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UNTIL 7:31 EST

NOVEMBER 26, 1975

Office of the White House Press Secretary



THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I would like to comment briefly on recent developments in New York. Since early this year, and particularly in the past few weeks, the leaders of New York State and of New York City have been working to overcome the financial difficulties of the City which, as a result of many years of unsound fiscal practices, unbalanced budgets and increased borrowing, threatened to bring about municipal bankruptcy of an unprecedented magnitude.

As you know, I have been steadfastly opposed to any Federal help for New York City which would permit them to avoid responsibility for managing their own affairs. I will not allow the taxpayers of other States and cities to pay the price of New York's past political errors. It is important to all of us that the fiscal integrity of New York City be restored and that the personal security of eight million Americans in New York City be fully assured.

It has always been my hope that the leaders of New York would, when the chips were down, face up to their responsibilities and take the tough decisions that the facts of the situation require. That is still my hope, and I must say that it is much, much closer to reality today than it was last Spring. I have quite frankly been surprised that they have come as far as they have. I doubted that they would act unless ordered to do so by a Federal Court. Only in the last month, after I made it clear that New York would have to solve its fundamental financial problems without the help of the Federal taxpayer, has there been a concerted effort to put the finances of the City and the State on a sound basis. They have today informed me of the specifics of New York's self-help program. This includes:

One, meaningful spending cuts have been approved to reduce the cost of running the City; Two, more than \$200 million in new taxes have been voted; Three, payments to the City's noteholders will be postponed and interest payments will be reduced through passage of legislation by New York State; Four, banks and other large institutions have agreed to wait to collect on their loans and to accept lower interest rates; Five, for the first time in years, municipal employees will be required to bear part of the cost of their pension contributions and other reforms will be made in the pension funds; Six, the City pension system is to provide additional loans of up to \$2.5 billion to the City. All of these steps--adding up to \$4 billion--are part of an effort to provide financing and to bring the City's budget into balance by the fiscal year starting July 1, 1977.

- MORE -

Only a few months ago, we were told that all these reforms were impossible and could not be accomplished by New York alone. Today they are being done.

This is a realistic program. I want to commend all those involved in New York City and New York State for their constructive efforts to date. I have been closely watching their progress in meeting their problem. However, in the next few months, New York City will still lack enough funds to cover its day-to-day operating expenses.

This problem is caused by the City having to pay its bills on a daily basis throughout the year, while the bulk of its revenues are received during the spring. Most cities are able to borrow short-term funds to cover these needs, traditionally repaying them within their fiscal year.

Because the private credit markets may remain closed to them, representatives of New York have informed my Administration that they have acted in good faith but that they still need to borrow money on a short-term basis for a period of time each of the next two years in order to provide essential services to the eight million Americans who live in the Nation's largest city.

Therefore, I have decided to ask the Congress when it returns from recess for authority to provide a temporary line of credit to the State of New York to enable it to supply seasonal financing of essential services for the people of New York City. There will be stringent conditions. Funds would be loaned to the State on a seasonal basis, normally from July through March to be repaid with interest in April, May and June when the bulk of its revenues come in. All Federal loans would be repaid in full at the end of each year. There will be no cost to the rest of the taxpayers of the United States.

This is only the beginning of New York's recovery process and not the end. New York officials must continue to accept primary responsibility. There must be no misunderstanding of my position. If local parties fail to carry out their plan, I am prepared to stop even this seasonal Federal assistance. I again ask the Congress promptly to amend the Federal bankruptcy laws so that, if the New York plan fails, there will be an orderly procedure available.

A fundamental issue is involved here: sound fiscal management is an imperative of self-government. I trust we have all learned the hard lesson that no individual, no family, no business, no city, no State and no Nation can go on indefinitely spending more money than it takes in.

As we count our Thanksgiving blessings, we recall that Americans have always believed in helping those who help themselves. New York has finally taken the tough decisions it had to take to help itself. In making the required sacrifices, the people of New York have earned the encouragement of the rest of the country.

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STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

HUGH L. CAREY
GOVERNOR

November 26, 1975

Dear Mr. President:

On behalf of the citizens of the City and State of New York, I am pleased to inform you that the certain financial and legal requirements requested as a precondition to any Federal involvement in the fiscal crisis of New York City have been accomplished, and achieved in full. Whatever decision you make, in meeting your responsibilities, I must at the outset commend to you the efforts of the people of New York. In an unprecedented display of unity and purpose, trade unions, commercial banks and, especially, a bipartisan coalition of elected representatives, have succeeded in producing a result that will prove memorable, - indeed, a model to others for years to come. These achievements of New Yorkers are worthy in their own right, and while I write to bring their efforts and sacrifices to your attention, it is only proper that I use this opportunity to express my deepest appreciation and respect to all the parties involved.

Last evening, the Legislature of the State of New York enacted new taxes of \$200 million raised in and for the City of New York. This was a general condition included in Federal loan guarantee bills for New York City pending in both houses of Congress and in our own discussions with members of your Administration. At the same time the State's Emergency Financial Control Board for New York City met and adopted the necessary resolutions effectuating the new taxes. In addition, the Legislature enacted legislation that increases employee contributions to the City's retirement systems. This legislation was passed with union support in accordance with their desire to meet their understandings with your Administration. These acts were painful for all concerned, but undertaken in the common hope of avoiding the chaos of default.



November 26, 1975

In that same mixture of trust and sacrifice, the trustees of the five City employees' retirement systems voted to purchase additional bonds of the City or New York State Municipal Assistance Corporation in the principal amount of \$2,530,000,000 between December 1, 1975 and June 30, 1978, conditioned principally upon the passage of appropriate Federal legislation.

Finally, the Municipal Assistance Corporation, in connection with its offer to exchange certain of its bonds for certain outstanding short-term obligations of the City, has secured the agreement of the eleven New York Clearing House Banks and City pension funds not to tender their notes for exchange.

The agreement provides that \$849.2 million in City notes held by the eleven banks and five City pension funds will be converted into a ten year City obligation at 6% interest.

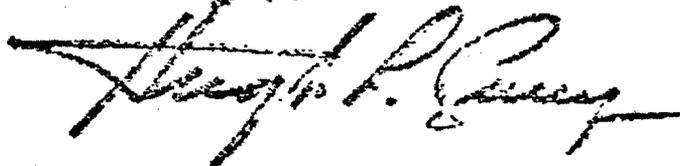
Further, \$200 million in City notes held by City Sinking Funds, will be converted into City obligations on which there will be no net amortization during the three-year moratorium period.

In addition, all MAC obligations now held by the banks, \$991.8 million, and by the pension funds, \$665 million, irrespective of their interest rates and maturities, will be exchanged for ten-year MAC obligations at 8% interest.

These agreements, too, are conditioned upon the enactment of appropriate Federal legislation.

Over the past weeks and months, Mr. President, I, on behalf of the City and State, have accepted conditions laid down by Federal authorities. Knowing full well the people of New York, their resiliency and ability to perform in the face of a common crisis, with complete trust I have not hesitated to take a condition and turn it into a commitment. Now these commitments have been fulfilled and with the same trust we await the response of the Federal Government.

Sincerely,



The President
The White House



Emergency Financial Control Board

November 26, 1975

RESOLVED, that the taxes imposed by Chapter 887 of the Laws of 1975 are necessary; and be it further

RESOLVED, that the revenues derived from those taxes shall be expended in accordance with the provisions of the New York State Financial Emergency Act for the City of New York.

The Board hereby directs the Chairman to immediately provide a copy of the above resolution to the appropriate officers named in said Chapter.



11/26/75

mjc

✓ 1 Q. What sacrifices do the long-term bondholders of New York make under this arrangement?

✓ 2 Q. Haven't you been less than candid in stating your position as no help without default when you intended all along to give aid under the Carey Plan?

✓ 3 Q. Did you insist on New York passing taxes as the price of Federal aid?

✓ 4 Q. What about New York State's problem -- aren't you going to have to give them financial assistance.

5 ✓ Q. How can you call these seasonal loans when they are outstanding for 11 months of the year?

6 ✓ Q. Do you consider that New York has defaulted under the plan they have presented?

✓ Q. Isn't your plan accomplishable under the legislation already on the Hill, so will you now support those bills?

8 ✓ Q. What do you mean by a bailout and why isn't this one?



- 9 Q. Haven't you recommended help for other than essential services?
- 10 Q. What assurance do you have that New York will carry out its plans?
- 11 Q. Are you going to give loans or guarantees to the city?
- 12 Q. What is the cost to the Federal Government and taxpayers throughout the country of this proposed aid?





nyc

11/26/75

The President will make a short statement on New York City tonight at 7:30 followed by a Press Conference. He will state that in the last month New York has taken a number of important actions to cure their financial situation, including budget cuts, financing from pension plans, moratorium on New York City notes, deferral of debt by banks, and new City taxes. The President believes that these strong actions would not have taken place without the firm stand he has taken. But these actions have been determined by New York officials without direction from the Federal government. As a result of the work done in the last month, New York now has a plan which will, if carried out, put them on a financially sound basis.

The only financing which they lack is the funds for short-term seasonal borrowings. This type of borrowing is used by most cities and must be repaid within their fiscal year. New York, however, is unable to use private markets for such seasonal financing due to the way they have previously handled their finances.

The President will recommend legislation, narrowly defined to allow short-term financial help to the City and requiring that it be paid off at the end of each fiscal year. The amount of such help at its peak during the year will be approximately \$1.3 billion in the first year and \$2.2 billion in the second year. The loans will be made on a month-by-month basis so the U.S. Government can be sure the City is following its plan or no additional loans will be made.

Based on this help, essential services will be able to be maintained in New York and the actions of the City will have the essential effect of default with respect to the interests of the various parties involved.

The President will make a short statement on nationwide television tonight at 7:30 p.m. on New York City. A Press Conference will follow. He will say that in the last month New York has taken a number of important actions to cure their financial situation, including budget cuts, financing from pension plans, moratorium on New York City notes, deferral of debt by banks, and new City taxes. These actions would not have taken place without the firm stand the President has taken. They have been determined by New York officials without direction from the Federal government. The actions of the City will have the essential effect of default with respect to the interests of the various parties involved. As a result of the work done in the last month, New York now has a plan which will, if carried out, put them on a financially sound basis.

The only financing which they lack is the funds for short-term seasonal borrowings. This type of borrowing is used by most cities and must be repaid within their fiscal year. New York, however, is unable to use private markets for such seasonal financing due to the way they have previously handled their finances.

The President will recommend legislation, narrowly defined to allow short-term financial help by the State to the City so that essential services can be maintained. The loans must be paid off at the end of each fiscal year. The amount of such help at its peak during the year will be approximately \$1.3 billion in the first year and \$2.2 billion in the second year. The loans will be made on a month-by-month basis so the U.S. Government can be sure the City is following its plan or no additional loans will be made.

11/26/75 - 1:45 p.m.





THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

November 26, 1975

NYC

MEMORANDUM FOR: L. William Seidman
Assistant to The President for Economic Affairs

SUBJECT: New York State Fiscal Problems/Possible Federal Assistance

Please find attached a memo to me from Daniel P. Kearney, President of the Government National Mortgage Association, regarding the fiscal problems of New York State. The memo details a discussion held on Tuesday, November 25, with Mr. Peter Goldmark, Budget Director of the State of New York. The discussion was initiated by Mr. Goldmark at the suggestion of Treasury officials.

Mr. Goldmark described the fiscal problems faced by the State with respect to its independent agencies in general, and the New York Housing Finance Agency in particular. The availability of Federal mortgage purchase programs under the auspices of GNMA to assist the New York HFA were discussed with Mr. Goldmark on an exploratory basis. The concept of such assistance and the problems relating thereto are outlined in Mr. Kearney's memo.

Mr. Goldmark indicated that if Federal assistance were to be forthcoming, it would be necessary to have an affirmative response no later than the 8th of December. Beginning on Monday next, i.e., December 1, Mr. Goldmark will be seeking commitments from other participants in the overall plan and will be pressing the Administration for an appropriate characterization of the Administration receptivity to the concept of Federal assistance.

I have been briefed by Mr. Kearney concerning the outlines of any assistance that could be provided under the auspices of GNMA. Before any arm of the Administration proceeds, I think it wise that views be elicited from and perhaps a course of action be jointly planned by the Treasury, the Economic Policy Board, and the Office of Management and Budget.



At the suggestion of the OMB, I am, therefore, transmitting this memo to you for review by the Economic Policy Board. Your earliest consideration of the concept would be advisable. If the response is to be negative, a prompt decision is necessary. A delayed response may encourage unwarranted expectations and could generate a momentum which would ultimately leave an affirmative response as the only viable option.

We stand ready to provide such additional materials and information as you and the Board may require.


Carla A. Hills

cc: Mr. William E. Simon
Mr. James T. Lynn
Mr. Alan Greenspan
Mr. James M. Cannon





DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
WASHINGTON, D.C. 20411

IN REPLY REFER TO:

November 26, 1975

SUBJECT: New York State Fiscal Problem/Possible
GNMA Assistance

FROM: Daniel P. Kearney *DK*
President, GNMA

I. Background

The fiscal crisis in New York City has received much attention during the past six months, particularly as regards the federal assistance, if any, to be provided in resolving New York City's fiscal problems. Considerably less attention has been devoted to the fiscal problem of the State of New York and the fiscal solvency of its quasi-independent state agencies.

Now that a plan to resolve the New York City problem appears to be reaching fruition, New York State Budget officials have been turning their attention to their own fiscal problems. At the suggestion of Treasury Department officials, the Budget Director of the State of New York, Peter Goldmark, met with me on Tuesday, November 25 to explore possible GNMA assistance in resolving the state and independent agency fiscal problem.

Mr. Goldmark stated that the State has a \$6.5 billion problem, \$4 billion of which is connected with New York State notes which mature in the first half of 1976 and \$2.5 billion which is connected with the quasi-independent state agencies. Mr. Goldmark was particularly interested in exploring what GNMA programs might be available to assist in the financing problems of the New York State Housing Finance Agency, the largest single quasi-independent state agency.

He prefaced the discussion by saying that it would be necessary to have developed the "plan" for the state and independent agencies by December 12. On December 15th, two independent state agencies have a \$250 million note maturing.



In response I outlined the available GNMA programs. The mortgage-backed securities program whereby GNMA guarantees a security backed by FHA-insured mortgages was quickly dismissed as a viable option because of the time that would be consumed to procure FHA mortgage insurance. Mr. Goldmark was advised that GNMA did have the statutory authority to guarantee conventional loans, but that the Administration had not anticipated that this program would be implemented and that securing quick Administration approval of such a program would be difficult.

I then turned to a discussion of our mortgage purchase programs -- the so-called tandem program. I described the Emergency Housing Act of 1975, which conferred on GNMA the authority to purchase conventional multifamily mortgage loans bearing an interest rate of 7-1/2 percent, such mortgages to not exceed 75 percent of the "value", or 80 percent of "value" with a qualified mortgage insurer. I advised him that it had been widely speculated that as much as \$3 billion of a Congressionally authorized \$5 billion in mortgage purchase authority would be made available in the near future for multifamily mortgage purchase program and that a significant percentage of this might be made available for conventional loans that would be underwritten by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Since this option seemed to be the most promising, the bulk of our discussion was concentrated on the tandem approach.

II. Potential Problems with the Mortgage Purchase Approach

As this option was discussed in greater detail, I described the following set of concerns which present obstacles to the implementation of this form of assistance.

Under existing statutory authority, GNMA is precluded from purchasing mortgages from any state or local instrumentality. I admitted that in fact mortgages originated by state agencies have been sold to GNMA utilizing a private mortgage banker or commercial bank as an intermediary. There may be a difference of degree and foreknowledge however when we knowingly participate in an arrangement that circumvents the statutory prohibition.



On the other hand, there has been Congressional discussion of amending the statutory authority to permit GNMA to buy mortgages directly from state and local instrumentalities. While this approach might be desirable because it obtains Congressional approval for the assistance to the State of New York, it has a very undesirable result of opening the door for GNMA to buy mortgages from the many other state agencies. For policy reasons GNMA does not wish to do this in the absence of FHA insurance. This concern is related to the question of "differentiation" which was the second concern I expressed.

I advised Mr. Goldmark that it would be extremely desirable and indeed necessary to distinguish any mortgage purchase assistance to a New York State Agency in such a way so as to make it unlikely that other agencies would qualify for similar assistance. In that respect we discussed at length an agreement whereby the State of New York would agree to repurchase any loans that became delinquent. I insisted that the "mechanism" be something more than a "moral obligation" as that term is used in the financial community. He responded by saying that a tax "trigger" that would generate funds to purchase these mortgages was not a politically viable solution for the Governor; however, he suggested that a mechanism similar to that employed in connection with the resolution of the UDC difficulties could be possible. In concept, this mechanism would have the New York State legislature pass a resolution whereby they would agree to repurchase any delinquent and/or defaulted loans up to a maximum specified amount per year for as many years as necessary to provide coverage for the entire portfolio of mortgages purchased by GNMA. I suggested that such an agreement might be acceptable to the Administration since it would be unlikely that other states would be prepared to make such an agreement in the absence of a fiscal crisis similar to that which presently obtains in New York. Mr. Goldmark also agreed in principle that the state agencies would undertake no more construction until its traditional financial sources had reappeared.

The third problem that I expressed was that of the budget. If New York assistance were to be forthcoming, it would require the President to release a portion of the remaining



\$2 billion of Congressional authorization for mortgage purchase programs. I advised that this presented some considerable political problem for the Administration since it was anticipated by Congress that these funds would be used to support "new construction" and that there was considerable expectation that some of the assistance would be directed toward single-family housing. Moreover, the loans would not be saleable; therefore, it would increase fiscal 1976 outlays immediately. Mr. Goldmark responded by offering to use their "best efforts" to secure FHA insurance on the loans after they had been sold to GNMA and that it was his opinion that many of the loans would so qualify. Thus, to the extent that FHA insurance could be procured, the loans would then be saleable.

Another problem identified related to the stage of construction of New York HFA projects. Most, if not all, of the New York projects have already commenced construction. It is anticipated that any conventional multifamily purchase program would be directed to projects which have not as yet commenced construction. It is a fact, however, that we have made available mortgage purchase programs for single-family units which have been under construction since October 1973 and that there is no statutory prohibition which precludes GNMA from purchasing mortgages on units under construction. Therefore, while the purchase of HFA mortgages already under construction would be a deviation from the provisions of the contemplated multifamily mortgage purchase program, it would not be inconsistent with the provisions previously enunciated in connection with single-family mortgage purchase programs.

Our attention then shifted to the gross amount of mortgages that would have to be purchased in order to generate the cash needed by the state. Our rules preclude purchasing mortgages in excess of 80 percent of "value" and I advised him that this would require GNMA to purchase only 80 percent of the outstanding principal balance of the mortgages. Therefore, the New York State officials would have to find somebody to purchase the top 20 percent participation in the principal balance outstanding. Mr. Goldmark then provided me with an outline of the financing requirements for the state agencies which revealed that it will be necessary to



raise at least \$353 million through this approach. It would therefore appear that some \$480 million worth of mortgages would be involved although some of the other numbers in the financing requirements are quite "soft" and Mr. Goldmark advised that the figures involving GNMA assistance might rise to as high as \$600 million.

