximum annual debt service on the issue, whichever is the lesser.

The Service, in issuing the Prior Rulings, has treated all issues of its bonds issued under the Second General Bond Resolution as one issue for purposes of the Capital Reserve

Fund. The Capital Reserve Fund, valued at \$768.5 million (including accrued, but unpaid interest) as of June 30, 1983, does not contain an amount in excess of 15 percent of all Second Resolution Bonds which have been issued to date, including refunding issues (approximately \$6,084.4 million, 15 percent of which is \$912.7 million). Furthermore, under this theory, 1.25 times average annual debt service on all Second Resolution Bonds issued to date is \$874.5 million; maximum annual debt service on all such bonds is \$1,078.4 million. Because the peak Requirement on currently outstanding Second Resolution Bonds is \$780 million, the Corporation will never violate the Service's "rule of thumb" (without taking into account the effect on debt service requirements of bonds issued subsequent to the date hereof.)

The Corporation recognizes that it presents unique questions relating to arbitrage but submits that retaining the Base Amount and investing it at unlimited yield is within the spirit of the arbitrage regulations and consistent with Congressional intent in enacting the reasonably required reserve fund provisions of Section 103(c) of the Code. The Service representatives present at the April 7, 1983 meeting expressed orally their agreement with the Corporation's proposed solution to the problem of maintaining the Capital Reserve Fund at its Requirement when debt service is not level, provided that the "rule of thumb" discussed above is not violated.

It is accordingly requested that the ruling to be issued in response to the Original Request read as follows:

All amounts deposited in the Capital Reserve Fund established under the Second Resolution which are allocable to the Bonds, including any such amounts constituting investment proceeds to be deposited in the future, to the extent required to meet such fund's peak Requirement for all Second Resolution Bonds (as such year may change from time to time), may be invested without restriction as to yield, provided that the amount on deposit in such fund does not exceed the lesser of (i) 1.25 times average annual debt service or (ii) maximum annual debt service, on all Second Resolution Bonds calculated as of the date of issue.

6 October 1983  
INTERNAL REVENUE SERVICE  
Page 5

If any additional information is required with respect to this request, please call the undersigned at (212)820-9442. If any difficulty is encountered in ruling favorably on this request, the privilege of a conference is requested.


The undersigned and certain other attorneys are authorized to represent the Corporation pursuant to a Power of Attorney dated September 21, 1981, which document was filed with the Original Request.

Enclosed are (1) a Declaration signed by the Treasurer of the Corporation which meets the requirements of 26 C.F.R. Section 601.201(e) and (2) a Statement with respect to deletions to be made prior to public disclosure pursuant to Section 6110 of the Code.

The identical issue presented here, to the best of the knowledge of the undersigned and the Corporation, (1) is not under examination by a District Director in a return of a taxpayer, (2) has not been examined nor has (i) the statutory period of limitation on assessment or refund of a taxpayer expired or has (ii) a closing agreement been entered into by a District Director, (3) is not under consideration by an appeals office in connection with a return of a taxpayer for a prior period, has not been considered by an appeals office and the statutory period of limitation on assessment has not expired or a closing agreement been entered into by an appeals office, and (4) is not pending in litigation.

Respectfully submitted,

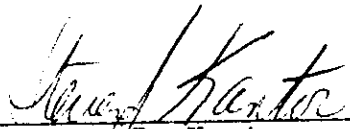
HAWKINS, DELAFIELD & WOOD

By   
E. Randolph Daye

6 October 1983  
INTERNAL REVENUE SERVICE  
Page 6

DECLARATION

Under penalties of perjury, I declare that I have examined this Supplementary Request for Ruling dated October 6, 1983, including accompanying documents, on behalf of the Municipal Assistance Corporation For The City of New York and to the best of my knowledge and belief, the facts presented in support of the requested ruling are true, correct and complete.