III. The discussion concluded with the agreement that I would explore the mortgage purchase option with Secretary Hills and officials at Treasury and if the preliminary reaction was not negative, the matter would be raised with the OMB. Mr. Goldmark reiterated the need for a definitive answer the week of December 8 (in my judgement, an affirmative decision that week would not require that we actually purchase the loans during that week; I am quite confident that if a contractual agreement committing GNMA to this approach has been consummated by that time, private interim financing will be available based on that commitment). Mr. Goldmark requested that I communicate to him at the earliest opportunity, a "characterization" of the possibilities of GNMA assistance and a response to the question of whether we would "play" only as a part of a total program.

We agreed for the time being the discussions would be characterized as "exploratory" at the initiative of New York State officials and that no further description of the possibilities of this assistance would be forthcoming until I had checked with all the responsible Federal officials.

Subsequently, I discussed this meeting with Secretary Hills the afternoon of November 25. She expressed considerable concern that we might be drawn into the New York situation on a hurried basis and that the "numbers" in New York were extremely fuzzy which might give rise to a potential scandal for GNMA. Nonetheless, she indicated her disposition to render such assistance as is necessary if the assistance has been decided upon by the Administration in its entirety. Therefore, our assistance would only be forthcoming if it was clearly decided that such assistance would be necessary and desirable by the Treasury, the OMB, the E.P.B. and with the concurrence of the President.

Daniel P. Kearney
President, GNMA



Municipal Assistance Corporation
For The City of New York
Two World Trade Center
New York, N. Y. 10047

MR. L. WILLIAM SEIDMAN
ASSISTANT TO THE
PRESIDENT FOR ECONOMIC AFFAIRS
WHITE HOUSE
WASHINGTON, D.C.



11-28-77

AGREEMENT made as of the 26th day of November, 1975, among the Municipal Assistance Corporation For The City of New York (the "Corporation") and each of the undersigned New York City Commercial Banks (the "Banks"), New York City Pension Funds (the "Pension Funds") and the New York City Sinking Funds (the "Sinking Funds").

The Corporation is proposing to offer to exchange (the "Exchange Offer") certain of its bonds (the "MAC Bonds") for certain outstanding short-term obligations of The City of New York, listed on Schedule A attached hereto (the "City Notes").

The Governor of the State of New York on November 25, 1975 made the following public announcement:

I wish to compliment the Legislative Leaders and the members of the New York Assembly and Senate on their work today. We have met, I believe, all the conditions laid down by the President as a prerequisite to his consideration of Federal involvement in the fiscal crisis facing New York City. We fully anticipate a favorable Federal response in recognition of the unusual and difficult steps taken by the people of New York.

While those achievements are a source of great satisfaction to all of us concerned about the potential default of New York City, for the State of New York it is only the first step. I shall ask the Legislature to return to Albany on December 3 to meet the problem of the State's own budget gap and to fully dispose of that matter through legislation during this extraordinary session. I am calling upon Comptroller Arthur Levitt to certify the existence and size of the gap on or about November 30th using the latest revenue figures available to him at that time. In addition, the Legislature will be asked to complete its work on the "moral obligation" agencies of the State—strengthening their reserves and removing those programs that will not pass the most rigorous credit test. This action is necessary to the long term build-out program that I shall then propose.

In my letter of November 14th to the Secretary of the Treasury Simon I committed myself to this legislative program. That commitment remains.

In reliance on the foregoing announcement, each of the Banks, Pension Funds and Sinking Funds, severally and not jointly, agree with the Corporation as follows:

1. Each of the Banks and Pension Funds hereby agrees, severally and not jointly, not to tender or otherwise accept any offer for exchange of any City Notes held by it for MAC Bonds pursuant to the Exchange Offer. Each of the Banks and Pension Funds understands that, as a result of its not tendering or otherwise accepting any offer for exchange for its City Notes pursuant to the Exchange Offer, under the provisions of the New York State Moratorium Act for the City of New York enacted by the State Legislature at an extraordinary session and signed by the Governor on November 15, 1975 (the "Moratorium Act"), its City Notes will be subject to the moratorium therein provided for (the "Moratorium").

2. Notwithstanding any determination by any court of competent jurisdiction or by the State Legislature, which determination is applicable generally to all City Notes subject to the Moratorium and is not by its specific terms made applicable to the Banks or Pension Funds, that results in an increase in the rate of interest paid upon City Notes subject to the Moratorium (but does not affect the validity of the Moratorium on payment of principal), each of the Banks and Pension Funds hereby agrees that, after the scheduled date of maturity thereof, no interest need be paid on City Notes held by it subject to the Moratorium in excess of a rate of 6% a year.

3. Each of the Banks and Pension Funds hereby agrees to do one of the following: (a) at the termination of the "moratorium period" under the Moratorium Act and any renewal or extension thereof (i) to exchange City Notes held by it on the date hereof for short-term notes of the City, to



renew such City Notes or to purchase short-term notes of the City, in each case such renewed City Notes or such short-term notes of the City bearing interest at the rate of 6% a year and being in a principal amount equal to the principal amount of City Notes held by it on the date hereof, or (ii) to agree to present such City Notes for payment (or, if the City so agrees, to defer contractually the maturity of such City Notes) at times and in amounts resulting in a reduction of original principal amount in accordance with clause (b) hereof such City Notes to bear interest at the rate of 6% a year, and (b) thereafter from time to time upon the maturities of any such short-term notes of the City held by it hereunder, to exchange such short-term notes of the City for, or at its option to purchase, other short-term notes of the City bearing interest at the rate of 6% a year and in a principal amount which shall be reduced annually, beginning with the first such exchange under this clause (b), by an amount equal to the fraction of the original principal amount of its City Notes of which the numerator is four and the denominator is the number of full three month periods remaining from the end of the Moratorium or any renewal or extension thereof to July 1, 1986; *provided, however*, that the foregoing obligations shall be subject to the performance or existence of the following conditions: (A) the final maturity date of the last short-term note of the City received in exchange or purchased hereunder shall not be later than July 1, 1986; (B) the City timely pays (i) interest at maturity with respect to the City Notes, at their respective stated rates to their respective scheduled dates of maturity, and thereafter interest at least annually at the rate of 6% a year and (ii) interest at maturity with respect to such short-term notes at the rate of 6% a year; (C) at the time of any exchange, renewal or purchase of such short-term notes hereunder the City shall have timely paid when due principal and interest on all bonds of the City outstanding at such time; (D) at the time of any exchange, renewal or purchase of such short-term notes hereunder the City shall not be under the jurisdiction of any court pursuant to any proceedings under the federal bankruptcy laws or Title 6-A of the Local Finance Law (or any statute analogous in purpose or effect to any such law or to such Law); (E) at the time of any exchange, renewal or purchase of such short-term notes hereunder there shall be delivered to and for the benefit of the exchanging or renewing holders or purchasers an unqualified approving opinion as to legality from recognized bond counsel and such other documents as counsel for the Banks and the Pension Funds shall reasonably request in form and substance satisfactory to such counsel; (F) at the time of any exchange, renewal or purchase of such short-term notes hereunder the Mayor and the Comptroller of the City of New York and the New York State Emergency Financial Control Board if such Board is then in existence shall have certified that the budget of New York City for the fiscal year of New York City in which such exchange, renewal or purchase occurs is balanced. If at any time any option to exchange, renew or purchase short-term notes pursuant to paragraph 3 could not be effected by reason of the non-satisfaction of any condition specified in clauses (B) through (F) hereof, any City Notes retained pursuant to paragraph 3(a)(ii) may be presented for payment in full.

4. The Sinking Funds hereby represent that the only short-term notes of the City held by them are bond anticipation notes dated January 13, 1975 and maturing January 13, 1976, in aggregate principal amount of \$200,000,000 (the "Sinking Fund BANs"). The Sinking Funds hereby agree to purchase serial bonds of the City, bearing interest at the rate of 6% a year, in aggregate principal amount of \$200,000,000 upon or in payment of the Sinking Fund BANs. The bonds so purchased by the Sinking Funds shall mature and be subject to payment of such annual installments of principal as shall be necessary, after first taking into account the other holdings of the Sinking Funds, to meet the legal obligations of the Sinking Funds.

5. (a) Each of the Banks hereby agrees with respect to bonds of the Corporation held by it which are listed on the schedule furnished by it to the Corporation prior to its execution of this Agreement and identified as its schedule referred to in this Paragraph and which bonds consist of either Series C, D, E, H or J Bonds of the Corporation (hereafter called "Bank Series Bonds"), and each of the Pension Funds and Sinking Funds may at its election agree with respect to any of the bonds of the Corporation it holds (hereinafter called the "Fund Bonds") that commencing February 1, 1976 (i) such Bank Series Bonds



and such Fund Bonds will, notwithstanding the terms thereof, bear interest at the rate of 6% a year payable on February 1 and August 1 in each year; (ii) each such Bank Series Bond and Fund Bond will mature on February 1, 1986, subject to redemption, in part, on February 1, in each of the years 1977 through 1985 in the respective principal amounts calculated to provide for level debt service on such Bank Series Bond and Fund Bond held by it to February 1, 1986; (iii) such Bank Series Bonds will be stamped by such holder with a stamp reading: "Principal of and Interest on this Bond are payable in accordance with an Agreement dated as of the 26th day of November, 1975 among the Municipal Assistance Corporation for The City of New York and certain Pension Funds, Sinking Funds and Banks"; (iv) no such Bank Series Bond and Fund Bond will be transferred, assigned or delivered by such holder unless the same is first exchanged for a newly issued bond of the Corporation, in an amount equal to the unpaid principal amount of such exchanged Bank Series Bond and Fund Bond which newly issued bond shall be issued pursuant to the first General Bond Resolution of the Corporation dated July 2, 1975 and shall bear interest and mature (subject to redemption in accordance with the first General Bond Resolution) as hereinabove provided in this paragraph.

(b) Each of the Banks, Pension Funds and Sinking Funds hereby agrees on February 1, 1976 to exchange bonds of the Corporation, in an amount at least equal, in the case of Banks, to the amount of Series A and B bonds listed on the above-referred to schedule by each Bank and, in the case of such Funds, bonds equal to the amount of bonds of the Corporation that were heretofore purchased by such Funds from the Corporation less Fund Bonds with respect to which an election has been made under clause (a) above, for newly issued bonds of the Corporation issued pursuant to the first General Bond Resolution of the Corporation, dated July 2, 1975, bearing interest at the rate of 6% a year and maturing on February 1, 1986, subject to mandatory sinking fund payments calculated to provide for level debt service from February 1, 1977 to February 1, 1986; provided, however, that if prior to February 1, 1976 the consent of the requisite holders of Series A or B bondholders in the case of the Series A or Series B Bonds, respectively, of the Corporation is obtained to a revised amortization schedule for either or both of such Series held by the Banks (the Corporation agreeing to solicit such consents) resulting in a maturity on February 1, 1986 and mandatory sinking fund payments calculated to provide for level debt service from February 1, 1977 to February 1, 1986, such bonds so held by the Banks shall be treated in the same manner as in the case of and for purposes of this Paragraph 5 shall be deemed to be Bank Series Bonds; provided, further, however, that if in the case of the Series A term bonds such consent is not obtained prior to February 1, 1976, each Bank, unless, prior to August 1, 1976, it effects the exchange required by this clause (b) with respect to the Series A term bonds, shall continue to hold its Series A term bonds, and hereby agrees to a reduction of the interest rate on the Series A term bonds held by it to 6% per annum, commencing February 1, 1976, payable February 1 and August 1 in each year, and may not otherwise elect to modify the sinking fund or redemption provision of such bonds.

(c) The Corporation hereby agrees not to issue any new bonds of the Corporation based upon debt service savings to the Corporation resulting from the operation of this Paragraph 5.

(d) Notwithstanding anything to the contrary in this paragraph 5, the undertaking of each such holder under this paragraph shall be subject to the following: (A) the Corporation shall adopt a Series Bond Resolution and take such other steps on or before February 1, 1976 to permit the transactions provided for in clauses (a) and (b) above; (B) the Corporation shall have paid interest on the bonds held by such holder on February 1, 1976 at the respective rates of interest stated in such bonds; (C) on February 1, 1976, the City shall not be in default in the payment of the principal of or interest on any debt obligations of the City; and (D) there being no failure of any condition (which has not been waived) to the performance of any obligation of the Pension Funds under Paragraph 7.

6. Each of the agreements referred to in Paragraphs 3 and 5 is subject to agreement to and fulfillment of such agreements by all other parties referred to in such Paragraphs 3 and 5 and to enactment prior to February 1, 1976 of Federal Legislation that would provide, by way of guarantees or otherwise, for the seasonal financing needs of the City, over the period from the effective date thereof through a date



not earlier than June 30, 1978, in a maximum amount of not less than \$2,500,000,000 at any time outstanding.

7. The Pension Funds hereby agree, severally and not jointly, to purchase serial bonds of the City, substantially in the proportions set out in Schedule B, in the principal amount of \$2,530,000,000 as follows:

(a) Prior to January 1, 1976, \$30,000,000 serial bonds of City bearing interest at the rate of 6% a year and maturing on such date or dates as shall be mutually agreed upon; (it being understood that urban renewal notes of the City in the amount of \$30,000,000, dated April 18, 1975 and maturing December 17, 1975, and held by the Pension Funds, are to be paid with proceeds of federal grant funds segregated therefor);

(b) As soon as possible but prior to June 30, 1976, up to \$500,000,000 serial bonds of the City; during the 1976-1977 fiscal year of the City up to \$1,500,000,000 principal amount of serial bonds of the City; during the 1977-1978 fiscal year of the City up to \$500,000,000 principal amount of serial bonds of the City; all such bonds shall bear interest at the rate of 9% a year and shall mature on such date or dates as shall be mutually agreed upon;

(c) To the extent the City is required by law to amortize, prior to June 30, 1978, any principal of the bonds of the City purchased by the Pension Funds pursuant to this Paragraph 7, the Pension Funds agree to purchase additional serial bonds of the City in an amount equal to such principal amortization and bearing interest at the rate of 9% a year and maturing on such date or dates as shall be mutually agreed upon;

(d) Any Pension Fund may, at its election, purchase MAC Bonds (issued pursuant to its second General Bond Resolution), up to an amount equal to its proportionate share of the difference between \$1,600,175,000 and the principal amount of MAC Bonds issued pursuant to the Exchange Offer, in fulfillment of its obligation to purchase an equal amount of bonds of the City pursuant to this Paragraph 7, and any such MAC Bonds so purchased shall bear interest at the rate of 8% a year and mature July 1, 1986, subject to mandatory sinking fund payments calculated to provide for level debt service to July 1, 1986;

(e) The obligations of the Pension Funds to purchase bonds pursuant to this Paragraph 7 shall be subject to agreement to and fulfillment of such agreements by all other parties referred to in this Paragraph 7 and shall be conditioned upon each of the following facts being true on the date of each such purchase: (i) the City shall have timely paid when due principal and interest on all bonds of the City outstanding at such time, (ii) the City shall not be under the jurisdiction of any court pursuant to any proceedings under the federal bankruptcy laws or pursuant to title 6A of the Local Finance Law, (iii) a State law containing provisions with respect to the legal status of the Pension Funds and their Trustees' responsibilities, satisfactory to such Trustees, shall have been enacted and shall be effective, (iv) the City shall have made to the Pension Funds all contributions and other payments required by law, (v) the City shall, in connection with each purchase prior to February 1, 1976, or the first date on which the first seasonal financing moneys have been received by the City pursuant to the Federal Legislation referred to in Paragraph 6 (whichever is earlier), deliver to any Pension Fund so requesting a report of essential facts of the City in the form promulgated by the State Department of Audit & Control, and in connection with each purchase thereafter shall deliver to any Pension Fund so requesting an official statement with respect to the City in form and substance satisfactory to the Trustees of the Pension Funds, each of which shall include a current status of the City's financial plan as required and approved by the Emergency Financial Control Board, (vi) the Internal Revenue Service shall have ruled, or the Congress of the United States shall have provided, that purchases of obligations by the Pension Funds pursuant to this Agreement shall not constitute prohibited transactions or otherwise adversely affect the qualified status of the Pension Funds for the purposes of the Internal Revenue Code of 1954, as amended, and (vii) the Federal Legislation referred to in Paragraph 6 above shall have been enacted and shall be in force; and



(f) If any of the Pension Funds elects not to make any purchases of bonds of the City as a result of a failure of any conditions set forth in clause (v), (vi) or (vii) of Paragraph 7(e), such Pension Fund shall nevertheless, as soon as possible but prior to June 30, 1976, purchase its proportionate share of \$500,000,000 of MAC Bonds pursuant to Paragraph 7(d) above.

8. This Agreement shall become effective upon its execution by the Corporation and by each of the Banks, Pension Funds and Sinking Funds.

9. Any reference herein to "City Notes held" or "short-term notes of the City held" by a Bank shall refer only to City Notes or short-term notes of the City, respectively, owned by such Bank for its own account.

10. Any Bank or Pension Fund which is the holder of a City Note subject to Paragraph 3(a)(ii) hereof may sell, assign or transfer any such Note provided that the transferee shall be satisfactory to the City and shall have agreed in writing in form and substance satisfactory to the City to exercise the same options and on the same terms and conditions as the Bank or Pension Fund so selling, assigning or transferring such Note has agreed to exercise under Paragraph 3.

IN WITNESS WHEREOF, each of the parties has caused this instrument to be executed by its duly authorized officer as of the date first above written.

MUNICIPAL ASSISTANCE CORPORATION FOR THE
CITY OF NEW YORK

By

BANKS

FIRST NATIONAL CITY BANK

By

MORGAN GUARANTY TRUST COMPANY

By

BANKERS TRUST COMPANY

By

IRVING TRUST COMPANY

By

UNITED STATES TRUST COMPANY

By

BANK OF NEW YORK

By

THE CHASE MANHATTAN BANK

By

MANUFACTURERS HANOVER TRUST COMPANY

By

MARINE MIDLAND BANK

By

CHEMICAL BANK

By

NATIONAL BANK OF NORTH AMERICA

By



PENSION FUNDS

NEW YORK CITY EMPLOYEES' RETIREMENT
SYSTEM

By

TEACHERS' RETIREMENT SYSTEM FOR THE
CITY OF NEW YORK

By

BOARD OF EDUCATION RETIREMENT SYSTEM FOR
THE CITY OF NEW YORK

By

NEW YORK CITY POLICE PENSION FUND

By

NEW YORK CITY FIRE DEPARTMENT
PENSION FUND

By

SINKING FUNDS

SINKING FUND OF THE CITY OF NEW YORK

By

WATER SINKING FUND OF THE CITY OF
NEW YORK

By

RAPID TRANSIT SINKING FUND OF THE CITY OF
NEW YORK

By

TRANSIT UNIFICATION SINKING FUND OF THE
CITY OF NEW YORK

By



SCHEDULE A
(amounts in millions)

<u>Type</u>	<u>Amount</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
R.A.N.	\$400.0	12/13/74	12/11/75
R.A.N.	500.0	1/13/75	1/12/76
R.A.N.	120.0	1/13/75	1/12/76
R.A.N.	290.0	2/14/75	2/13/76
B.A.N.	341.270	3/14/75	3/12/76
B.A.N.	150.0	3/14/75	3/12/76
B.A.N.	220.0	6/30/75	5/28/76
T.A.N.	90.0	6/11/75	6/10/76
T.A.N.	190.0	6/11/75	6/10/76
B.A.N.	51.5	6/11/75	6/11/76
B.A.N.	250.0	10/17/75	10/ 1/76
B.A.N.	59.875	10/17/75	10/15/76
R.A.N.	6.750	11/10/75	11/ 9/76



SCHEDULE B

(amounts in millions)

New York City Employees' Retirement System	\$1,175
Teachers' Retirement System for The City of New York	860
New York City Police Pension Fund	365
New York City Fire Department Pension Fund	50
Board of Education Retirement System for The City of New York	50
	<hr/>
	\$2,500

The fund(s) owning the urban renewal notes referred to in Paragraph 7(a) shall purchase an additional \$30,000,000 of bonds of the City pursuant to such Paragraph 7(a) (in proportion to their holdings of such urban renewal notes).