  
\_\_\_\_\_  
Steven J. Kantor  
Treasurer  
Municipal Assistance Corporation  
For The City of New York

*Hawkins, Delafield & Wood*  
*67 Wall Street, New York 10005*

*(Area Code 212) 820-9300*  
*Call Address: "Hawkdol New York"*

*Writer's Direct Dial Number (212) 820-9442*

October 6, 1983

Internal Revenue Service  
Assistant Commissioner (Technical)  
1111 Constitution Avenue  
Washington, D.C. 20224

Attention: T:FP:T

Re: Supplementary Request for Ruling  
by The Municipal Assistance  
Corporation For The City of  
New York Dated October 6, 1983  
(Supplementary to Original Request  
for Ruling Dated September 22, 1981)

Dear Sir:

No deletions need be made from the ruling  
letter or the supplementary request therefor prior  
to public disclosure pursuant to Section 6110.

Respectfully submitted,

HAWKINS, DELAFIELD & WOOD

By *E. Randolph Dale*  
E. Randolph Dale

ERD;ems

April 1983

INTERNAL REVENUE SERVICE  
Assistant Commissioner (Technical)  
111 Constitution Avenue  
Washington, C. D. 20224

FILE COPY  
DO NOT REMOVE

Attention: T:FP:T - Section 103 Request

Re: Municipal Assistance Corporation For The City of New  
York (the "Corporation")

Investment of proceeds in a reasonably required reserve  
fund

Dear Sir:

The Corporation hereby requests a ruling that certain amounts on deposit in its Capital Reserve Fund (the "First Fund") established under a general bond resolution adopted July 2, 1975 (the "First Resolution") and its Capital Reserve Fund (the "Second Fund;" together with the First Fund, the "Funds") established under a general bond resolution adopted November 25, 1975 (the "Second Resolution," together with the First Resolution, the "Resolutions"), may, together with investment earnings thereon, be invested and reinvested without restriction as to yield as reasonably required reserve funds within the meaning of Section 103(c)(4)(B) of the Internal Revenue Code of 1954, as amended (the "Code"), and Section 1.103-14(d)(1) of the Income Tax Regulations (the "Regulations"), to the extent that all such amounts and expected earnings thereon are required to meet the Corporation's statutorily-mandated funding level in peak debt service years.

While the Corporation has submitted three prior ruling requests relating to amounts on deposit in its Funds, the precise issue raised by this ruling request has not been addressed before. For your information, the three prior ruling requests were dated September 14, 1979, August 20, 1980, and September 22, 1981 (together, the "Prior Requests"). Favorable rulings were received in response to the first two such requests, on April 29, 1980 (as subsequently supplemented and clarified) and March 23, 1981, respectively (together, the "Prior Rulings"). The ruling request filed on September 22, 1981 is presently pending before you and relates to a deposit in excess of 15% of the proceeds of the Corporation's Series 31 Bonds into the Second Fund. We refer you to the Prior Requests and the Prior Rulings for a thorough presentation of matters previously ruled upon with regard to the Funds. A copy of the Prior Requests and the Prior Rulings are attached hereto as Exhibits \_\_\_\_\_.

## I. Background

### A. The Corporation

The Corporation, a corporate governmental agency and instrumentality of the State of New York (the "State"), constituting a public benefit corporation, was created in June 1975 pursuant to the New York State Municipal Assistance Corporation Act, N.Y. Pub. Auth. Law Sections 3001 et seq., as amended (the "Act"). A copy of the Act is attached hereto as Exhibit \_\_. The Corporation's statutory purpose is to assist the City of New York (the "City") (1) in providing essential services to the City's inhabitants without interruption and (2) in creating investor confidence in the soundness of the City's obligations. To that end, the Corporation is authorized to issue bonds, notes, and other obligations in accordance with the provisions of the Act, and the terms of any resolution authorizing the issuance of any such obligations which the Corporation may adopt. The Corporation, to date, has issued bonds only under the First Resolution and the Second Resolution. The Corporation is administered by a board of nine directors, all of whom are appointed by the Governor of the State.

B. Sections 3036 and 3036-a of the Act

Sections 3036 and 3036-a of the Act establish procedures for the flow of monies required for the payment of First Resolution bonds and operating expenses of the Corporation and Second Resolution bonds and such operating expenses, respectively, and mandate the creation of funds to accomplish these objectives. Section 3036(3) and 3036-a(2) direct the Corporation to create a "capital reserve fund" to serve as a debt service reserve fund for First Resolution bonds and Second Resolution bonds, respectively. The sections also authorize the Corporation to withdraw amounts from these funds in excess of the amounts required to be retained in the funds pursuant to Section 3036(5) and 3036-a(4).