Resolution adopted by the Emergency Financial
Control Board at its meeting on
November 19, 1975

RESOLVED, that the Emergency Financial Control Board accepts and endorses the City's commitment, after receipt of a report from the Mayor's Management Advisory Committee, to update the assumptions regarding interest earnings, salary progressions, mortality tables and similar matters in the computation of the City's contribution to its actuarial pension funds; to initiate any legal and legislative steps required in that connection; and to revise its financial plan as appropriate and to submit it to the Board by January 31, 1976; and, included in such revisions, there should be no further extension of the provisions of law (Chapter five hundred ninety-five of the Laws of nineteen hundred seventy-four and Chapter eight hundred one of the Laws of nineteen hundred seventy-five) which authorized the City of New York to reduce the City's contributions to its retirement systems by the income in excess of four percent estimated to be earned on pension fund investments during the fiscal year.



Resolution adopted by the Emergency Financial
Control Board at its meeting on
November 19, 1975

WHEREAS, payment for excess overtime work in the last year of employment before retirement is considered as part of the salary of that year for purposes of computing pension benefits; and

WHEREAS, overtime work should be limited to the minimum required for efficient operations; and

WHEREAS, it appears that excessive overtime work by employees of the City of New York and covered organizations in the last year of work preceding retirement has inflated the pension costs of the City;

NOW THEREFORE, be it

RESOLVED, that the City and the Executive Director of the Emergency Financial Control Board are directed to report to the Board, within thirty days, concerning overtime practices and costs in the City government and covered organizations, and to eliminate abuses of overtime, particularly as it inflates pension costs.



Emergency Financial Control Board

November 25, 1975

RESOLVED, that the taxes imposed by Chapters 877, 879, 880, 883, 884 of the Laws of 1975, and Chapter 882 of the Laws of 1975 as amended by Chapter 886 of the Laws of 1975, are necessary; and be it further

RESOLVED, that the revenues derived from those taxes shall be expended in accordance with the provisions of the New York State Financial Emergency Act for the City of New York.

The Board hereby directs the Chairman to immediately provide a copy of the above resolution to the appropriate officers named in such Chapters.



Emergency Financial Control Board

November 26, 1975

RESOLVED, that the taxes imposed by Chapter 887 of the Laws of 1975 are necessary; and be it further

RESOLVED, that the revenues derived from those taxes shall be expended in accordance with the provisions of the New York State Financial Emergency Act for the City of New York.

The Board hereby directs the Chairman to immediately provide a copy of the above resolution to the appropriate officers named in said Chapter.



NEW ISSUE

In the opinion of Bond Counsel, under existing statutes and court decisions, interest on the 1975 Bonds is exempt from Federal income taxes and shall at all times be free from New York State and New York City personal income taxes.

EXCHANGE OFFER TO HOLDERS OF CERTAIN SHORT-TERM NOTES OF THE CITY OF NEW YORK

\$1,600,175,000

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
(A Corporate Governmental Agency and Instrumentality of the State of New York)

8% 1975 BONDS DUE JULY 1, 1986
SERIES 1 THROUGH 4

The Municipal Assistance Corporation For The City of New York hereby offers to exchange with any and all holders of certain revenue anticipation notes and bond anticipation notes of The City of New York outstanding on the date hereof (the "City Notes"), its 1975 Bonds in an aggregate principal amount equal to the aggregate principal amount of the City Notes tendered hereunder, subject to the terms and conditions stated herein. Persons tendering City Notes pursuant to the Exchange Offer will receive 1975 Bonds in exchange therefor and will retain the right to receive interest from the City on the scheduled maturity dates of their City Notes. Holders tendering City Notes maturing December 11, 1975 will be paid in cash by the City. All other tendering holders will receive acknowledgment of their rights to receive such interest from the City. The Corporation does not assume any obligation by reason of this Exchange Offer to pay or otherwise provide for the payment of interest on such City Notes.

The Exchange Agent is United States Trust Company of New York.

The Exchange Offer will expire on December 10, 1975. At the election of the Corporation, the Exchange Offer may be extended one or more times with respect to City Notes of one or more issues being tendered. All tenders are revocable until the close of business on December 4, 1975, and thereafter are irrevocable. See "Exchange Offer" as to the procedure for tendering City Notes.

Interest on each series of the 1975 Bonds accrues from the scheduled maturity date of the City Notes exchanged therefor and is payable on July 1, 1976 and semi-annually on each January 1 and July 1 thereafter. Fully registered bonds in denominations of \$5,000 or any integral multiple thereof will be issued initially. After 30 days, such registered bonds will be exchangeable for coupon bonds in denominations of \$5,000 each, such coupon bonds to be registrable as to principal only. Coupon and registered bonds are interchangeable as more fully described herein. The Trustee for the 1975 Bonds is United States Trust Company of New York.

The 1975 Bonds are subject to optional and mandatory redemption, including redemption by operation of the sinking fund, as described herein.

The 1975 Bonds will be the first bonds of the Corporation issued under the Second General Bond Resolution and are payable from certain per capita state aid and, to the extent not required for payment of certain other obligations of the Corporation, revenues derived from certain sales and compensating use taxes imposed by the State of New York within The City of New York and, under certain conditions commencing with the State's fiscal year beginning April 1, 1976, the State stock transfer tax. The State is not bound or obligated to continue to appropriate or apportion from its General Fund or otherwise such per capita state aid or to impose such taxes or to make the necessary payments of such per capita state aid or to appropriate revenues received from such taxes. The Corporation has no taxing power. The 1975 Bonds do not constitute an enforceable obligation, or a debt, of either the State or the City and neither the State nor the City shall be liable thereon. Neither the faith and credit nor the taxing power of the State or the City is pledged to the payment of principal of or interest on the 1975 Bonds.

See the accompanying Letter of Transmittal for the names and addresses of the Exchange Agent and of the Forwarding Agents through whom City Notes may be tendered.

November 26, 1975



OFFICIAL STATEMENT

OF

**MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
(A Corporate Governmental Agency and Instrumentality of The State of New York)**

EXCHANGE OFFER

General

This Official Statement of the Municipal Assistance Corporation For The City of New York (the "Corporation") is being provided for the purpose of setting forth information concerning the offer (the "Exchange Offer") by the Corporation to exchange certain of its bonds due July 1, 1986, subject to mandatory redemption, bearing interest at the rate of 8% per annum, as more particularly described herein (the "1975 Bonds") for certain outstanding notes of The City of New York (the "City") described below (the "City Notes"). The 1975 Bonds are to be issued pursuant to the New York State Municipal Assistance Corporation Act, as amended by the Municipal Assistance Corporation For The City of New York Act, both as further amended (the "Act"), the second general bond resolution dated November 25, 1975 of the Corporation (the "Second General Bond Resolution") and the four series resolutions of the Corporation authorizing the 1975 Series 1 through 4 Bonds (the "1975 Series Resolutions"). The Second General Bond Resolution and the 1975 Series Resolutions are sometimes collectively referred to herein as the "Resolutions."

For a description of the rights of holders of City Notes who do not exchange their City Notes, see "Rights of the Noteholders" and "Moratorium and Stay Legislation."

For a description of the 1975 Bonds, see "Bonds Being Offered" and "Description of the 1975 Bonds."

The City Notes are entitled Revenue Anticipation Notes ("RANs") and Bond Anticipation Notes ("BANs"). The following table sets forth information provided to the Corporation by the Office of the Comptroller of the City with respect to the outstanding principal amounts of, and the stated rates of interest and the aggregate amounts of interest payable at the scheduled date of maturity on, the City Notes, the dates on which the City Notes are scheduled to mature and the designation of the Series of 1975 Bonds being offered in exchange for such City Notes:

<u>Scheduled Maturity</u>	<u>Principal</u> (In Millions)	<u>Stated Annual Interest Rate</u>	<u>Interest</u> (In Millions)	<u>Total</u> (In Millions)	<u>Type</u>	<u>Series of 1975 Bonds</u>
December 11, 1975	\$ 339.5	9.50%	\$ 32.3	\$ 371.8	RANs	Series 1*
January 12, 1976	596.7	9.40%	56.1	652.8	RANs	Series 2*
February 13, 1976	281.5	7.55%	21.3	302.8	RANs	Series 3*
March 12, 1976	382.5	8.75%	33.5	416.0	BANs	Series 4*
	<u>\$1,600.2</u>		<u>\$143.2</u>	<u>\$1,743.4</u>		

* Interest on each Series of the 1975 Bonds accrues from the scheduled maturity date of the City Notes exchangeable for such Series of the 1975 Bonds.

On the date of this Exchange Offer, President Ford announced that he would recommend legislation to the Congress to provide up to \$2,300,000,000 of Federal short-term loans to the State, subject to conditions and with repayment secured, to be used on behalf of the City solely for intra-fiscal year borrowings to maintain essential services during the next two years. See "Market Considerations Affecting 1975 Bonds and City Notes".

Provisions for Other Short-Term Obligations

The foregoing table does not include the balance of the City's outstanding notes that are held by the Corporation, the eleven New York Clearing House Banks, certain City pension funds, certain City sinking funds and the State of New York (the "State").



No person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to exchange or the solicitation of an offer to exchange nor shall there be any exchange of the 1975 Bonds for City Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or exchange. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any exchange made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation since the date hereof. This Official Statement is submitted in connection with the exchange of the securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

TABLE OF CONTENTS

	<u>PAGE</u>
EXCHANGE OFFER	3
General	3
Provisions for Other Short-Term Obligations	3
Tender Procedure	4
Tax Consequences	6
BONDS BEING OFFERED	7
MORATORIUM AND STAY LEGISLATION	9
Moratorium	9
Stay Legislation	10
RIGHTS OF THE NOTEHOLDERS	11
THREE-YEAR FINANCIAL PLAN	12
City Financial Plan	12
Proposed Sources of Required Moneys	13
Other Potential Sources of Money	15
THE CORPORATION	15
MARKET CONSIDERATIONS AFFECTING 1975 BONDS AND CITY NOTES	16
OUTSTANDING DEBT OF THE CORPORATION	16
PROVISIONS FOR PAYMENT OF THE BONDS	17
General	17
Appropriation by Legislature	20
Municipal Assistance State Aid Fund	21
Municipal Assistance Tax Fund	22
Per Capita Aid	24
Sales Tax	24
Stock Transfer Tax	26
Estimated Amounts Available for Debt Service and Debt Service Coverage	27
Restoration of Capital Reserve Aid Fund	30
TRUSTEE	31
DESCRIPTION OF THE 1975 BONDS	31
MANAGEMENT	32
LITIGATION	35
Establishment and Functions of Corporation	35
Diversion of Revenues	35
State Pension Funds Investment in Securities of the Corporation	36
State Pension Funds Investment in State Securities	37
City Pension Funds Investment in Securities of the Corporation	37
Lawsuit Affecting the UFT Contract	37
State Loan of Credit	37
Illegal Expenditures	38
Moratorium	38
Lawsuits Alleging Fraud in the Sale of City Securities	38
VARIOUS CONTROL PROGRAMS	38
Conditions to Payments by the Corporation	38
Powers of the Corporation	41
Review by the Corporation	42
Action by the Corporation	42
Control Board	42
Other Developments	44
SUMMARY OF CERTAIN PROVISIONS OF THE SECOND GENERAL BOND RESOLUTION	44
AGREEMENT OF THE STATE OF NEW YORK	56
LEGAL INVESTMENT	57
APPROVAL OF LEGALITY	57
TAX EXEMPTION	57
OPINION OF BOND COUNSEL	Exhibit A

Lazard Frères & Co.—Financial Advisor

The eleven New York Clearing House Banks and certain City pension funds have informed the Corporation that they hold an aggregate of \$819,220,000 principal amount of short-term notes of the City scheduled to mature on December 11, 1975 and on various dates thereafter to November 9, 1976. This Exchange Offer is not being made to such banks and pension funds, but the notes of the City held by such banks and pension funds will be subjected to the moratorium described under "Moratorium and Stay Legislation—Moratorium." See "Three-Year Financial Plan—Proposed Sources of Required Moneys." The banks and pension funds have agreed to effect a deferral of the payment of principal of such notes of the City until July 1, 1986 (or the end of any extended moratorium period, if later), conditioned upon enactment of Federal legislation providing, by way of guarantees or otherwise, for the seasonal financing needs of the City, through June 30, 1978, in an amount of not less than \$2,500,000,000. For a description of the Federal legislation to be recommended by the President, which differs in certain respects from this condition, see "Exchange Offer—General." Such banks and pension funds have also agreed that, during the moratorium and deferral period, the City need not pay interest at a rate in excess of 6% per annum on such principal. Such pension funds also hold, in addition to the notes of the City referred to above, an aggregate of \$30,000,000 principal amount of urban renewal notes of the City maturing December 17, 1975. Such urban renewal notes will not be subjected to the moratorium, but are expected to be paid from federal grant funds segregated therefor. In connection with any such payment, such pension funds have agreed to purchase an aggregate of \$30,000,000 principal amount of bonds of the City bearing interest at the rate of 6% per annum. For further agreements of the pension funds to provide additional financing to the City; see "Three-Year Financial Plan—Proposed Sources of Required Moneys."

The City sinking funds (which contain the funds to be applied to the amortization of outstanding term bonds of the City) have informed the Corporation that they hold an aggregate of \$200,000,000 in principal amount of bond anticipation notes of the City maturing January 13, 1976. Such notes will not be subjected to the moratorium, but such sinking funds have agreed to purchase bonds of the City, upon or in payment of such notes, bearing interest at the rate of 6% per annum and with maturities and annual installments of principal which shall meet the legal obligations of such sinking funds.

As of the date of this Official Statement, the Corporation holds notes of the City in the aggregate principal amount of \$2,097,300,000 maturing on several dates from December 11, 1975 to October 15, 1976. The City may issue additional notes to the Corporation in connection with future advances to the City from the Corporation. The notes of the City held on the date hereof by the Corporation will not be subject to any exchange offers by the Corporation and will not be subject to the moratorium. Upon the maturity of notes which it holds, including the City Notes received by the Corporation as a result of this Exchange Offer, the Corporation has determined that it will, if requested to do so by the City, exchange such notes for notes of the City maturing at later dates, provided that the City is in compliance with the conditions set forth in the Act and has paid all interest to the scheduled maturity date on such City Notes.

The State holds a note of the City in the principal amount of \$250,000,000 maturing on October 1, 1976. This note of the City held by the State will not be subject to any exchange offers by the Corporation and will not be subject to the moratorium.

Tender Procedure

Holders of City Notes may tender them pursuant to the Exchange Offer by completing and signing the Letter of Transmittal accompanying this Official Statement and, on or prior to the Expiration Date (as defined in the Letter of Transmittal), delivering such Letter of Transmittal and the City Notes being tendered to the Exchange Agent (by hand, or by mail) at the address indicated below or to one of the Forwarding Agents (by hand only) at the respective addresses indicated in the Letter of Transmittal. Tender of the City Notes may also be effected by delivery to the Exchange Agent by a member firm of a national securities exchange in the United States or a bank which is a member of the Federal Reserve System, if such firm or bank shall have advised the Exchange Agent in writing by telegram or otherwise at or prior to the Expiration Date that it has a duly completed and signed Letter of Transmittal and the accompanying City Notes in its possession and guarantees that the same will be delivered to the Exchange Agent by the close of business on the fifth business day following the Expiration

Date, and the same are actually so delivered. More detailed instructions concerning tender of the City Notes are contained in the Letter of Transmittal.

The Exchange Agent is:
UNITED STATES TRUST COMPANY
OF NEW YORK

By Hand
130 John Street
20th Floor
New York, N. Y. 10038
Attention: Corporation Trust and
Agency Services (MAC Exchange)

By Mail
130 John Street
New York, N. Y. 10038
Attention: Corporate Trust and
Agency Services (MAC Exchange)

The availability of the documents discussed in this Official Statement at any office of the Exchange Agent, any of the Forwarding Agents or any other bank or securities dealer does not imply any recommendation by them as to the merits of the Exchange Offer or any representation by them as to the accuracy or completeness of this Official Statement.

A tendering holder of City Notes scheduled to mature on December 11, 1975 will receive, as promptly as practicable following the Expiration Date, the aggregate principal amount of 1975 Bonds to which such holder is entitled and a check in the amount of the interest on such City Notes to the scheduled date of maturity. The amount of interest shall be paid by the City and the Corporation assumes no obligation to pay such interest. A tendering holder of City Notes scheduled to mature on January 12, 1976, February 13, 1976, and March 12, 1976 will receive, as promptly as practicable following the Expiration Date, the aggregate principal amount of 1975 Bonds to which such holder is entitled together with the Corporation's Acknowledgment of Interest Right (the "Acknowledgment"), which Acknowledgment will not be transferable. The Acknowledgment will state that the Corporation acknowledges the reservation of the right of the tendering holder of the City Notes of his entire right, title and interest to receive from the City on the scheduled maturity date of the City Notes the entire amount of interest due on his City Note on such date. By executing the Letter of Transmittal, the tendering holder of City Notes appoints the Corporation as such holder's attorney-in-fact to enforce the contractual right of such holder to receive such interest in the event the same is not paid by the City when due, and to remit the amount of such interest, as and when collected, after payment of the expenses of collection, including attorney's fees and disbursements, in the manner specified in the Letter of Transmittal. The Corporation does not assume any obligation to pay or otherwise provide for payment of interest on such City Notes.

The Corporation reserves full discretion to determine whether the documentation with respect to tendered City Notes is complete and generally to determine all questions as to tenders, including the date of receipt of a tender, the propriety of execution of any document and other questions as to the eligibility or acceptability of any tender. The Corporation reserves the right to reject any tenders not in proper form or to waive any irregularities or conditions, and the Corporation's interpretation of the terms and conditions of the Exchange Offer will be final. All improperly tendered City Notes will be returned, unless irregularities are waived, without cost by the Exchange Agent to the tendering holder. No such tender will be deemed to have been made until all irregularities have been cured or waived.

Tendering holders will not be obligated to pay brokerage commissions, fees or transfer taxes on the exchange by the Corporation of City Notes, pursuant to the Exchange Offer.

The Exchange Offer is scheduled to terminate as to each particular maturity of City Notes on December 10, 1975, unless extended by the Corporation as to such maturity of City Notes, as provided in the Letter of Transmittal.

Except for the withdrawal benefits described in the following paragraph, tenders are irrevocable. Upon delivery to the Exchange Agent or any Forwarding Agent of City Notes accompanied by a



properly executed Letter of Transmittal, the sole right of a tendering holder of City Notes maturing December 11, 1975 will be (i) to receive 1975 Bonds and (ii) to receive from the City interest to the scheduled date of maturity on such City Notes. Upon such delivery, the sole right of a tendering holder of City Notes maturing on January 12, 1976, February 13, 1976 and March 12, 1976 will be (i) to receive 1975 Bonds, (ii) to receive the Acknowledgment and (iii) to receive from the City interest on such scheduled date of maturity on such City Notes to such date.

City Notes tendered pursuant to the Exchange Offer may be withdrawn at any time prior to 3:30 P.M., New York time, December 4, 1975. To be effective, any notice of withdrawal must be in writing, must specify the name of the tendering holder of City Notes, the principal amount of City Notes to be withdrawn, and, if City Notes have been submitted, the serial numbers shown on the particular City Notes to be withdrawn and must be received in a timely manner by the Exchange Agent at its address specified above. Any City Notes withdrawn will, for purposes of the Exchange Offer, be deemed not to have been duly tendered. City Notes withdrawn pursuant to the provisions of this paragraph will be sent to the withdrawing holder of such City Notes at such holder's address as specified in the Letter of Transmittal by registered mail, return receipt requested, at the Corporation's expense, as soon as practicable after due receipt of the notice of withdrawal.

Tax Consequences

The provisions of the Internal Revenue Code of 1954 (the "Code") relating to gains and losses on the sale or exchange of bonds, notes or other evidences of indebtedness will apply to the exchange of City Notes for 1975 Bonds. A person who exchanges City Notes for 1975 Bonds will realize gain or loss measured by any difference between his adjusted basis for his City Notes and the fair market value of the 1975 Bonds which such person receives. If such fair market value is greater than such adjusted basis, such person will realize gain to the extent of the difference. If such person's adjusted basis for his City Notes is greater than the fair market value of the 1975 Bonds which he receives, he will realize loss to the extent of the difference.

In the case of a person who is neither a dealer in securities nor a financial institution described in Section 582(c)(1) of the Code and who exchanges City Notes which he held for investment purposes for 1975 Bonds, the gain or loss realized (i) on the date of such exchange and (ii) at the maturity, earlier redemption or sale of the 1975 Bonds, will be treated as capital gain or loss. Such gain or loss (as the case may be) will be a long-term capital gain or loss if the holder of the City Notes or of the 1975 Bonds (as the case may be) has held the same for more than six months. If the holding period has been six months or less, then the gain or loss will be a short-term capital gain or loss.

A portion of any such long-term capital gain will, under certain circumstances, be subject to the minimum tax on tax preference items under Section 56 of the Code.

The gain or loss of a dealer in securities on his City Notes or his 1975 Bonds will be considered an ordinary gain or loss. A dealer in securities is a person who does not hold the City Notes or the 1975 Bonds for investment purposes and who holds the City Notes or the 1975 Bonds primarily for sale to customers in the ordinary course of business.

With respect to the tax consequences to financial institutions described in Section 582(c) of the Code, the exchange of the City Notes for the 1975 Bonds is not considered an exchange of a capital asset and any gain or loss resulting therefrom will not be treated as a capital gain or loss.

If the fair market value of the 1975 Bonds on the date of issue is less than the face amount of such Bonds, the difference may constitute original issue discount. To the extent that such difference does constitute original issue discount, it will be treated as tax exempt interest under Section 103(a) of the Code with the result that each holder will be entitled to exclude from the proceeds realized at the maturity, earlier redemption or sale of the 1975 Bonds, as interest exempt from tax, that portion

of the original issue discount which bears the same ratio to such original issue discount as the number of days he has held such 1975 Bond bears to the term of the Bond. After the exchange, for the purpose of determining gain or loss at the maturity, earlier redemption or sale of the 1975 Bonds, their basis will be equal to their fair market value on the date of the exchange, subject to adjustments to basis required by the Code.

It is recommended that holders of City Notes consult their tax advisors as to the extent to which they may have tax liability as a result of such an exchange.

BONDS BEING OFFERED

All bonds issued under the Second General Bond Resolution (herein collectively referred to as the "Bonds") will be general obligations of the Corporation payable out of certain revenues of the Corporation and are secured by an equal charge and a first lien on all moneys and securities in the Corporation's bond service fund and capital reserve fund established under and defined in the Second General Bond Resolution (the "Bond Service Fund" and "Capital Reserve Aid Fund", respectively). The 1975 Bonds will be the first bonds of the Corporation issued under the Second General Bond Resolution and are payable from certain per capita state aid and, to the extent not required for payment of certain other obligations of the Corporation, revenues derived from certain sales and compensating use taxes imposed by the State within the City and, under certain conditions, commencing with the State's fiscal year beginning April 1, 1976, the State stock transfer tax. The Corporation has previously issued an aggregate of \$3,078,685,000 principal amount of bonds under another and separate general bond resolution, dated July 2, 1975 (the "First General Bond Resolution"). The Corporation has also previously issued an aggregate principal amount of \$298,500,000 in promissory notes, of which \$250,000,000 mature on September 14, 1976, \$25,000,000 mature on January 15, 1976 and \$23,500,000 mature on December 31, 1976. The holders of the bonds issued under the First General Bond Resolution (the "First Bonds") and the holders of the promissory notes referred to above (the "Promissory Notes") have a claim prior to that of the holders of the Bonds, including the 1975 Bonds, on all amounts received by the Corporation from the State as payments from the Municipal Assistance Tax Fund, including the revenues from the Sales Tax and the Stock Transfer Tax (as defined below). Additional obligations may be issued under the First General Bond Resolution to the extent provided for therein but subject to the limitations of the Second General Bond Resolution. No additional promissory notes may be issued having a claim prior to that of the holders of the 1975 Bonds on any amounts received by the Corporation from the State as payments from the Municipal Assistance Tax Fund. The Bonds being offered hereby are not on a parity with the First Bonds issued under the First General Bond Resolution. See "The Corporation," "Provisions for Payment of the Bonds" and "Summary of Certain Provisions of the Second General Bond Resolution."

As described herein, the Corporation's revenues pledged to the payment of the debt service on the Bonds are derived from amounts that otherwise would have been payable to the City as per capita state aid pursuant to Section 54 of the State Finance Law ("Per Capita Aid") and from certain State tax revenues to the extent that such tax revenues are not required to pay principal of or interest on the First Bonds and the Promissory Notes. Under the Act, Per Capita Aid is payable to the Corporation for the payment of its obligations issued under the Second General Bond Resolution after certain claims on Per Capita Aid have been paid in full. See "Provisions for Payment of the Bonds."

Amendments to the State Finance Law provide for the establishment of a Municipal Assistance State Aid Fund (the "Municipal Assistance State Aid Fund") and a Municipal Assistance Tax Fund (the "Municipal Assistance Tax Fund") and, within each such Fund, special accounts for the benefit of the Corporation (the "Special Aid Account" and the "Special Tax Account"). The Special Aid Account will include the moneys derived from appropriation and apportionment of Per Capita Aid. The Special Tax Account contains the revenues derived from State sales and compensating use taxes



within the City (the "Sales Tax"), less such amount as the State Commissioner of Taxation and Finance determines to be necessary for reasonable costs in administering, collecting and distributing the Sales Tax.

Amounts of Per Capita Aid apportioned and paid to the Special Aid Account are to be paid to the Corporation at such times and in such amounts as are annually certified by the Chairman of the Corporation (the "Chairman") as necessary to fund the Corporation's Bond Service Fund and Capital Reserve Aid Fund at the levels required by the Act. In addition, subject to the payment in full of all amounts required to be paid to the Corporation for the payment or security of the Corporation's outstanding obligations, (and to the extent the amounts in the Special Aid Account are insufficient) amounts of Sales Tax collected and deposited in the Special Tax Account are to be paid to the Corporation at such times and in such amounts as are annually certified by the Chairman as necessary to fund the Corporation's Bond Service Fund and Capital Reserve Aid Fund at the levels required by the Act.

Payments of amounts of Per Capita Aid into the Special Aid Account are subject to annual appropriation by the State Legislature. Payments of amounts of Sales Tax out of the Special Tax Account to the Corporation are subject to annual appropriation by the State Legislature. The State Legislature has appropriated the Sales Tax beginning July 1, 1975, for the State's fiscal year ending March 31, 1976, and Per Capita Aid for the State's fiscal year beginning April 1, 1975. See "Provisions for Payment of the Bonds—Appropriation by Legislature."

The amount that will be required to fund the Bond Service Fund in any fiscal year is the amount needed to pay all interest on and principal of, and sinking fund installments as well as any redemption premium on, the Corporation's outstanding Bonds maturing or otherwise coming due during that fiscal year (see "Provisions for Payment of the Bonds"). The amount that will be required to fund the Capital Reserve Aid Fund is a fixed percentage of the amount of principal of and interest on the Corporation's outstanding Bonds maturing or otherwise coming due during a specified calendar year, including for such purpose any unpaid amounts of such principal and interest owing in respect of prior calendar years. The Corporation is not obligated to maintain any amount in the Capital Reserve Aid Fund in 1975 or 1976; thereafter the fixed percentages are 25% for 1977, 50% for 1978, 75% for 1979 and 100% for 1980 and every calendar year thereafter. In the event that the aggregate amount in the Special Aid Account and the Special Tax Account shall at any time be less than the amount referred to above, as certified by the Chairman, an amount equal to the deficiency in the Special Tax Account will be transferred, subject to appropriation by the State Legislature, to the Special Tax Account from the Stock Transfer Tax Fund (the "Stock Transfer Tax Fund"). Such Fund consists of the revenues derived from the tax imposed pursuant to the Tax Law on sales or transfers of stock and certain other certificates (the "Stock Transfer Tax").

Additional Bonds may be issued under the Second General Bond Resolution on a parity with the 1975 Bonds ("Additional Bonds"), provided that (i) the amount equal to the lesser of the collections of the Sales Tax and Stock Transfer Tax for a twelve consecutive calendar month period (or, in the event the Sales Tax shall not have been in effect for such period, the collections of the sales and compensating use taxes previously imposed by the City for those months the Sales Tax was not in effect) ended not more than two months prior to the date of such determination or the amounts estimated to be collectible during the succeeding twelve month period from such sources as estimated by the State Commissioner of Taxation, plus (ii) the amount of Per Capita Aid to be apportioned and paid to the Special Aid Account for the fiscal year of the State during which such Additional Bonds are to be issued, less (iii) the maximum amount of principal, including sinking fund installments, and interest maturing or otherwise coming due in the then current or any future fiscal year on any outstanding obligations of the Corporation issued pursuant to the First General Bond Resolution and the Promissory Notes, less (iv) estimated operating expenses of the Corporation for its then current fiscal year, is sufficient to pay the aggregate amount of the principal of, including sinking fund installments, and interest maturing or otherwise becoming due in the then current or any future fiscal year on all Bonds (including the particular series or series of

Additional Bonds then proposed to be issued) issued pursuant to the Second General Bond Resolution at least 1.2 times for each such fiscal year of the Corporation.

The Corporation has no taxing power. The Bonds do not constitute an enforceable obligation, or a debt, of either the State or the City and neither the State nor the City is liable thereon. Neither the faith and credit nor the taxing power of the State or the City is pledged to the payment of principal of or interest on the Bonds.

See "Litigation" with respect to litigation relating to the security and source of payment for the Bonds.

For a more complete description of the funds to be used to pay the principal of, and redemption premium, if any, and interest on, the Bonds see "Provisions for Payment of the Bonds."

MORATORIUM AND STAY LEGISLATION

Moratorium

On November 15, 1975, the State Legislature enacted at an Extraordinary Session and the Governor signed the New York State Moratorium Act for The City of New York (the "Moratorium Act"). In the legislative findings accompanying the Moratorium Act, the Legislature stated that there is imminent danger that the City will be unable to pay its outstanding short-term indebtedness and even to provide those basic services essential to the health, safety and welfare of its inhabitants and the continuation of orderly government in the City. It further stated:

"The legislature recognizes and insists that the pledge of the 'faith and credit' of the city to the payment of its obligations must be respected. The legislature further recognizes that in the current financial crisis, this pledge can be honored only if the viability and resources of the city are preserved and that the continuation of essential services is vital to such preservation. The preservation of the city, the honoring of its obligations and the restoration of public confidence in the agencies of the state and of the state itself are all matters of imperative state concern and require the extraordinary exercise of the state's essential reserve and emergency powers set out in this Act to protect the vital interests of the people by sustaining the public credit and maintaining local government."

The Moratorium Act provides that during the "moratorium period," the enforcement of judgments and liens, on account of any short-term obligations of the City, including the City Notes, and the commencement or continuation of any action upon such short-term obligations are suspended, although the payment of such short-term obligations may be due by the terms thereof. The term "moratorium period" is defined in the Moratorium Act to mean the period expiring three years from the effective date of the Moratorium Act unless shortened by act of the Legislature. The Legislature may, by a subsequent amendment of the Moratorium Act, extend the moratorium period if it deems such an extension necessary. The Moratorium Act further provides that a court shall, upon the application of a person who would otherwise have the right to do the acts or commence or continue the actions suspended by the Moratorium Act, terminate such suspensions if it finds that either of the following two conditions shall not have been met:

(A) That, either before the date of maturity of the short-term obligation held by such person or not later than sixty days after such date of maturity, an offer shall have been made to exchange such short-term obligation for a bond, note or other obligation of the Corporation having a date of maturity no more than twenty years after the date of maturity of such short-term obligation and bearing interest, payable at least annually, at a rate of not less than 6% per annum; and

(B) That interest on the short-term obligation held by such person, who does not accept the offer, shall be paid to such person at the rate stated in such short-term obligation to the date of its maturity and, thereafter, at least annually, at a rate of not less than 6% per annum and not less than the interest rate payable to any holder of such short-term obligations who has entered into an agreement with the City which provides for issuance of an evidence of indebtedness in payment, renewal



or refunding of short-term City obligations or which provides for the extension of the maturity of the short-term obligations held by such holder, until the principal of such short-term obligation is paid or otherwise discharged and at such time shall have paid such additional interest, if any, as may be held to be mandated by the State Constitution or the United States Constitution.

The Moratorium Act further provides that the statute of limitations for the commencement of actions on short-term notes of the City shall not run during the time period when the suspensions described above are in effect.

This Exchange Offer by the Corporation will fulfill the condition described in paragraph (A) with respect to the City Notes. Separate exchange offers are being made to the holders of all other short-term obligations of the City other than the Corporation, the State and certain City sinking funds. Accordingly, the Moratorium Act will apply to all short-term obligations of the City other than those held by the Corporation, the State, and certain City sinking funds.

An action has been commenced contesting the constitutionality of the Moratorium Act under the New York State Constitution and the United States Constitution. See "Litigation—Moratorium".

In the event that the constitutionality of the Moratorium Act is sustained by a court of final jurisdiction, such judicial determination could support the constitutionality of similar legislative enactments which may adversely affect certain terms and conditions of the Bonds and the Resolutions, including the payment of principal and interest thereon, and the enforceability thereof. For a further description of the effect of the moratorium on the rights of holders of short-term City obligations see "Rights of the Noteholders."

Stay Legislation

Prior to the adoption of the Moratorium Act and as part of the Financial Emergency Legislation, referred to under "Three-Year Financial Plan," the Legislature adopted certain amendments to the Local Finance Law constituting Title 6-A of such law ("Title 6-A") pursuant to which, if the City is unable to pay its debts or obligations as they mature, the City or, in the event the City refuses to do so, the Emergency Financial Control Board (the "Control Board") may file in the State Supreme Court in any county within the City a petition which shall operate for a period of ninety days to prohibit the doing of any act and to stay the commencement or continuation of any action seeking to apply or enforce against the City or its funds, property, receivables or revenues, any order, judgment, lien, set-off or counterclaim relating to any contract, debt or obligation of the City, including the City Notes, or seeking the assessment, levy or collection of taxes by or for the City or the application of any funds, property, receivables or revenues of the City. Title 6-A further provides that upon the filing of such a petition, a repayment plan (the "Repayment Plan") may be filed by the City or, in the event the City refuses to file such a Plan, by the Control Board. Title 6-A provides that upon the filing of the Repayment Plan the court shall enter an order approving the Repayment Plan and extending any stay then in effect as against all creditors of the City for such additional period of time as is required to carry out fully all of the terms and provisions of the Repayment Plan with respect to those creditors who accept the Repayment Plan or any benefits thereunder if the court finds: (a) that the Repayment Plan provides for the eventual satisfaction of all debts and obligations of the City, including the City Notes; (b) that, giving due regard to the financial condition of the City and to the necessity for the City to expend moneys for services and purposes determined to be necessary by the Control Board, the Repayment Plan provides as prompt payment to all creditors affected thereby, on a fair and equitable basis, as is practicable in the circumstances; (c) that the Repayment Plan preserves any applicable priorities among creditors or classes of creditors; and (d) that the Repayment Plan was approved by the Control Board. In the event that the court is unable to make such findings as to the Repayment Plan, Title 6-A provides that the court shall enter an order disapproving the Repayment Plan and vacating the stay then in effect, which order shall become effective within ten days from its

entry unless, prior thereto, an amended Repayment Plan is filed with the court. Upon the filing of the first such amended Repayment Plan, Title 6-A provides that the court shall extend and, in its discretion, upon the filing of any further amended Repayment Plans it may extend the stay then in effect for such additional period of time as is required to permit the court to enter an order further extending the stay and containing the findings described above with respect to the amended Repayment Plan.

Title 6-A provides that the Repayment Plan may, with court approval, be modified by the City or the Control Board and that any order extending the stay may be vacated or modified if, upon motion of any creditor affected thereby, the court finds that the City has failed to comply with a material provision of the Repayment Plan or that, because of a material change in circumstances, the Repayment Plan no longer complies with the requirements described above. Upon the occurrence of the final act necessary to carry out fully all of the terms and provisions of the Repayment Plan with respect to those creditors who accept the plan or any benefits thereunder, Title 6-A provides that the court shall enter an order vacating any stay then in effect and permanently enjoining any creditors who accepted the Repayment Plan or any benefits thereunder from commencing or continuing any action or doing any other act relating to any contract, debt or obligation included in the Repayment Plan.