Sections 3036(5) and 3036-a(4) set forth the minimum funding level for the capital reserve funds - 100% of principal and interest coming due, on any calculation date, on all First Resolution bonds and Second Resolution bonds, respectively, in the succeeding calendar year (the "Requirement").

Notwithstanding this minimum funding level mandate, the Act permitted a graduated funding of the capital reserve funds at a level calculated, for any given year in a five-year

period from 1975 to 1980, as an increasing percentage of principal and interest coming due on all First Resolution bonds or Second Resolution bonds during each such year. This was done to permit the Corporation to pass a greater amount of monies to the City in the early years of the Corporation's existence when the City's need for such amounts was at its most acute. This situation resulted in the Corporation's having to "back fund" the capital reserve funds for bond issues completed in prior years, and led to the filing of the September 14, 1979 ruling request. For all years since 1981, the Requirement was and is 100% of the succeeding calendar year's debt service on all bonds issued under the respective Resolutions.

C. The First Resolution and Second Resolution

The First Resolution and the Second Resolution authorize the issuance of bonds, the proceeds of which are to be applied to corporate purposes as set forth in subsequent series resolutions, and establish certain funds and procedures for the payment of such bonds and the investment of monies pending disbursement for various corporate purposes.

In response to Section 3036(3) and Section 3036-a(2) of the Act, Section 602 of the Resolutions established the Funds and Section 606 of the Resolutions provides procedures for deposits into and withdrawals from the Funds. Under Section 606(1), payments from the State of revenues available to the Corporation (in the case of First Resolution bonds, sales tax levied by the State within the City, as authorized by Sections 1107 and 1108 of the Tax Law, and the Stock Transfer Tax, as authorized by Article 12 of the Tax Law; in the case of Second Resolution Bonds, State per capita aid and to the extent not required for First Resolution purposes, the sales tax and stock transfer tax), proceeds from the sale of bonds, and any other monies made available to the Corporation for such purpose may be deposited into the Funds. Section 606(2) authorizes the withdrawal from the Funds of monies in excess of the current Requirement after December 31, 1980, but limits the use of such monies to making deposits into the Debt Service Fund for the First Resolution and the Bond Service Fund for the Second Resolution, bona fide debt service funds within the meaning of Section 1.103-13(b)(12) of the Regulations.

Section 606(3) establishes a certification procedure to obtain monies for the Funds from the State. The Chairman of

the Corporation is directed to deliver to the Governor and the State Budget Director, by December 1, a certificate stating the amount required to be deposited in the respective Fund in order to restore that Fund to the Requirement. While not specifically stated in the Resolutions, the timing of such certification strongly implies that the Requirement in question would be that calculated as of the January 1st following the certification, or principal and interest on all First Resolution bonds or Second Resolution bonds, as the case may be, coming due in the calendar year beginning on the succeeding January 1.

Section 607 establishes a general revenue flow procedure designed to direct monies from the State into the Funds, the Debt Service Fund and the Corporation's Operating Fund (in the First Resolution), and the Bond Service Fund and Operating Fund (in the Second Resolution). Not sooner than 120 days prior to the beginning of a fiscal year (July 1), the Chairman of the Corporation is directed to certify to the Mayor of the City and the State Comptroller the Corporation's projected cash requirements for that fiscal year. The certification may be revised from time to time as required. In practice, the Corporation submits an amended

certification four times during each fiscal year, on or about October 12, January 12, April 12 and June 25 (Second Resolution) or June 30 (First Resolution), timed to coincide with the quarterly payment dates set forth in Section 607 of each Resolution for revenues to be transferred from the State to the Corporation.

The Corporation, to date, has issued \$6,870,866,000 of bonds under the First Resolution, including refunding issues. Of this amount, \$            has been refunded, \$            has been paid at maturity or by operation of mandatory sinking fund redemptions, and \$            remains outstanding. A debt service schedule by calendar year for currently outstanding First Resolution bonds is attached as Schedule A.