Title 6-A also provides that no action may be commenced against the City during the Emergency Period (defined in the Financial Emergency Act as the period commencing September 9, 1975 and ending on the date when the Control Board determines that the expense budget of the City shall have been in balance for one fiscal year in accordance with the accounting methods prescribed for such budget by the State Comptroller pursuant to the Act) unless thirty days have elapsed since the making and serving of a written demand for payment upon the City in accordance with the procedures specified in Title 6-A.

On November 3, 1975, a national bank purporting to represent all holders of the City's bonds acquired before June 10, 1975 served a summons and complaint addressed to the Corporation, the City, the State and certain officers of the City and State. The suit seeks, among other things, a declaratory judgment that the stay provisions, the Repayment Plan provisions and the demand for payment provisions of Title 6-A violate the State Constitution, the Federal Bankruptcy Act and the United States Constitution. For a more complete description of this lawsuit, see "Litigation—Diversion of Revenues."

RIGHTS OF THE NOTEHOLDERS

The City Notes are general obligations of the City. In accordance with Article 8, Section 2 of the State Constitution, the full faith and credit of the City has been pledged to the payment of such principal and interest. The City has power to levy ad valorem taxes upon all the taxable real property within the City without limitation as to rate or amount to make such payments. Article 8, Section 12 of the State Constitution provides that the Legislature shall not restrict the power of the City to levy such taxes for the payment of indebtedness. The holder of any City Note has a contractual right (subject to applicability of the Moratorium Act) to payment of principal and interest at maturity in the full amount as provided by the obligation; upon failure of payment of interest or principal or both the holder has the right to sue and is entitled to a judgment for the full amount due including interest thereon to maturity at the stated rate, and at the legal rate of 3% thereafter. The General Municipal Law of the State provides that if the City fails to pay the judgment, and the levy on such judgment is unfulfilled, the Board of Estimate of the City is empowered to assess, levy and cause to be collected, at the same time and in like manner as other moneys for expenses are then next thereafter to be assessed, levied and collected, a sum of money sufficient to pay said judgment with interest thereon and necessary fees and expenses. Any moneys so collected shall, from time to time, be paid to the judgment creditor.

The Moratorium Act provides for a suspension of enforcement of City Notes, including the commencement or continuation of any action in any court in any jurisdiction seeking to apply to the payment of the City Notes, any revenues or the assessment, levy or collection of any taxes and the commencement or continuation of any action upon the City Notes, although the payment on such City Notes may be



due by the terms thereof. If the Moratorium Act is held unconstitutional in the suit discussed herein under "Litigation—Moratorium" or any suit seeking the same relief, a holder of City Notes could pursue his rights to obtain a judgment on his City Notes and seek enforcement of the judgment. However, if such holder exchanges his City Notes pursuant to this Exchange Offer he would probably be deemed to have relinquished any rights to judgment on or enforcement of the City Notes exchanged.

In the litigation discussed herein under "Litigation—Diversion of Revenues" the plaintiff bondholders seek a declaratory judgment that they "are entitled to have set aside sufficient sums, and be paid first, the interest and principal on their City bonds from the first revenues received by the City". The Corporation cannot predict the outcome of the litigation as it relates to such claim nor can it predict the outcome of litigation alleging a similar cause of action relating to City Notes. If such a claim were upheld as to the City Notes and the Moratorium Act held unconstitutional, the holder of a City Note would have the right to receive the first revenues received by the City applied to the payment of his Notes. However, if the holder exchanges his City Notes he would probably relinquish such rights.

Several lawsuits alleging fraud under the Federal securities laws in connection with the sale of the City Notes have been instituted and are discussed more fully under "Litigation—Fraud in the Sale of City Securities". If such fraud is established holders of City Notes may have the right to seek damages or rescission of such purchases. Such actions would be maintained in the Federal courts and would not be subject to the Moratorium Act. If a holder of City Notes exchanges his City Notes he would probably be deemed to have relinquished his right to rescind, but he would probably not be deemed to have relinquished his right to seek damages.

It is noted that nothing in the Moratorium Act precludes the City from paying the principal or interest on the City Notes; however, as discussed under "Various Control Programs—Control Board," all moneys, including all taxes and revenues of the City, received by the City must be deposited in a special fund, disbursements from which are subject to approval by the Control Board in accordance with the City Financial Plan. The Corporation does not believe that the City has sufficient funds available at present or in prospect to pay all of the City Notes as and when they become due and, as permitted by the Emergency Act (defined below), the City Financial Plan does not now provide for any repayment of principal on the City Notes during such three-year period. See "Three-Year Financial Plan". In the event that this exchange results in a substantial amount of tenders of City Notes, there can be no assurance that the City will not have moneys available to pay the balance of the City Notes, as to both principal and interest.

THREE-YEAR FINANCIAL PLAN

City Financial Plan

As a part of certain legislation adopted by the State Legislature at an Extraordinary Session and signed by the Governor on September 9, 1975, constituting Chapters 868, 869 and 870 of the Laws of 1975, as amended (the "Financial Emergency Legislation"), the State Legislature adopted the New York State Financial Emergency Act for The City of New York (the "Emergency Act") which, among other things, created the Emergency Financial Control Board (the "Control Board"). See "Various Control Programs—Control Board."

One of the Control Board's primary functions is to develop, in conjunction with the City, a financial plan for the fiscal years ended June 30, 1976, 1977 and 1978 for the City and so-called "covered organizations," which are defined as certain governmental agencies, public authorities and public benefit corporations which receive or may receive monies directly, indirectly or contingently (other than for the sale of goods or services or for loans to the City) from the City (the "City Financial Plan"). Under the Emergency Act, the City Financial Plan is to constitute a program by which (1) the City will achieve a budget for its fiscal year ending June 30, 1978 balanced in accordance with the accounting principles set forth in the State Comptroller's Uniform System of Accounts for Municipalities, as the same may be modified by the State Comptroller in consultation with the City Comptroller, and (2) the State imposed limitations contained in the Act on outstanding short-term obligations of the City will be observed at all times.

As required by the Emergency Act, the City submitted the City Financial Plan to the Control Board on October 15, 1975. Such Plan is based upon a variety of estimates and projections with respect to revenues and expenditures during the period covered by the Plan which may vary substantially from actual revenues and expenditures of the City during such period. As modified at the request of the Control Board, the City Financial Plan was approved on October 20, 1975. As approved, the City Financial Plan is based on a number of assumptions including the following:

(1) Expenditures of the City will be reduced by an aggregate of \$200,000,000 during its current fiscal year and by \$270,000,000 during each of its 1976-1977 and 1977-1978 fiscal years. Although the budget for the current fiscal year has been reduced by the required \$200,000,000, there can be no assurance that the City will be able to effect such expenditure savings during this year or that the City will make or implement the required budget cuts in the two subsequent fiscal years.

(2) There will be no increases in salary scales for municipal workers above the previously scheduled 1975-76 level and the City will realize the anticipated cash savings from the voluntary one-year deferrals in increases in salary scales agreed to by certain municipal workers in or after August 1976. The Emergency Act imposes a one year wage freeze for workers who do not voluntarily agree to such deferrals but the constitutionality of the wage freeze is being challenged and definitive wage deferral agreements have not yet been signed. There can be no assurance that the City will be able to fulfill this assumption during all or any part of the period covered by the Plan.

(3) The City's expenditures for welfare and medicaid programs will remain constant for the period covered by the Plan. The City's expenditures for welfare and medicaid programs are largely mandated by Federal and State legislation and the City has only limited control over the number of persons participating in its largest welfare and medicaid programs. There are, however, discretionary programs that could be eliminated and management changes that could, if implemented, reduce costs. Unless the level of participation in such programs and certain of the discretionary programs are reduced, it is unlikely that the City will be able to fulfill this assumption.

Although the City Financial Plan does provide for a balanced budget for the City's fiscal year ending June 30, 1978, the Plan is based upon the assumption that over the life of the Plan there will be available \$6,800,000,000, in cash or cash savings, from sources not committed at the time of its adoption. The City Financial Plan includes deficits for the current fiscal year as well as the fiscal year ending June 30, 1977. In addition, the City Financial Plan does not address the questions concerning accrual and funding of the City's pension plans, pending recommendations from the Mayor's Management Advisory Board headed by Richard Shinn. It is expected that such study will show an under-accrual in the pension plans, which may require increased funding of the pension system. In providing for a balanced expense budget for the City's fiscal year ending June 30, 1978, the Plan permits substantial amounts of expense items to continue to be included in the City's capital budget. The Act provides for the elimination of such expense items from the City's capital budget over a ten-year period. See paragraph 5 under "Various Control Programs—Conditions to Payment by the Corporation."

Proposed Sources of Required Moneys

In order to attempt to provide the approximately \$6,800,000,000 in cash or cash savings required by the City Financial Plan, the State, the City and the Corporation have proposed a plan to provide such amount. This proposal (the "Three-Year Plan") contains the following elements, some of which have not yet been definitely committed to by the parties involved, as described below, and others of which may not be realized to the extent projected.

1. The holders of the \$1,600,175,000 of City Notes are being given an opportunity to exchange their City Notes for 1975 Bonds of the Corporation pursuant to this Exchange Offer. All City



Notes not exchanged pursuant to this Exchange Offer will be subjected to the moratorium described under "Moratorium and Stay Legislation—Moratorium."

2. Each of the eleven New York Clearing House Banks, and certain City pension funds (the "Institutional Holders"), owning an aggregate of approximately \$849,220,000 principal amount of short-term obligations of the City, have agreed not to tender such obligations pursuant to any exchange offer by the Corporation but to continue to hold such short-term obligations of the City subject to the moratorium. In addition, the Institutional Holders agreed to continue to hold short-term obligations of the City after the termination of the moratorium, in the aggregate initial principal amount equal to the short-term obligations of the City they now hold. Such obligations will bear interest at 6% per annum and will not be paid in full until July 1, 1986, but shall be reduced annually in substantially equal amounts over the period commencing with the end of the moratorium and ending on July 1, 1986. The \$200,000,000 of short-term obligations of the City held by the City sinking funds will not be subjected to the moratorium, but such sinking funds have agreed, upon or in payment of such Notes, to purchase City bonds bearing interest at 6% per annum, with maturities and annual principal installments meeting the legal obligations of such sinking funds. The agreement not to tender City Notes pursuant to an exchange offer is unconditional but the other agreements of the Institutional Holders are subject to certain conditions, including the condition that Federal legislation be enacted that would provide, by way of guarantees or otherwise, for the seasonal financing needs of the City through the Three-Year Plan, in a maximum amount of not less than \$2,500,000,000. For a description of the Federal legislation recommended by the President, which differs in certain respects from this condition, see "Exchange Offer—General."

3. The Institutional Holders have also agreed, with respect to approximately \$1,700,000,000 principal amount of bonds of the Corporation now owned by them, to adjust the terms thereof or to exchange such bonds for new bonds to be issued by the Corporation so that all of such bonds will, commencing February 1, 1976, bear interest at the rate of 6% per annum and mature on February 1, 1986, subject to mandatory redemption or sinking fund payments commencing on February 1, 1977, calculated to provide for substantially level debt service. Such outstanding bonds now owned by the Institutional Holders bear interest at rates ranging from 6% per annum to 11% per annum and mature at various times between 1977 and 1990. The Corporation estimates that the aggregate debt service savings to the Corporation through June 30, 1978, as the result of such adjustments or exchanges, would be approximately \$62,000,000. The Corporation has agreed not to issue any new bonds of the Corporation based upon such debt service savings so that such savings will flow directly to the City if not otherwise required by the Corporation. Such agreements of the Institutional Holders are subject to certain conditions, including the same condition regarding Federal legislation as is set forth in paragraph 2 above.

4. The trustees of various City pension funds agreed to purchase for such funds an aggregate of \$2,530,000,000 of newly issued obligations of the City (provided that some portion of the securities so purchased might be Bonds of the Corporation). Under the agreement the newly issued City bonds would bear interest at 9% per annum (the Bonds of the Corporation would bear interest at 8% per annum). Such purchases would be made from time to time over the course of the period included in the City Financial Plan. Such agreement of the City pension funds is subject to certain conditions, including (i) the enactment of a State law respecting the legal status of such pension funds and the responsibilities of their trustees, (ii) the enactment of a Federal law or issuance of a tax ruling relating to the qualified status of such pension funds following such purchases and (iii) the enactment of the Federal legislation referred to in paragraph 2 above.

5. In the City's fiscal year ended June 30, 1975, the State advanced \$800,000,000 to the City that was otherwise due in the fiscal year ending June 30, 1976. The State has been asked to continue to make such advances to the City during each fiscal year of the Three-Year Plan. If the State is financially able to continue such advances, the cash available to the City during the Three-Year Plan would be increased by \$800,000,000.

6. It is anticipated that an increase in the City's real estate tax will be required to fund additional debt service requirements of the City arising out of the Three-Year Plan. However, it is expected that a portion of the debt service paid to the City pension funds, which will be purchasing City securities as described in paragraph 4 above, will be utilized to purchase additional City securities. In this manner it is anticipated that the increased real estate taxes indirectly will be available as a new cash source to the City. The Three-Year Plan contemplates approximately \$400,000,000 of additional cash from this source over the last two years of the Three-Year Plan.

7. On November 26, 1975, at the Extraordinary Session of the State Legislature, provisions for new or increased taxes were enacted, with application only within the City. City sources have estimated that such additional taxes will produce approximately \$500,000,000 in City revenues during the Three-Year Plan.

If all of the agreements or proposals referred to in paragraphs 2 through 7 above are carried out in full and achieve the results projected under the Three-Year Plan and if the moratorium remains in effect, such sources are projected to provide the approximately \$6,800,000,000 in cash or cash savings required by the City Financial Plan, but there can be no assurance that such cash or cash savings will be realized.

Other Potential Sources of Money

The Corporation cannot predict whether the City may receive amounts of money from one or more potential sources which the City could apply to the payment of all or a part of the City Notes.

THE CORPORATION

The Corporation, a corporate governmental agency and instrumentality of the State constituting a public benefit corporation, was created in June 1975, by the Act, for the purposes of assisting the City in providing essential services to its inhabitants without interruption and in creating investor confidence in the soundness of the obligations of the City. To carry out such purposes, the Corporation is empowered, among other things, to issue and sell bonds and notes and to pay or lend funds received from such sale to the City and to exchange the Corporation's obligations for obligations of the City. See "Various Control Programs—Powers of the Corporation."

The Act provides that no bond or note of the Corporation shall mature more than 20 years from the date of the original issue of such bond or note, and that no such bond or note shall be issued later than June 10, 1980, unless such bond or note is a renewal or refunding of an outstanding bond or note.

The present Directors of and Representatives to the Corporation are as follows:

<u>Directors</u>	<u>Representatives</u>
Felix G. Rohatyn, <i>Chairman</i>	Zane Klein
Francis J. Barry	Edward M. Kresky
John A. Coleman	Leonard Nadel
Thomas D. Flynn	Nicholas L. Pitaro
George D. Gould	Arthur J. Quinn
Dick Netzer	Robert W. Seavey
Donna E. Shalala, <i>Treasurer</i>	M. Peter Schweitzer
Robert C. Weaver	

Herbert Elish is the Executive Director of the Corporation and Daniel B. Goldberg is Counsel and Secretary of the Corporation. Mr. Elish is also the Executive Director of the Control Board.

For additional information as to the Board of Directors of and the Representatives to the Corporation and related matters, see "Management."



MARKET CONSIDERATIONS AFFECTING 1975 BONDS AND CITY NOTES

The Corporation believes that, in addition to being affected by general conditions in the bond market, market prices of the First Bonds issued pursuant to the First General Bond Resolution may have been affected, and market prices of the 1975 Bonds may be affected, by developments with respect to the City's financial condition notwithstanding the fact that bonds of the corporation do not constitute obligations or debts of the City. The Corporation believes that its ability to repay such bonds is not dependent upon the financial condition of the City. See "Provisions for Payment of the Bonds."

Since their issuance in July 1975, the First Bonds have generally traded substantially below their initial offering prices. During this period, the market for City Notes has been limited and those sales that have been effected are believed generally to have been at prices substantially below par value. There can be no assurance that there will exist any substantial market for the 1975 Bonds at or near par value of the City Notes exchanged for such Bonds nor can there be any assurance that there will exist any substantial market for the untendered City Notes or, if such a market will exist, whether the market price will be at or near par value. In addition, although bonds of the Corporation are not obligations of either the City or the State, financial developments with respect to the City or the State, or agencies of either, may affect the existence of a market as well as the market price for such bonds. Financial developments with respect to the City or the State, or agencies of either, will probably have an effect on the existence of a market as well as the market price for the City Notes.

The enactment of Federal legislation providing financial assistance to the City by way of short-term Federal loans to the State for the benefit of the City, as now proposed by the President (see "Exchange Offer—General"), would not appear to provide any amounts, or release any funds from other requirements, for payment of City Notes not tendered pursuant to this Exchange Offer. There can be no assurance that such legislation will be enacted, but the enactment or implementation of any such legislation would probably have an effect on the existence of a market as well as the market price for such City Notes.

OUTSTANDING DEBT OF THE CORPORATION

The Corporation at present has outstanding \$3,078,685,000 in aggregate principal amount of First Bonds issued pursuant to the First General Bond Resolution. It also has outstanding Promissory Notes in the aggregate principal amount of \$298,500,000. *The First Bonds should not be confused with the 1975 Bonds being offered holders of the City Notes pursuant to this Exchange Offer.*

The holders of the First Bonds and the Promissory Notes have a claim prior to that of the holders of the 1975 Bonds on all amounts received by the Corporation from the State as payments from the Municipal Assistance Tax Fund (including the Sales Tax and the Stock Transfer Tax). The holders of the 1975 Bonds have no claim on any of the moneys or securities in the funds or accounts established pursuant to the First General Bond Resolution so long as the First Bonds, or any other bonds issued pursuant to the First General Bond Resolution, or any notes or other obligations as defined in and issued pursuant to such First General Bond Resolution, are outstanding. The holders of the First Bonds have no claim, however, on any Per Capita Aid received by the Corporation through the Municipal Assistance State Aid Fund.

The Corporation has reserved the right to issue additional bonds pursuant to the First General Bond Resolution and notes and other obligations as defined in and issued pursuant to the First General Bond Resolution, but has covenanted in the Second General Bond Resolution that it shall not issue any such bonds, notes or other obligations if at the time of issuance the effect of such issuance would be to cause

the amounts available to the Corporation from the Municipal Assistance State Aid Fund and the Municipal Assistance Tax Fund for payment of the principal of and interest on the 1975 Bonds to be less than 1.2 times the annual debt service on such 1975 Bonds.

The Corporation may not issue any additional bonds, notes or other obligations as defined in and issued pursuant to the First General Bond Resolution unless both of the following conditions are met:

1. The amount equal to (a) the lesser of (i) the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such determination, of the Sales Tax and Stock Transfer Tax, and such other taxes, which as of the date of issuance of any such series of bonds, notes or other obligations, are levied and collected by the State and are payable into the Special Account in the Municipal Assistance Tax Fund established for the Corporation (in the event such Sales Tax or such other taxes have not been in effect for such 12 months, collections of the sales and compensating use taxes previously imposed by the City or collections of the tax similarly based to the other taxes referred to above if such tax was previously imposed by the City, may be utilized in lieu of actual collections of the Sales Tax or other taxes, for those months the Sales Tax or other taxes were not in effect) or (ii) the amounts estimated to be collectible during the succeeding 12-month period from such sources as estimated by the State Commissioner of Taxation and Finance, less (b) the estimated amount of operating expenses of the Corporation for the then current fiscal year of the Corporation, is at least two times (c) the amount of principal, including sinking fund installments, and interest maturing or otherwise coming due in the then current or any future fiscal year of the Corporation on all bonds, notes and other obligations as defined in and issued pursuant to the First General Bond Resolution (including the particular series or series of additional bonds, notes or other obligations then proposed to be issued); and

2. The amount of Sales Tax collections or the amount determined in lieu of such collections as set forth in clause (a) (ii) of paragraph 1 above, less the estimated operating expenses of the Corporation for the then current fiscal year of the Corporation, is at least 1.5 times the amount determined under clause (c) of paragraph 1 above.

PROVISIONS FOR PAYMENT OF THE BONDS

General

The Bonds are general obligations of the Corporation payable out of any available revenues of the Corporation not otherwise pledged. The Bonds are entitled to a lien created by the pledge under the Second General Bond Resolution of all moneys and securities paid into the Bond Service Fund and the Capital Reserve Aid Fund held by the Trustee. Such moneys and securities include each of the following: (i) all amounts received by the Corporation from the State as payments from the Municipal Assistance State Aid Fund (see "Municipal Assistance State Aid Fund") for deposit in the Bond Service Fund and in the Capital Reserve Aid Fund; (ii) amounts received by the Corporation from the State as payments from the Municipal Assistance Tax Fund annually from such Fund to the Corporation of the amounts required to fund the Debt Service Fund, the Capital Reserve Fund and the operating fund established by the First General Bond Resolution) for deposit in the Bond Service Fund and the Capital Reserve Aid Fund; (iii) all other amounts received by the Corporation from the State as payments for deposit in the Capital Reserve Aid Fund (pursuant to the certification annually, on or before December 1, by the Chairman to the Governor and the State Director of the Budget, of the sums necessary to restore the Capital Reserve Aid Fund to the required amount, see "Restoration of Capital Reserve Aid Fund"); and (iv) any income or interest earned as a result of investments of such amounts so deposited in such Funds. See "Summary of Certain Provisions of the Second General Bond Resolution—Additional Bonds."



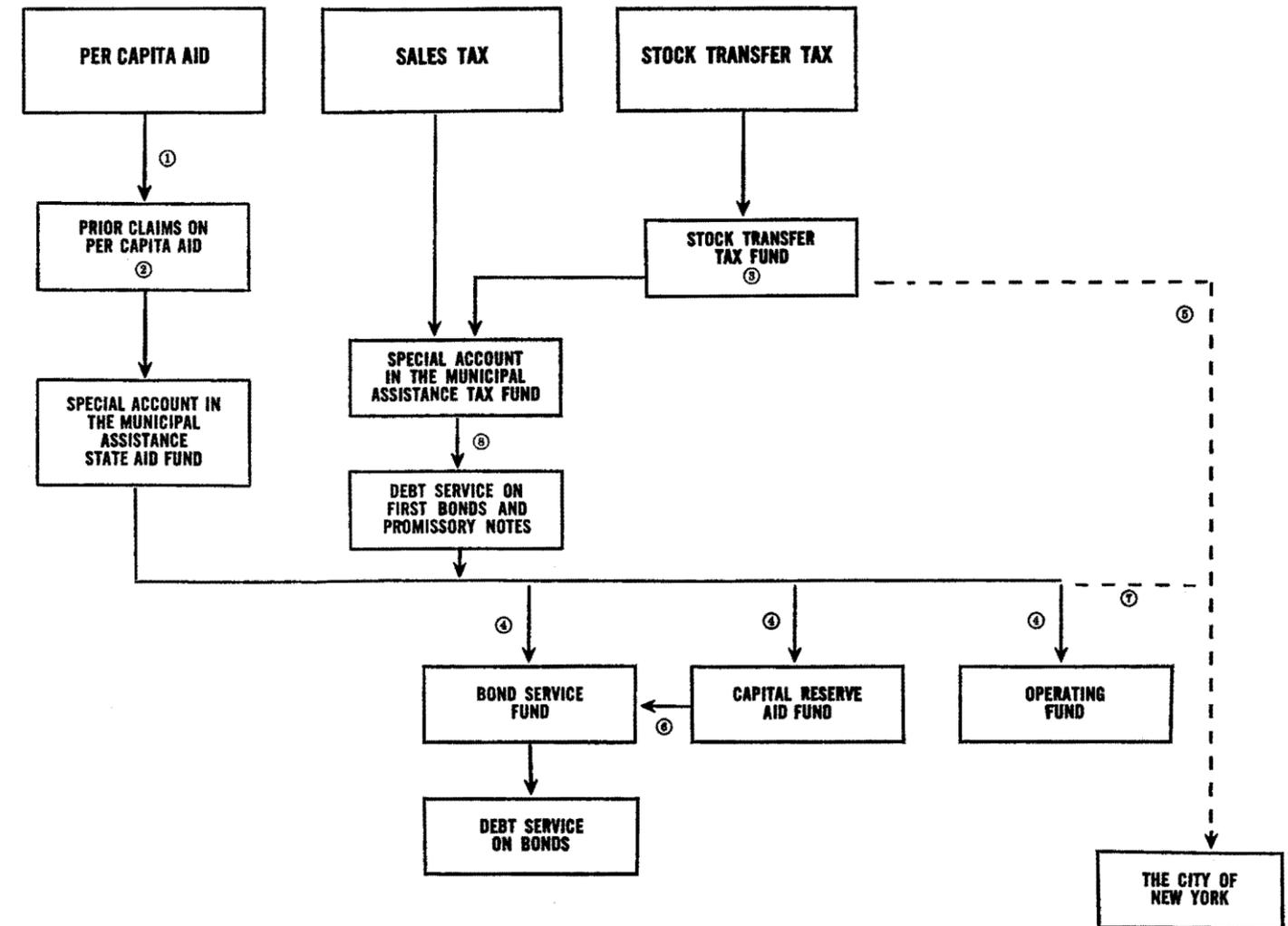
Payment of the amounts referred to in clauses (i) and (ii) above will be subject to the certification, not later than February 12 in each year or thereafter if revision is required, by the Chairman to the State Comptroller and to the Mayor of a schedule setting forth the cash requirements of the Corporation for such fiscal year and the time or times when such cash is required. The certification is required to include the total amount required to be deposited in the Bond Service Fund to pay all interest on and all principal of and redemption premium, if any, on Bonds maturing or otherwise coming due during such fiscal year and the total amount required to be deposited in the Capital Reserve Aid Fund during such fiscal year in order to maintain the Capital Reserve Aid Fund at the required amount. The amount that will be required to fund the Capital Reserve Aid Fund is a fixed percentage of the amount of principal of and interest on the Corporation's outstanding Bonds maturing or otherwise coming due during a specified calendar year, including for such purpose any unpaid amounts of such principal and interest owing in respect of prior calendar years. The Corporation is not obligated to maintain any amount in the Capital Reserve Aid Fund in 1975 or 1976; thereafter the fixed percentages are 25% for 1977, 50% for 1978, 75% for 1979 and 100% for 1980 and every calendar year thereafter.

Payment to the Corporation of the amounts referred to in clauses (i) and (ii) above are required to be made by the State only if and to the extent that monies have been appropriated by the State Legislature from the Special Aid Account and the Special Tax Account or that revenues have otherwise been made available therefor by the State (see "Municipal Assistance State Aid Fund" and "Municipal Assistance Tax Fund"). The source of moneys in the Special Aid Account is the Per Capita Aid, which is appropriated by the Legislature from the General Fund of the State and is apportioned and paid on audit and warrant of the State Comptroller pursuant to Section 54 of the State Finance Law. The Per Capita Aid may be paid into such Special Aid Account only after statutory claims on such aid having a priority over the claim of the Corporation have been paid. Such statutory claims are described below under "Municipal Assistance State Aid Fund." The source of moneys in the Special Tax Account is the Sales Tax and, beginning with the State fiscal year commencing April 1, 1976, if required, the Stock Transfer Tax Fund, the moneys in which are derived from the Stock Transfer Tax imposed by Article 12 of the Tax Law. In the opinion of Bond Counsel, the State has the right and power to apportion and pay such aid and to impose such taxes and to increase or decrease the amount of such aid and such taxes, to establish the Municipal Assistance State Aid Fund, the Municipal Assistance Tax Fund, the Special Aid Account and the Special Tax Account therein and the Stock Transfer Tax Fund and to make any such appropriation, but is not bound or obligated to continue the procedure for apportionment and payment of such aid or the imposition of said taxes, to maintain the existence of the Municipal Assistance State Aid Fund, the Municipal Assistance Tax Fund, any special accounts therein or the Stock Transfer Tax Fund or to make any appropriations. See "Appropriation by Legislature."

The Corporation, in accordance with the Act and pursuant to the express provisions of the Second General Bond Resolution, has covenanted to cause its Chairman to certify each year (at the time or times required) to the State Comptroller and to the Mayor schedules setting forth the cash requirements of the Corporation for such fiscal year and the time or times when such cash is required, all as described above.

In addition to the moneys that become available to the Corporation from the Special Aid and the Special Tax Accounts, or otherwise from the State, which are deposited in and subject to the aforesaid pledge of and lien upon the Bond Service Fund and Capital Reserve Aid Fund, the Corporation may from time to time receive payments from the City of the principal of and interest on obligations of the City purchased or exchanged by the Corporation. Such payments may be used for the further purchase or exchange of obligations of the City or for other corporate purposes of the Corporation. The amount the Chairman is required to certify for debt service on the Bonds may not be reduced by any amounts payable to the Corporation in respect of obligations of the City. Such obligations of the City held from time to time by the Corporation are not subject to the lien created by the pledge under the First or Second General Bond Resolutions.

Set forth below is a chart which illustrates the flow of funds as described above:



- ① Subject to appropriation by State Legislature.
- ② See "Municipal Assistance State Aid Fund."
- ③ After March 31, 1976, available, if necessary.
- ④ After certification by the Corporation as to its requirements.
- ⑤ Subject to appropriation by State Legislature and after payment of all amounts certified by the Corporation, if any.
- ⑥ Available, if necessary.
- ⑦ After payment of all amounts certified by the Corporation.
- ⑧ Subject to appropriation by State Legislature.



Neither the Corporation nor the holders of the Bonds shall have any lien on the moneys in the Special Aid Account or Special Tax Account. Any provisions of the Second General Bond Resolution and the Bonds with respect to provision for payment by the State to the Corporation of Per Capita Aid, the Sales Tax or the Stock Transfer Tax out of the Special Aid Account and the Special Tax Account or by transfer to the Municipal Assistance Tax Fund from the Stock Transfer Tax Fund are executory only to the extent of the moneys available to the State in such Funds from time to time, which moneys shall have been theretofore appropriated to the Corporation, and no liability on account thereof shall be incurred by the State beyond the moneys available in such Funds.

The Corporation has no taxing power. The Bonds do not constitute an enforceable obligation, or a debt, of either the State or the City and neither the State nor the City shall be liable thereon. Neither the faith and credit nor the taxing power of the State or the City is pledged to the payment of the principal of or the interest or any redemption premium on the Bonds.

Appropriation by Legislature

Per Capita Aid is subject to appropriation by the State Legislature for the benefit of the City as a part of the State budgetary process. The State Finance Law provides that the State Legislature shall appropriate the Sales Tax and Stock Transfer Tax to the Corporation. Under the State Constitution in order to appropriate State funds, the State Legislature must approve such appropriation at least every two years. The State Legislature may not be bound in advance to make such an appropriation. It is contemplated that the State Legislature will make an annual appropriation of the Per Capita Aid, Sales Tax and Stock Transfer Tax.

The Sales Tax is now imposed at the same rate and upon the same base as the previously imposed City sales tax. The Sales Tax is a new tax source for the State which, under the State Finance Law, is deposited in a special fund of the State (the Special Tax Account in the Municipal Assistance Tax Fund) rather than in the State's General Fund. The provisions of the State Finance Law relating to the creation of the Municipal Assistance Tax Fund provide that in no event shall the State Comptroller pay over and distribute any moneys in the Special Account (other than the amount to be deducted for administering, collecting and distributing the Sales Tax) to any person other than the Corporation unless and until the aggregate of all cash requirements of the Corporation as certified to the State Comptroller have been appropriated and have been paid to the Corporation in full. Subject to appropriation by the Legislature and once the Per Capita Aid has been paid into the Municipal Assistance State Aid Fund, similar provisions of State Finance Laws restricting use of moneys by the State Comptroller are applicable.

The Corporation believes that any failure by the State Legislature to make annual appropriations as contemplated would have a serious impact on the ability of the State and its agencies and public benefit corporations to raise funds in the public market.

The foregoing discussion does not constitute an assurance that the State Legislature will appropriate the Per Capita Aid, Sales Tax and Stock Transfer Tax as contemplated.

Article 7, Section 16 of the New York State Constitution provides that if the State Legislature shall fail to make an appropriation for the payment of principal of and interest on State bonds or notes, including sinking fund payments, as the same shall fall due, the State Comptroller ". . . shall set apart from the first revenues thereafter received, applicable to the general fund of the State, a sum sufficient to pay such interest, installments of principal, or contributions to such sinking fund, as the case may be, and shall so apply the moneys thus set apart."

In the opinion of Bond Counsel, under existing law, upon any failure of the State Legislature to make the required appropriations as aforesaid, moneys on deposit in the Stock Transfer Tax Fund and the Municipal Assistance Tax Fund, including the Special Tax Account therein (each such account or fund as presently constituted being a Special Fund of the State), would not constitute revenues applicable to the General Fund of the State and hence said Article 7, Section 16 does not authorize or mandate such moneys to be set apart by the State Comptroller for the payment of State obligations. Further, under existing law, collections of the Sales Tax and Stock Transfer Tax which are to be

deposited into the Special Tax Account and the Stock Transfer Tax Fund, do not constitute revenues applicable to the General Fund of the State and hence such collections would likewise not be authorized or mandated to be set apart, aside or applied by the State Comptroller for the payment of State obligations. *However, the source of moneys in the Special Aid Account is the apportionment and payment of Per Capita Aid from the General Fund of the State and upon a failure of the Legislature to make the appropriation referred to above, there can be no assurance given that there will be sufficient moneys available in the General Fund of the State to permit any apportionment and payment of Per Capita Aid after the State Comptroller sets apart a sum sufficient to pay any State obligations.*

Municipal Assistance State Aid Fund

The Municipal Assistance State Aid Fund has been established by the State Finance Law and is in the custody of the State Comptroller. Within the Municipal Assistance State Aid Fund, the Special Aid Account is established for the benefit of the Corporation. The Special Aid Account receives revenues from the Per Capita Aid after certain claims, described below, having a priority on the payment of such aid have been satisfied. The State Finance Law provides for the allocation and payment of the Per Capita Aid subject to prior appropriation by the Legislature (although the Legislature is not obligated or bound to make such appropriation) of (i) any amounts, limited by the Financial Emergency Legislation to a maximum of \$65,000,000 in any fiscal year of the City, required to be paid to the City University Construction Fund ("CUCF") pursuant to the City University Construction Fund Act, (ii) any amounts required to be paid in any fiscal year to the New York City Housing Development Corporation ("HDC") pursuant to the New York City Housing Development Corporation Act to restore the capital reserve fund established for HDC's General Housing Bonds to the amount required to be on deposit in such fund, which amount was limited by the Financial Emergency Legislation to the lesser of \$85,000,000 or an amount equal to the maximum annual debt service, including principal of, sinking fund installments, if any, and interest on bonds issued by HDC in an aggregate principal amount outstanding of \$800,000,000 or, (iii) the amount equal to any deficiency in certain payments required to be paid by the City to the New York City Transit Authority pursuant to the provisions of Chapter 7 of the Laws of New York State of 1972, (iv) the amount equal to any deficiency in annual payments required to be paid by the City to the State to repay an advance made pursuant to the provisions of Chapter 3 of the Laws of New York State of 1974, whereby the State made a loan to the City in order to subsidize the fare of the New York City Transit Authority, (v) \$500,000 to the chief fiscal officer of the City for payment to the trustees of the Police Pension Fund of the City pursuant to Section 54 of the State Finance Law and (vi) the balance to the Special Aid Account.* The Act provides that any provision therein or in any agreement by the Corporation with the holders of the Corporation's securities which relates to certain revenues, including Per Capita Aid, or to certain funds, including the Municipal Assistance State Aid Fund and the Special Aid Account, shall be deemed executory only to the extent of the moneys available to the State in such Funds from time to time which moneys shall have been theretofore appropriated to the Corporation and no liability on account thereof shall be incurred by the State beyond the moneys in such Funds.

The Act provides that the State Comptroller shall make payments from the Special Aid Account to the Corporation in the amounts and at the times certified by the Chairman to the State Comptroller and the Mayor. In the event that the amounts in the Special Aid Account that have been appropriated to the Corporation shall at any time be less than the amount certified by the Chairman, the State Finance Law provides for the transfer from the Special Tax Account, subject to prior liens thereon, to the Special Aid Account of an amount equal to the deficiency. See "Municipal Assistance Tax Fund."

* Although the Financial Emergency Legislation purports to limit claims on the Per Capita Aid pursuant to (i) above, such limitation may not be effective in the event that the outstanding bonds of CUCF are accelerated pursuant to the occurrence of an event of default under the CUCF bond resolution. In such event, all the outstanding bonds of CUCF would be due and would, to the extent of fifty percent of such principal amount, have a prior claim on the Per Capita Aid. CUCF has outstanding \$527,980,000 in bonds and \$46,000,000 in notes, which are to be funded by bonds (the issuance of such bonds is subject to Control Board approval).



The State Finance Law provides that the State Comptroller shall from time to time, but in no event later than the 15th day of October, January and April and the last day of June of each fiscal year, pay to the City all revenues in the Special Aid Account in excess of the amount which the Chairman has certified to the State Comptroller. The Per Capita Aid is more fully described under "Per Capita Aid."

Pursuant to the Act and under the Second General Bond Resolution, the Chairman is required, not later than February 12 in each year, and from time to time thereafter as may be necessary, to certify to the State Comptroller and the Mayor of the City the amount of cash required by the Corporation in order for it to meet its obligations payable from the Bond Service Fund as they become due. Pursuant to the Act, the State Comptroller may not disburse amounts from the Special Aid Account to the City or any other entity so long as a certified amount required to be paid remains unpaid.