The Corporation, to date, has issued \$\_\_\_\_\_ of bonds under the Second Resolution, including refunding issues. Of this amount, \$\_\_\_\_\_ has been paid at maturity or by operation of mandatory sinking fund redemptions, and \$\_\_\_\_\_ remains outstanding. No Second Resolution bonds have been refunded. A debt service schedule by calendar year for currently outstanding Second Resolution bonds is attached as Schedule B.

D. The Funds

As of April 26, 1983, \$ \_\_\_\_\_ was on deposit in the First Fund. Of this amount, \$ \_\_\_\_\_, an amount substantially equal to the calendar 1983 Requirement (principal and interest coming due on all First Resolution bonds in calendar 1984; the "Requirement Amount"), is invested without restriction as to yield as a reasonably required reserve fund within the meaning of Section 103(c)\_\_\_ of the Code and Section 1.103-14\_\_\_ of the Regulations.

\$ \_\_\_\_\_ of the amount on deposit is an amount which, when added to projected investment earnings on such amount and the Requirement Amount, will produce an amount equal to the Requirement on January 1, 1988 (the "Peak Debt Service Amount").

\$ \_\_\_\_\_ of the amount on deposit is an amount invested in securities which, if sold in the open market under current market conditions, would result in a substantial loss to the Corporation (the "Loss Amount").

Monies on deposit in the First Fund have been derived from three sources: proceeds of certain Second Resolution bonds,

sales tax revenues, and investment earnings on both such sources. The specific amounts, sources other than investment earnings, and dates of deposit are listed on Schedule C attached hereto.

Both the Peak Debt Service Amount and the Loss Amount are invested at a yield not greater than 8.\_\_\_\_%, representing the composite true interest cost of those issues of Second Resolution bonds a portion of the proceeds of which were deposited into the First Fund. The Corporation does not intend to retain the Loss Amount in the First Fund upon the maturities of the investments comprising such portion of the First Fund, but rather intends to transfer all such redemption proceeds to the Debt Service Fund, as provided in Section 606(2) of the First Resolution, immediately upon receipt.

As of \_\_\_\_\_, 1983, \$\_\_\_\_\_ was on deposit in the Second Fund. Such amount was derived from proceeds of Second Resolution bonds, per capita aid revenues and investment earnings thereon. The specific amounts, sources other than investment earnings, and dates of deposit are listed on Schedule C attached hereto.

The current Requirement for Second Resolution bonds is \$\_\_\_\_\_; the Requirement for 1984, as of the date hereof, is \$\_\_\_\_\_. Therefore, all amounts presently on deposit in the Second Fund which are not allocable to refunding issues are invested without restriction as to yield, in accordance with the Prior Rulings.

The sources of deposits into the Funds and the withdrawal of monies from the Funds, within legal constraints, are policy decisions made by the Corporation's Finance Committee or Investment Committee, or both, each such committee comprising three members of the Corporation's Board of Directors, after consultation with the Corporation's staff. Among the most important policy considerations are the City's current and projected needs for expense budget monies, since revenues not certified for by the Corporation are passed by the State to the City and are used for expense budget purposes. Funds available to the Corporation from other sources (e.g., investment earnings) reduce dollar for dollar the amount certified for debt service payments, operating expenses, and other corporate purposes.

Another consideration becoming increasingly important concerns the Corporation's statutory ability to issue debt

for purposes other than refunding. Section 3033 of the Act imposes both dollar and time constraints for the issuance of obligations for "new money" purposes - \$10 billion and December 31, 1984, respectively. As of the date hereof, the Corporation has issued approximately \$8.8 billion for "new money" purposes, which, since September 1980, have consisted primarily of City capital expenditures and Fund deposits. When the first of the two constraints is reached - \$10 billion in "new money" debt or December 31, 1984 - the Corporation may no longer issue obligations for Fund deposits.

The essence of the Corporation's being is fiscal assistance to the City. It is a well-settled fact that local governments, of which the City is a prime example, are facing arduous tasks in balancing their budgets in the wake of current economic reality. For this reason, the policy decision has been made, to the extent legally possible, to avoid situations necessitating the Corporation's certification for revenues to deposit into its Funds.

The Corporation does not have level debt service. Debt service on First Resolution bonds, as indicated on Schedule A, increases sharply in certain years after a period of

several years' relative constancy. Maintaining the First Fund at the current Requirement each year until the final maturity of First Resolution bonds would necessitate certain sizable withdrawals followed several years later by sizable deposits - presumably from revenues, since these peak debt service years occur after 1985.

While the Corporation intends to withdraw a portion of the excess monies on deposit, in order to avoid a certification situation and resultant hardship to the City, it would prefer to retain an amount in the Funds which, together with projected earnings thereon, would equal the next peak debt service year Requirement. Bond Counsel has informed the Corporation that, without a ruling on this issue, it may not retain an amount substantially in excess of the current or next fiscal year's Requirement (giving effect to projected investment earnings) which is invested without restriction as to yield, in order to follow the letter of the Prior Rulings.

Debt service requirements on Second Resolution bonds presently do not follow the First Resolution bonds' pattern. After a slight increase in each of the next two years, debt service declines steadily until 1998, when there is a marked

decrease, and then continues to decline. Because the Corporation has issued bonds under the Second Resolution only since January 10, 1978, there is a distinct possibility that the issuance of additional Second Resolution bonds will result in the rolling "peak and valley" situation currently existing for First Resolution bonds.

### III. Ruling Requested

In light of the foregoing, the Corporation respectfully requests the following ruling:

Amounts on deposit in the Funds, together with investment earnings thereon, may be retained in such Funds and invested and reinvested without restriction as to yield to the extent necessary to assure that each such Fund's Requirement will be met in peak debt service years without requiring additional deposits from sources other than investment earnings on amounts in the Funds.

IV. Discussion

Section 103(a) (1) of the Code states:

(a) GENERAL RULE - Gross income does not include interest on -

(1) the obligations of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia, ...

Section 103(a) (1).

Sections 103(c) (1) and 103(c) (2) limit the general rule in relevant part as follows:

(C) ARBITRAGE BONDS

(1) SUBSECTION (a) (1) ... NOT TO APPLY. -  
Except as provided in this subsection, any  
arbitrage bond shall be treated as an  
obligation not described in subsection  
(a) (1)...

(2) ARBITRAGE BOND - For purposes of this subsection, the term "arbitrage bond" means any obligation which is issued as part of an issue all or a major portion of the proceeds of which are reasonably expected to be used directly or indirectly -

(A) to acquire securities (within the meaning of section 165(g)(2)(a) or (b)) or obligations (other than obligations described in subsection (a)(1) or (2)) which may be reasonably expected at the time of issuance of such issue, to produce a yield over the term of the issue which is materially higher (taking into account any discount or premium) than the yield or obligations of such issue ...

. . .

Sections 103(c)(1) and 103(c)(2).

An exception to Section 103(c)(2) is provided in Section 103(c)(4)(B):

(4) SPECIAL RULES - For purposes of paragraph (a), an obligation shall not be treated as an arbitrage bond solely by reason of the fact that -

. . .

(B) an amount of the proceeds of the issue of which such obligation is a part may be invested in securities or other obligations which are part of a reasonably required reserve or replacement fund.

The amount referred to in subparagraph (B) shall not exceed 15 percent of the issue of which such obligation is a part unless the issuer establishes that a higher amount is necessary.

Section 103(c)(4)(B).

Section 1.103-14(d)(1) of the Regulations elaborates on the concept of a reasonably required reserve fund. Such section provides in relevant part as follows:

(d) Reasonably required reserve or replacement fund -  
(1) In General. Under Section 103(b)(4)(B), an obligation shall not be treated as an arbitrage bond solely by reason of the fact that a portion of any proceeds of the issue of which such obligation is a part may be invested in materially higher yield acquired obligations which are part of a reasonably required reserve or replacement fund. Except as

provided in subparagraphs (2) and (4) of this paragraph, a reserve or replacement fund will be considered to be reasonably required only if the amount so invested at any time during the term of the issue does not exceed 15 percent of the original face amount of the issue. ... A reasonably required reserve or replacement fund may consist of one or more funds, or portions of funds, however labeled, derived from one or more sources. Thus, for example, a sinking fund described in Section 1.103-13(g)(2) might also be a reasonably required reserve or replacement fund. Section 1.103-14(d)(1).