Pursuant to the Act and as provided in the Second General Bond Resolution, the foregoing certification procedure provides for payments to the Corporation for deposit in the Bond Service Fund and the Capital Reserve Aid Fund from the Special Aid Account to be made on or before January 15, April 15, June 25 and October 15 in each year. Consequently, the first interest payment on the 1975 Bonds, due on July 1, 1976, will be paid to the extent of moneys on deposit in the Bond Service Fund received from the payments into the Bond Service Fund in January, April and June, 1976 from the Special Aid Account. Thereafter, subject to appropriation of Per Capita Aid by the State Legislature, the debt service payments due on January 1 and July 1 in each fiscal year of the Corporation will be paid from moneys on deposit in the Bond Service Fund received from payments into the Bond Service Fund, which payments will aggregate the total debt service payments required to be made in such year. For additional information concerning the certification procedure, see "Summary of Certain Provisions of the Second General Bond Resolution—Maintenance of Certain Funds."

However, the State is not bound or obligated to continue the apportionment and payment of the Per Capita Aid or to maintain the existence of the Special Aid Account. The Second General Bond Resolution, however, provides that (i) the failure of the State to continue to apportion and pay Per Capita Aid or to maintain the existence of the Special Aid Fund or the Special Aid Account or if the State reduces the amount of Per Capita Aid payable during the current fiscal year to an amount less than the amount of principal and interest maturing or otherwise coming due in the current or any future fiscal year, or (ii) the failure of the State Comptroller to pay to the Corporation for deposit in the Bond Service Fund and the Capital Reserve Aid Fund the amount or amounts as shall be certified by the Chairman, shall each constitute an event of default with respect to the Bonds. See "Summary of Certain Provisions of the Second General Bond Resolution—Events of Default."

The State Comptroller may in his discretion invest revenues in the Special Aid Account in obligations of the United States or of the State or in obligations the principal of and interest on which are guaranteed by the United States or by the State.

Municipal Assistance Tax Fund

The Municipal Assistance Tax Fund has been established by the State Finance Law and is in the custody of the State Comptroller. Within the Municipal Assistance Tax Fund, the Special Tax Account is established for the benefit of the Corporation. The Special Tax Account receives the revenues from the Sales Tax, less such amount as the State Commissioner of Taxation and Finance determines to be necessary for reasonable costs in administering, collecting and distributing the Sales Tax. The operative date of the Sales Tax was July 1, 1975. The State Finance Law provides for the appropriation of the Sales Tax by the Legislature (although the Legislature is not obligated or bound to make such appropriation) (i) to the Corporation in order to enable the Corporation to fulfill the terms of any agreements made with the holders of the Corporation's bonds and notes issued pursuant to the First General Bond Resolution, (ii) after payments of the amounts required by (i), to the Corporation to enable the Corporation to fulfill the terms of any agreements made with the holders of the Corporation's Bonds and to carry out its corporate purposes and (iii) to the City, to the extent of any balance. The Act provides that any provision therein or in any agreement by the Corporation with the holders of the Corporation's securities which relates to certain taxes, including the Sales Tax and the Stock Transfer Tax, or to

certain funds, including the Municipal Assistance Tax Fund and the Special Tax Account, shall be deemed executory only to the extent of the moneys available to the State in such Funds from time to time which monies shall have been theretofore appropriated to the Corporation and no liability on account thereof shall be incurred by the State beyond the moneys in such Funds.

The Act provides that the State Comptroller shall make payments from the Special Tax Account to the Corporation in the amounts and at the times certified by the Chairman to the State Comptroller and the Mayor. In the event that the amounts in the Special Tax Account that have been appropriated to the Corporation shall at any time be less than the amount certified by the Chairman, the State Finance Law provides for the transfer from the Stock Transfer Tax Fund to the Special Tax Account of an amount equal to the deficiency. The Stock Transfer Tax Fund consists of the revenues derived from the Stock Transfer Tax. However, the State Finance Law does not authorize any appropriation of the moneys in the Stock Transfer Tax Fund to the Corporation until the fiscal year of the State beginning April 1, 1976.

The State Finance Law provides that the State Comptroller shall from time to time, but in no event later than the 15th day of October, January and April and the last day of June of each fiscal year, pay to the City all revenues in the Special Tax Account in excess of the amount which the Chairman has certified to the State Comptroller. The Sales Tax and Stock Transfer Tax are more fully described under "Sales Tax" and "Stock Transfer Tax."

Pursuant to the Act and under the Second General Bond Resolution, the Chairman is required, not later than February 12 in each year, and from time to time thereafter as may be necessary, to certify to the State Comptroller and the Mayor of the City the amount of cash required by the Corporation in order for it to meet its obligations payable from the Bond Service Fund as they become due. Pursuant to the Act, the State Comptroller may not disburse amounts from the Special Tax Account to the City or any other entity so long as a certified amount required to be paid remains unpaid.

Pursuant to the Act and as provided in the Second General Bond Resolution, the foregoing certification procedure provides for quarterly payments to the Corporation for deposit in the Bond Service Fund and the Capital Reserve Aid Fund from the Special Tax Account to be made on or before January 15, April 15, June 30 and October 15 in each year. Consequently, the first interest payment on the 1975 Bonds, due on July 1, 1976, will be paid to the extent of moneys on deposit in the Bond Service Fund received from the payments into the Bond Service Fund on January 15, April 15 and June 30, 1976 from the Special Tax Account. Thereafter, subject to appropriation by the Legislature, the debt service payments due on January 1 and July 1 in each fiscal year of the Corporation will be paid from moneys on deposit in the Bond Service Fund received from quarterly payments into the Bond Service Fund, which quarterly payments will aggregate the total debt service payments required to be made in such year. For additional information concerning the certification procedure, see "Summary of Certain Provisions of the Second General Bond Resolution—Maintenance of Certain Funds."

The amount of revenues received from the Sales Tax must, upon certification by the State Commissioner of Taxation and Finance, be deposited in the Special Tax Account, regardless of the investment results of the State Comptroller pending such deposits. The Commissioner of Taxation and Finance may invest moneys in the Stock Transfer Tax Fund in accordance with the State Finance Law. However, if such amounts are needed for payment into the Special Tax Account, the Commissioner of Taxation and Finance must pay the amount of moneys needed from collections forthwith in cash into said Special Tax Account. The State Comptroller may in his discretion invest revenues in the Special Tax Account in obligations of the United States or of the State or in obligations the principal of and interest on which are guaranteed by the United States or by the State.

The Sales Tax and the Stock Transfer Tax do not require annual reenactment by the Legislature. However, the State is not bound or obligated to continue the imposition of either the Sales Tax or the Stock Transfer Tax or to maintain the existence of the Special Tax Account or the Stock Transfer Tax Fund or to make any appropriations of the revenues received from the Sales Tax credited to the Special Tax Account or from the Stock Transfer Tax deposited in the Stock Transfer Tax Fund. The Second General Bond Resolution, however, provides that (i) the failure of the State to continue the imposition, at



rates not less than those in effect on July 2, 1975, of either the Sales Tax or Stock Transfer Tax or to maintain the existence of the Special Tax Account or the Stock Transfer Tax Fund, or (ii) the failure of the State Comptroller to pay to the Corporation for deposit in the Bond Service Fund and the Capital Reserve Aid Fund the amount or amounts as shall be certified by the Chairman, shall each constitute an event of default with respect to the Bonds. See "Summary of Certain Provisions of the Second General Bond Resolution—Events of Default."

As required by the Act and the First General Bond Resolution, on October 14, 1975, \$51,368,097 was deposited in the Debt Service Fund established pursuant to such Resolution from the Special Tax Account in the Municipal Assistance Tax Fund.

Per Capita Aid

Since 1946 the State of New York has appropriated moneys to local governments, including cities and counties, pursuant to Section 54 of the State Finance Law.

The determination of the amount of Per Capita Aid payable to the City is based on complex formulae which take into account the population of the City, the total assessed valuation of real property taxable by the City, the City-wide State equalization rate and the total State Personal Income Tax collections. Special census figures have been used by the State from time to time in an effort to keep pace with population shifts and fiscal demands of local government, but the basic Per Capita Aid formulae have continued since that date.

Payments of Per Capita Aid, upon certification of the State Board of Equalization and Assessment, are apportioned and paid to the chief fiscal officer of the City on audit and warrant of the State Comptroller out of moneys appropriated by the Legislature for such purpose to the credit of the Local Assistance Fund in the General Fund of the State Treasury. Per Capita Aid payments are scheduled pursuant to Section 54 of the State Finance Law to be made to the City in four installments on the 25th day of February, April, June and October of each year. Section 92-e of the State Finance Law provides that subject to certain prior rights to payment, including that of the Corporation, payments are to be made to the City not later than the 30th day of June and the 15th day of April, October and January of each year. The Corporation has been informed that all or substantially all of the Per Capita Aid payable to the City on an annual basis has been disbursed to the City as a part of the June 25th payment. The Corporation has covenanted to make such certifications as are necessary to meet its requirements not later than the 25th day of June and 15th day of January, April and October of each year.

The determination of the amount of Per Capita Aid payable under Section 54 of the State Finance Law is a legislative act requiring, prior to its apportionment, appropriation for State aid purposes by the State Legislature. The provisions for Per Capita Aid are statutory and the Legislature, having the right to enact laws to provide State aid, may also amend or repeal such statutes or make no appropriation for Per Capita Aid. The State has appropriated moneys which have been apportioned among local governmental entities, including the City, in each year since 1946 and has provided some measure of assistance to local governments since 1800.

The following tabulation, which was derived from the New York City Bureau of the Budget and the State Comptroller's office, indicates the aggregate payments of Per Capita Aid to the City for the six fiscal years ended June 30, 1975:

1970	\$204,800,000	1973	\$331,780,000
1971	323,900,000	1974	360,870,000
1972	272,250,000	1975	405,118,000

Sales Tax

Under the Tax Law, the Sales Tax is imposed within the City at the rate of four percent on (i) receipts from (a) retail sales of tangible personal property, (b) sales of certain services, (c) sales, other than sales for resale, of gas, electricity, refrigeration and steam, and of telephony and telegraphy, (d) occupancies of hotel rooms, and (e) sales of food or beverages in or by restaurants, taverns, and similar establishments and by caterers; (ii) certain admission, entertainment, cover, minimum and club charges or dues; and (iii) the use within the City of certain tangible personal property and services not otherwise

subject to the Sales Tax. The Sales Tax is also imposed at the rate of six percent on receipts from sales of the service of providing in the City parking, garaging or storing for motor vehicles. The imposition of the Sales Tax is subject to certain limited exceptions. The level of Sales Tax receipts is necessarily dependent upon economic and demographic conditions in the City and there can be no assurance that the historical data with respect to collections of such tax are necessarily indicative of future receipts.

Generally, a seller of any item subject to the imposition of the Sales Tax is required to file returns on a quarterly basis. Under existing statutes and regulations, such returns and payments are due on September 20, December 20, March 20 and June 20 for the quarter ending on the last day of the preceding month.

Under the State Finance Law, the Sales Tax revenues payable to the Special Tax Account in the Municipal Assistance Tax Fund shall be paid in accordance with the following procedure. On or before the twelfth day of each month, the State Commissioner of Taxation and Finance shall certify to the State Comptroller the amount of all Sales Tax revenues received, after deduction of administrative costs, during the prior month as a result of the Sales Tax and all interest and penalties imposed, and in addition on or before the last day of June the Commissioner shall certify the amount of such revenues received during the first 25 days of June, which amount shall be deposited by the State Comptroller in the Special Tax Account. Notwithstanding the foregoing, the Commissioner has, pursuant to the Act, prorated revenue attributable to the quarter ending August 31, 1975, so as to separate from the revenue collected for that quarter the revenue collected pursuant to local legislation adopted by the City pursuant to the Tax Law prior to the operative date of the Sales Tax. The State Commissioner of Taxation and Finance has informed the Corporation that such proration of sales and compensating use taxes collected in September 1975 has reduced payments to the Municipal Assistance Tax Fund by approximately \$60,900,000.

The Sales Tax imposed pursuant to the Tax Law, effective July 1, 1975, is imposed on the same tax base as the sales and compensating use taxes previously imposed by the City and collected by the State. A tax on sales of certain tangible personal property and services had been imposed by the City since 1934. Such tax base does not include certain additional taxes which the City is authorized to impose. State collections of the sales and compensating use taxes imposed by the City for its last ten fiscal years prior to July 1, 1975, after deductions of the costs of administration, collection and distribution, were as follows:

State Collections of Sales and Compensating Use Taxes in New York City*

City Fiscal Year Ending June 30	Total Collections (Dollars in Thousands)
1966	\$294,941 (a)
1967	371,317
1968	412,109
1969	438,772
1970	461,559
1971	494,645
1972	518,667
1973	549,184
1974	580,798
1975 (b)	787,200
1976 (b) (three months ended September 30, 1975)	181,368

* Figures obtained from the State Department of Taxation and Finance.

(a) The amounts collected for the fiscal year ended June 30, 1966, do not reflect collections for June or July, 1965. Prior to August 1965, the City administered the collection of its sales and compensating use taxes.

(b) The amounts of sales and compensating use taxes collected for fiscal 1975 and 1976 reflect the increases in the sales and compensating use taxes from three percent to four percent, effective July 1, 1974. The six percent tax on sales of certain parking services remained the same.



Stock Transfer Tax

The Stock Transfer Tax is imposed pursuant to the Tax Law on sales, agreements to sell, memoranda of sale, and deliveries or transfers of (i) shares or certificates of stock, (ii) certificates of rights to stock, (iii) certificates of interest in property or accumulations, (iv) certificates of interest in business conducted by a trustee or trustees and (v) certificates of deposit representing any of the foregoing, made within the State. The imposition of the Stock Transfer Tax, as described, is subject to certain limited exceptions.

The level of Stock Transfer Tax receipts is related to the rate of tax imposed and the volume of transactions on the securities exchanges located in the City. Such volume has fluctuated widely so that there can be no assurance that the historical data with respect to collections of such tax is necessarily indicative of future receipts.

The Stock Transfer Tax is generally based on the number of shares sold or transferred at the following rates:

<u>Selling Price Per Share</u>	<u>Rate Per Share*</u>
Less than \$5	1¼¢
\$ 5 or more but less than \$10	2½¢
\$10 or more but less than \$20	3¾¢
\$20 or more	5¢
 <u>Transactions Other Than Sales</u>	
Per share	2½¢

* Such rates do not reflect the 25% surcharge imposed thereon pursuant to an amendment to the Tax Law effective for the period commencing August 1, 1975 and ending July 31, 1976. Such surcharge is part of the Stock Transfer Tax.

Non-residents of New York State are taxed on sales made within the State at a rate equal to 50 percent of the rates shown in the table above. Where any sale, including several sales considered to constitute a single sale, made within the State and subject to the Stock Transfer Tax, relates to shares or certificates of the same class and issued by the same issuer, the aggregate amount of such tax shall not exceed \$350. The Stock Transfer Tax accrues on the date of the taxable transaction. The foregoing information does not reflect the above noted 25% surcharge.

The amounts received by the imposition of the Stock Transfer Tax are paid into the Stock Transfer Tax Fund, which is in the custody of the State Commissioner of Taxation and Finance.

Under the State Finance Law, on and after April 1, 1976, moneys in the Stock Transfer Tax Fund shall, after deduction of the amount the State Commissioner of Taxation and Finance determines to be necessary for reasonable costs in the administration, collection and distribution of the Stock Transfer Tax, be paid to the extent needed into the Special Tax Account and any balance will be paid to the City. Such payments from the Stock Transfer Tax Fund are subject to annual appropriation by the State Legislature.

The revenues derived from the Stock Transfer Tax, after deduction of the costs of administration, collection and distribution of such tax, are shown below for the previous six City fiscal years ending June 30 based upon the various rates prevailing during the periods shown.

<u>City Fiscal Year Ending June 30</u>	<u>Total Collections</u> (Dollars in Thousands)
1970	\$239,969
1971	264,366
1972	292,822
1973	244,787
1974	189,098
1975	185,982
1976 (three months ended September 30, 1975)	53,204

* Figures obtained from the State Department of Taxation and Finance.

The Corporation believes that it is not now possible to predict the effect of a City default or other related economic developments in the City on Sales Tax and Stock Transfer Tax collections. In addition, the enactment of the Federal Securities Acts Amendments of 1975, relating to the evolution of a centralized nationwide securities market, may affect the volume of taxable securities transactions in the State. The Securities Acts Amendments of 1975 prohibit the imposition by the State of a tax on stock transfers made outside of the State and not otherwise subject to the taxing jurisdiction of the State except for the fact such transfer is recorded on the books of a transfer agent located in the State. The Corporation has been advised by the Commissioner of Taxation and Finance that he believes that the decrease in Stock Transfer Tax collections attributable to the Federal Securities Acts Amendments of 1975 for the twelve consecutive calendar months commencing November 1, 1975 will be substantially offset by increases from the surcharge upon the Stock Transfer Tax, which surcharge commenced on August 1, 1975 and will end on July 31, 1976, and by increases in collections of sales and compensating use taxes and Sales Tax for the 12-month period commencing November 1, 1975, but this belief is conditioned upon the assumption that no material adverse change will occur in the financial or economic conditions of the State or the City during such twelve months.

Estimated Amounts Available for Debt Service and Debt Service Coverage

The Corporation has sought to estimate claims on Per Capita Aid prior to that of the Corporation and relying on information which the Corporation believes to be accurate and assuming that such claims do not exceed the limits set by the Emergency Financial Legislation (see "Municipal Assistance State Aid Fund") and assuming that the Sales Tax and the Stock Transfer Tax collections in each fiscal year subsequent to the Corporation's fiscal year ended June 30, 1975, remain at the levels of the State collections of the sales and compensating use taxes imposed by the City, and the Stock Transfer Tax, for the 12-month period ended October 31, 1975 (see "Sales Tax" and "Stock Transfer Tax"), the aggregate annual amount which would be available from Per Capita Aid, based on the appropriation made for the fiscal year ending June 30, 1975, and the Sales Tax, and from the Stock Transfer Tax if needed, to pay debt service on the Bonds is shown below:

Estimated amounts available from Per Capita Aid	\$296,435,000*
Plus, sales and compensating use taxes for the 12 months ended October 31, 1975	802,827,000
Plus, Stock Transfer Tax for the 12 months ended October 31, 1975	209,075,000
Total amount estimated to be available to the Corporation ...	<u>\$1,308,337,000</u>
Less, estimated annual operating expenses of the Corporation	\$ 4,000,000
Less, maximum annual debt service on bonds and notes of the Corporation issued pursuant to the First General Bond Resolution and the Promissory Note Resolutions	472,062,000
Less, maximum annual amount required to fund the Capital Reserve Fund established pursuant to the First General Bond Resolution	116,565,000**
Total amount of annual payments required to be made by the Corporation prior to payment of the 1975 Bonds	<u>\$ 592,627,000</u>
Estimated amount available for debt service on the 1975 Bonds	\$ 715,710,000
Estimated maximum annual debt service on \$1,600,175,000 in aggregate principal amount of 1975 Bonds assuming approximate level debt service	<u>\$ 232,390,000</u>

* Legislation now before Congress and possibly legislation to be recommended by the President would require the State or City to pledge revenues receivable from the Federal government in order to secure Federal loans or guarantees. Recourse to such pledge after a default on any such loan or guaranty could impair the ability of the State to apportion and pay Per Capita Aid in the amount estimated above.