Fifteen percent of all First Resolution bonds which have been issued is \$ \_\_\_\_\_ . Fifteen percent of all Second Resolution bonds which have been issued is \$ \_\_\_\_\_ . Each Fund has never exceeded, and will never exceed, each respective amount.

Because it could be argued that all or a portion of the First Fund is an invested sinking fund since no proceeds of any First Resolution bonds were deposited therein, Section 1.103-13(g) provides in relevant part as follows:

(g) Invested sinking funds (1) In general. Amounts held in a sinking fund for an issue (and receipts from investment of the sinking fund) are treated as proceeds of the issue.

(2) Sinking fund. The term "sinking fund" includes a debt service fund, redemption fund, reserve fund, replacement fund, or any similar fund, to the extent that the issuer reasonably expects to use the fund to pay principal or interest on the issue.

It is therefore clear that whether or not the First Fund is an invested sinking fund, the treatment of amounts on deposit will be the same as if they consisted entirely of First Resolution bond proceeds.

The Corporation's ruling requests of September 14, 1979 and August 20, 1980 (in addition to the request of September 22, 1981, still pending) were submitted in accordance with Section 1.103-14(d)(2) of the Regulations which permits amounts in excess of 15% of an issue to be invested without restriction as to yield as a reasonably required reserve fund if the issuer applies for a ruling demonstrating the

necessity for such excess and such a ruling is subsequently issued. In the case of both requests, amounts in excess of 15% of certain issue(s) were deposited into one or both Funds.

The August 28, 1980 amplification of the April 29, 1980 ruling letter substituted the following paragraph for the paragraph in the April 29 letter constituting the ruling:

"Accordingly, we conclude, based strictly on the information submitted and representations made, that all amounts on deposit in the Capital Reserve Funds that are allocable (to the issues for which the ruling request was submitted), including all amounts presently on deposit, any such amounts constituting investment proceeds to be deposited in the future; and revenues and the earnings thereon, to the extent required to meet the amounts that are required to be deposited in the Capital Reserve Funds under the Law of the State (including only increase or decrease in such amounts reasonably expected within the then-current or succeeding fiscal years), may be invested without restriction as to yield pursuant to Section 103(c)(4)(B) of the Code."

The March 23, 1981 ruling (relating to the Series 24 Bonds) provides as follows:

"All amounts deposited in the (Second) Fund that are allocable to the Bonds, including any such amounts constituting investment proceeds to be deposited in the future, to the extent required to meet such Fund's requirement under the Law (including any increase or decrease in such amounts reasonably expected within the then-current or succeeding fiscal years), may be invested without restriction as to yield pursuant to Section 103(c) (4) (B) of the Code."

At a meeting with representatives of the Internal Revenue Service at its Washington, D. C. offices on April 7, 1983 concerning the September 22, 1981 ruling request, certain officers of the Corporation and Bond Counsel were informed of a "rule of thumb" used by the Service in determining whether amounts on deposit in a reserve fund for an issue are "reasonably required" - on date of issue, 1.25 times average annual debt service on the issue or maximum annual debt service on the issue, whichever is the lesser.

The Corporation believes that the Service, in issuing the Prior Rulings, has agreed to treat all issues of its bonds issued under each of the two general bond resolutions as one issue for purposes of the Funds. Under this theory, 1.25 times average annual debt service on First Resolution bonds issued which have not been refunded is \$ \_\_\_\_\_ ; 1.25 times average annual debt service on issues of First Resolution bonds portions of which are currently outstanding is \$367,187,016. Maximum annual debt service on First Resolution bonds which have not been refunded is \$ \_\_\_\_\_ ; maximum annual debt service on issues of First Resolution bonds portions of which are currently outstanding is \$504,855,588. Similarly, 1.25 times average annual debt service on Second Resolution bonds issued is \$ \_\_\_\_\_. Maximum annual debt service on Second Resolution bonds issued is \$ \_\_\_\_\_. Because the maximum Requirement on currently outstanding First Resolution bonds and Second Resolution bonds is \$343,718,000 and \$ \_\_\_\_\_ , respectively, the Corporation will never violate the Service's "rule of thumb," (without taking into account the effect on debt service requirements of subsequent issues.

While the Regulations relating to arbitrage impose no absolute requirement to withdraw monies from a reasonably required reserve fund as an issue is retired, the Corporation withdraws substantial excesses, particularly following refundings which result in an excess Fund deposit, since those refunded bonds are no longer secured by the Fund. The Corporation intends to continue this practice after each subsequent refunding of bonds which results in an excess deposit. Furthermore, amounts will be withdrawn in excess of the current or next fiscal year's Requirement until final disposition of the ruling requested by this letter, when the Corporation will abide by the terms of that disposition.

The Corporation has represented in the Prior Requests that deposits into its Funds in accordance with Requirement amounts are "reasonably required," as the Act mandates them. The Service has expressly not ruled on this point in issuing the Prior Rulings. If the Service were to determine that something other than the Requirement amount were "reasonably required" for the Corporation's Funds and while it is technically possible to seek a statutory amendment of the required reserve fund levels, for other reasons, it is impossible to do so. The Corporation has represented to

consistent with Congressional intent in enacting the reasonably required reserve fund provisions of Section 103(c) of the Code.

Because the amount on deposit in the Funds has never exceeded and will never exceed 15% of all issued First Resolution bonds or Second Resolution bonds, as the case may be, because the Corporation would always be within the Service's "rule of thumb" in calculating amounts in reserve funds which may be considered "reasonably required," because the Corporation makes periodic withdrawals from the Funds although not required to do so from the standpoint of the arbitrage regulations, and because to do other than what is requested by this letter would result in detriment to the City and the thwarting of the very purpose for which the Corporation was organized, it is respectfully requested that you issue the ruling set forth above.

(Procedural paragraphs)

Municipal Assistance Corporation  
 For The City of New York  
 Portfolio Management System

Market Value Listing

Bank Account # 016586 Bank Account Name CAPITAL RESERVE 2

Amortized Cost as of 09/02/83  
 Market Price as of 09/02/83

Sec Type	Coupon	Maturity Date	Par	Principal	Amortized Cost	Settle Date	Market Price	Market Value
US1N	10.5000	08/15/88	15,000,000.00	14,985,937.50	14,986,518.60	06/16/83	95.2500000	14,287,500.00
US1N	10.5000	08/15/88	2,000,000.00	1,943,125.00	1,944,624.89	07/15/83	95.2500000	1,905,000.00
US1N	10.5000	08/15/88	2,000,000.00	1,945,625.00	1,946,772.38	07/25/83	95.2500000	1,905,000.00
US1N	10.5000	08/15/88	10,000,000.00	9,684,375.00	9,690,533.52	07/28/83	95.2500000	9,525,000.00
US1N	10.5000	08/15/88	10,000,000.00	9,684,375.00	9,690,533.52	07/28/83	95.2500000	9,525,000.00
US1N	10.5000	08/15/88	10,000,000.00	9,684,375.00	9,690,533.52	07/28/83	95.2500000	9,525,000.00
US1N	10.5000	08/15/88	1,500,000.00	1,432,500.00	1,433,564.88	08/04/83	95.2500000	1,428,750.00
FLB8	8.2000	01/22/90	1,121,000.00	1,119,248.44	1,120,053.64	02/27/78	84.1250000	943,041.25
FLB8	8.2000	01/22/90	717,000.00	715,207.50	716,037.75	02/15/78	84.1250000	603,176.25
US1N	13.0000	11/15/90	5,000,000.00	4,931,250.00	4,944,817.59	11/24/81	104.2500000	5,212,500.00
FLB8	7.9500	04/22/91	982,000.00	995,502.50	989,644.38	10/25/77	80.6250000	791,737.50
FLB8	7.9500	04/22/91	25,000,000.00	26,156,250.00	25,649,233.38	09/15/77	80.6250000	20,156,250.00
			732,949,011.00	727,608,619.55	727,581,927.52			
						704,260,534.89		