** Not expected to be required after January 1, 1980.



ESTIMATED AMOUNTS AVAILABLE FOR DEBT SERVICE

\$1,600,175,000 1975 BONDS

(000's)

Fiscal Year Commencing July 1	Sales and Stock Transfer Tax(1)	Debt Service First Resolution Bonds	Net Sales and Stock Transfer Tax Available for 1975 Bonds (2)	Per Capita Aid Net(3)	Total Available	1975 Bonds		
						Sinking Fund Principal Installments	Interest	Total
1976	\$1,011,904	\$472,062	\$420,027	\$296,435	\$ 716,462	-0-	\$138,682	\$138,682
1977	1,011,904	470,563	424,213	297,845	722,058	108,725	123,665	232,390
1978	1,011,904	465,638	435,395	316,255	751,650	117,785	114,605	232,390
1979	1,011,904	455,088	472,979	339,815	812,794	127,600	104,789	232,389
1980	1,011,904	411,515	609,975	340,225	950,154	138,230	94,156	232,386
1981	1,011,904	384,435	622,905	345,735	968,640	149,750	82,837	232,387
1982	1,011,904	385,563	612,098	345,735	957,833	162,230	70,158	232,388
1983	1,011,904	406,050	614,295	345,735	960,030	175,750	56,638	232,388
1984	1,011,904	381,168	613,964	345,735	959,699	190,395	41,993	232,388
1985	1,011,904	406,712	646,165	345,735	991,900	206,260	26,126	232,386
1986	1,011,904	316,766	704,356	345,735	1,050,091	223,450	8,938	232,388

1. Amount of collections for the twelve month period ending October 31, 1975 as certified to the Corporation by the State Commissioner of Taxation and Finance.

2. After provisions being made for the establishment of the Capital Reserve Fund required in accordance with the First General Bond Resolution and operating expenses of the Corporation which are estimated at \$4,000,000 annually.

3. Such amount represents the estimated amount of Per Capita Aid available to the Corporation based on the appropriations of such Per Capita Aid in the approximate amount of \$405,100,000 made for the fiscal year commencing July 1, 1974, after taking into account the following claims and liabilities:

(a) *City University Construction Fund* the Corporation has been informed by CUCF and the State Bureau of the Budget that CUCF has certified its requirements for the period July 1, 1976 through June 30, 1977 to be approximately \$79,900,000, fifty per centum (50%) of which occasions a claim against Per Capita Aid if not otherwise made available to CUCF by the City ... \$ 39,950,000

(b) *New York City Housing Development Corporation* the Corporation has been informed by HDC that the maximum capital reserve fund requirement on all outstanding bonds of HDC as of this date is approximately \$18,915,000. HDC has outstanding \$37,703,000 in bond anticipation notes which HDC expects to fund with bonds. Such funding would have the effect of increasing the maximum capital reserve fund requirement by an amount equivalent to the debt service on the bonds issued to fund such notes (the issuance of such bonds is subject to Control Board approval) 18,915,000

(c) *New York City Transit Authority*

(i) pursuant to Section 1 of Chapter 7 of the 1972 Laws of the State, the New York City Transit Authority ("NYCTA") was authorized to issue and sell its promissory notes in the aggregate principal amount of \$100,000,000 to certain sinking funds of the City. Upon the failure of the City to pay to the NYCTA the amounts necessary to pay such notes (in five equal annual installments), the amount of any such insufficiency is to be deducted from Per Capita Aid and paid on such notes. The NYCTA has issued \$100,000,000 in aggregate principal amount of such notes and the Corporation has been informed by the office of the Comptroller of the City, that \$43,000,000 in principal amount of such notes, bearing interest at a maximum rate of five per centum (5%) per annum, are still outstanding and represent a potential annual claim on such Per Capita Aid in the principal amount of \$20,000,000 and the interest due on any such outstanding notes until such time as the debt is retired 22,150,000

(ii) pursuant to Section 2 of such Chapter, the City was required to pay an aggregate \$51,000,000 in equal annual installments for the ten years commencing December 31, 1972 to the NYCTA to enable the NYCTA to pay certain notes issued in anticipation of the receipt of revenues by the NYCTA. \$30,600,000 in aggregate principal amount of such notes, bearing interest at the rate of eight per centum (8%) per annum, are outstanding at present. Any failure of the City to pay over to the NYCTA the required amount would give rise to an annual claim on Per Capita Aid in the amount of the insufficiency until such time as the debt is retired 7,150,000

(iii) pursuant to Chapter 3 of the 1974 Laws of the State, the State was authorized to make a first instance appropriation to the NYCTA, which appropriation was made in the amount of \$100,000,000 subject to the re-payment of such amount to the State by the City in five equal annual installments commencing March 1, 1975. Failure by the City to make such re-payment gives rise to an annual claim against Per Capita Aid in the amount of the insufficiency until such time as the debt is retired. The first such re-payment has been made and \$80,000,000 remains outstanding 20,000,000

(d) *New York City Police Pension Fund* payments are due annually from Per Capita Aid to the Trustees of the City Police Pension Fund 500,000

Estimated amount of Per Capita Aid available to the Corporation based on the aforementioned appropriation (fiscal year commencing July 1, 1974) \$296,435,000



Based on the estimates presented above the total estimated amount available for debt service on all 1975 Bonds, would cover the maximum estimated annual debt service on such 1975 Bonds 3.08 times.

Within the \$5,000,000,000 statutory authorization, (i) additional Bonds may be issued under the Second General Bond Resolution on a parity with the 1975 Bonds in the manner and subject to the limits described under "Bonds Being Offered" and (ii) additional bonds may be issued under the First General Bond Resolution having priority over the 1975 Bonds in the manner and subject to the limitations described under "Outstanding Debt of The Corporation."

The Corporation believes that it is not now possible to predict the effect of a City default or other related economic developments in the City on Sales Tax and Stock Transfer Tax collections. See final paragraph under "Provisions for Payment of The Bonds—Stock Transfer Tax."

Restoration of Capital Reserve Aid Fund

Additional payments may be made to the Capital Reserve Aid Fund as a result of the following provision of the Act:

"In order further to assure the maintenance of the capital reserve fund, there shall be annually appropriated and paid to the corporation for deposit in the capital reserve fund such sum, if any, as shall be certified by the chairman to the governor and director of the budget as necessary to restore the capital reserve fund to an amount equal to the capital reserve fund requirement. The chairman of the board of directors of the corporation shall, annually, on or before December first, make and deliver to the governor and director of the budget his certificate stating the sum, if any, required to restore the capital reserve fund to the amount aforesaid; and the sum or sums so certified, if any, shall be appropriated and paid to the corporation during the then current state fiscal year. . . . [F]or each of the calendar years set forth below the capital reserve fund requirement, as of any date of calculation, shall equal the percentage set forth opposite such calendar year of the amount of principal and interest maturing or otherwise due or becoming due during such calendar year on all bonds of the corporation secured by the capital reserve fund outstanding on such date:

Calendar Year	Percentage
1975.....	0%
1976.....	0%
1977.....	25%
1978.....	50%
1979.....	75%
1980.....	100% . . ."

After 1980, the required amount of the Capital Reserve Aid Fund is the amount of principal and interest maturing or otherwise due or becoming due in the succeeding calendar year on any bonds then to be issued and on all other bonds of the Corporation then outstanding, including for such purpose any unpaid amounts of principal and interest owing in respect of prior calendar years.

The Corporation, in accordance with the Act and pursuant to the express provisions of the Second General Bond Resolution, has covenanted to cause its Chairman to certify on or before each December 1 to the Governor and the State Director of the Budget the sum required to restore the Capital Reserve Aid Fund to its required amount and has agreed to certain additional requirements relating to such certification and maintenance of the Capital Reserve Aid Fund. See "Provisions for Payment of the Bonds—General."

Under the State Constitution, no money may be paid out of the State Treasury or any of its funds or out of any of the funds under its management except pursuant to an appropriation by law specifying the sum appropriated, and payment thereunder shall be made within two years next after passage of such law. Accordingly, the provision of the Act quoted above does not constitute an enforceable obligation or debt of the State. See "Appropriation by Legislature."

In the opinion of Bond Counsel, such provision of the Act for the appropriation and payment to the Corporation for deposit in the Capital Reserve Aid Fund of such sum as shall be so certified by the Chairman does not constitute an enforceable obligation or debt of the State, the amount of such sum being subject to annual appropriation for such purpose by the State Legislature, which is empowered, but is not bound or obligated, to appropriate such amount.

TRUSTEE

United States Trust Company of New York has been appointed the Trustee under the Second General Bond Resolution. Its principal office is located at 45 Wall Street, New York, New York 10005, and its corporate trust office is located at 130 John Street, New York, New York 10038. The Trustee has accepted the duties and responsibilities imposed upon it by the Resolutions and is vested with all of the rights, powers and duties of a trustee appointed by Bondholders pursuant to the Act. Upon the happening of an "event of default" as defined in the Second General Bond Resolution, the Trustee may, and in certain circumstances is required to, proceed to protect and enforce its rights and the rights of the Bondholders. See "Summary of Certain Provisions of the Second General Bond Resolution—Events of Default" and "Remedies." In the performance of its duties, the Trustee is entitled to indemnification for any act which would involve it in expense or liability and will not be liable as a result of any action taken in connection with the performance of its duties except for its own negligence or default. The Trustee is protected in acting upon any direction or document believed by it to be genuine and to be signed by the proper party or parties or upon the opinion or advice of counsel. The Trustee may resign at any time upon 60 days' written notice to the Corporation and publication thereof. Any such resignation shall take effect on the day specified in the notice, but in the event that a successor has been appointed, the resignation shall take effect immediately. United States Trust Company of New York (the "Trust Company"), which is a New York Clearing House Bank, owns \$3,540,000 of short-term obligations of the City and \$5,688,000 of bonds of the Corporation issued under the First General Bond Resolution. The Trust Company also acts as Trustee under the First General Bond Resolution and has performed, and may in the future perform, certain banking services for the Corporation.

DESCRIPTION OF THE 1975 BONDS

The 1975 Bonds will be dated December 1, 1975, and will bear interest from the date set forth therein at the rate of eight per cent (8%) per annum, payable semi-annually on January 1 and July 1 of each year commencing July 1, 1976, and will mature on July 1, 1986. Each Series of 1975 Bonds is subject to redemption at the election of the Corporation as a whole, but not in part, on any interest payment date on or after July 1, 1981, at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption.

The 1975 Bonds are further subject to redemption, in part, by lot, on July 1 of each year commencing July 1, 1977, from mandatory "Sinking Fund Installments" (as defined in the Second General Bond Resolution) at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption. The Corporation will be unable to determine the amount of such Sinking Fund Installments until the total amount of each series of the 1975 Bonds is determined pursuant to the Exchange Offer. However, the Corporation expects to schedule such Sinking Fund Installments so that debt service shall be as nearly level as practical on each Series of the 1975 Bonds.

The 1975 Bonds will be issued on initial delivery thereof as fully registered Bonds in the denominations of \$5,000 or in multiples thereof, which are exchangeable beginning 30 days thereafter as provided in the Resolutions for coupon Bonds in the denominations of \$5,000 each, registrable on the books of the Corporation at the corporate trust office of the Trustee, as to principal only, or for other fully registered Bonds.

For every exchange or transfer of the 1975 Bonds (other than the first exchange or transfer which shall be without cost to the holder) the Corporation or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or



transfer. The cost of preparing each new Bond issued upon such exchange or transfer and any other expenses of the Corporation or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge) shall be paid by the Corporation as an operating expense.

The Corporation may, at any time not more than 12 months prior to an interest payment date on which a Sinking Fund Installment is scheduled to be due, but in no event less than 45 days prior to such date, direct the Trustee to purchase with moneys in the Bond Service Fund, at a price not in excess of par, plus unpaid interest accrued to the date of such purchase, any Bonds of the Corporation payable from such Sinking Fund Installment and apply any Bonds so purchased as a credit against such Sinking Fund Installment.

MANAGEMENT

Under the Act, the Corporation is administered by a Board of Directors (the "Board"), consisting of nine directors. One vacancy on the Board exists at present due to the resignation of William M. Ellinghaus as Chairman of the Corporation and his appointment to serve on the Emergency Financial Control Board established under the Financial Emergency Legislation. All of the directors are appointed by the Governor with the advice and consent of the State Senate; four of the directors are appointed upon written recommendation of the Mayor. The Act also provides for the appointment of representatives to the Board (the "Representatives") by certain State or City officials or bodies politic. The Representatives are entitled to receive notice of and to attend all meetings of the Board but are not entitled to vote. In addition, the State Comptroller or his representative is entitled to attend and participate in the meetings of the Board but is not entitled to vote.

The Act provides that no director (and no Representative) may be an officer or employee of the Federal government or of the State or any political subdivision thereof.

The present members of the Board, the Representatives and the officers of the Corporation, and the expiration dates of their respective terms of office are as follows:

<u>Directors</u>	<u>Expiration of Term</u>
Felix G. Rohatyn, <i>Chairman</i>	December 31, 1979
Francis J. Barry(1)	December 31, 1979
John A. Coleman(1)	December 31, 1976
Thomas D. Flynn	December 31, 1977
George D. Gould(1)	December 31, 1978
Dick Netzer	December 31, 1979
Donna E. Shalala, <i>Treasurer</i>	December 31, 1978
Robert C. Weaver	December 31, 1976

<u>Representatives(2)</u>	
Zane Klein	Appointed by the City Board of Estimate
Edward M. Kresky	Appointed by the President Pro-Tem of the State Senate
Leonard Nadel	Appointed by the Speaker of the State Assembly
Nicholas L. Pitaro	Appointed by the Vice-Chairman of the City Council
Arthur J. Quinn	Appointed by the Minority Leader of the State Assembly
Robert W. Seavey	Appointed by the Minority Leader of the State Senate
M. Peter Schweitzer ...	Designated representative of the State Comptroller

In addition, Herbert Elish is the Executive Director of the Corporation, and Daniel B. Goldberg is Counsel and Secretary to the Corporation.

(1) Appointed upon the written recommendation of the Mayor.

(2) Each Representative serves at the pleasure of the appointing official or body, is eligible for reappointment and holds office until his successor has been appointed.

FELIX G. ROHATYN, *Chairman*. Mr. Rohatyn is a general partner of Lazard Frères & Co., investment bankers. He is a former Governor of the New York Stock Exchange, Inc., and is a director of Engelhard Minerals & Chemicals Corporation, Howmet Corporation, International Telephone & Telegraph Corporation, Owens-Illinois, Inc. and Pfizer Inc. He is a member of the Finance Committee of the Rockefeller Brothers Fund, Inc. and of the Central Market Advisory Committee of the Securities and Exchange Commission. He is also a trustee of Middlebury College. Mr. Rohatyn, 47, is a resident of New York City.

FRANCIS J. BARRY. Mr. Barry is President of Circle Line-Sightseeing Yachts, Inc. and President of Cambell & Gardiner, a brokerage firm. He is the Chairman of the New York City Council on Port Promotion and Development, of which he has been a member since 1962. From 1967 through 1972, he served as an arbitrator for the United States Division of the National Maritime Union. He was recently appointed Chairman of the Advisory Committee to the New York City Convention and Exhibition Corporation. Mr. Barry, 67, is a resident of New York City.

JOHN A. COLEMAN. Mr. Coleman is a senior partner of Adler, Coleman and Company, a member of the New York Stock Exchange, Inc. He is a former Governor and Chairman of the Board of the New York Stock Exchange, Inc. He is a director of American Broadcasting Companies, Inc. and the Alfred E. Smith Memorial Foundation and a trustee of the East River Savings Bank. He is a former director of the New York Telephone Company and Manufacturers Hanover Trust Company. He was recently appointed by the Mayor to the Temporary Commission on City Finances. Mr. Coleman, 73, is a resident of New York City.

THOMAS D. FLYNN. Mr. Flynn was, until September 1975, a partner in Arthur Young & Company, an international accounting firm, and Vice Chairman of its Management Committee. He served as President of the American Institute of Certified Public Accountants ("AICPA") from 1964 through 1965. In 1969, he served as Chairman of the AICPA Advisory Committee to the panel which was appointed by the President of the United States to investigate the Department of Defense. In 1970, he was the recipient of an AICPA Gold Medal Award for Distinguished Service to the Accounting Profession, the highest honor awarded by the AICPA. He has been elected by the Alumni to serve as a Trustee of Columbia University. He has been a director of National Bureau of Economic Research, Inc. since 1968, a member of its Executive Committee since 1969 and its Treasurer since 1970. He is also a trustee of American Savings Bank and Household Finance Corp., of which he is Chairman of the Audit Committee. Mr. Flynn, 62, is a resident of Sands Point, Long Island.

GEORGE D. GOULD. Mr. Gould is Vice Chairman of the Board of Directors of Donaldson, Lufkin & Jenrette, Inc. and Chairman of the Board of Directors and Chief Executive Officer of Donaldson, Lufkin & Jenrette Securities Corporation, a member of the New York Stock Exchange, Inc. Mr. Gould, 48, is a resident of New York City.

DICK NETZER. Mr. Netzer has been Dean of the Graduate School of Public Administration of New York University since 1969. From 1964 through 1966, he was research director of the Temporary Commission on City Finances of The City of New York. He is a nationally recognized expert in the areas of state and local government finance and urban economics, and he has published extensively in each of those areas. Mr. Netzer, 47, is a resident of New York City.

DONNA E. SHALALA. Dr. Shalala is an Associate Professor of Political Science, Teachers College, Columbia University. She is currently on leave from her teaching position on a Guggenheim Fellowship to write a book on state revenue politics. She has published extensively in the field of the financial structure of state and local governments and the subjects of her writings include the operations of pension systems, state aid to the City and the politics of state budgeting. She has been active in New York civic affairs and serves as Vice Chairwoman of the Citizens Union. Dr. Shalala, 33, is a resident of New York City.

ROBERT C. WEAVER. Mr. Weaver has been Distinguished Professor of Urban Affairs at Hunter College since 1970. From 1966 through 1968 he was Secretary of the United States Department of Housing and Urban Development and from 1968 through 1970 was President of Bernard M. Baruch College. He is a trustee of the Metropolitan Life Insurance Co. and The Bowery Savings Bank, and is a former Chairman of the National Association for the Advancement of Colored People. Mr. Weaver, 67, is a resident of New York City.

ZANE KLEIN, Representative. Mr. Klein has been a member of the law firm of Berlack, Israels & Liberman, New York, New York, since 1968. He is a member of the City Comptroller's Technical Debt Management Committee and a member of the Advisory Committee to the City Office of Telecommunications. He has also served on advisory panels with respect to equity and real estate investments of the employee pension systems of the City and is active in civic and community affairs. Mr. Klein, 38, is a resident of New York City.

EDWARD M. KRESKY, Representative. Mr. Kresky has been a Vice President of Wertheim & Co., Inc., investment bankers, since 1971. From 1965 through 1971 he served as Secretary to the Metropolitan Transportation Authority of the State. He is a member of the Board of the New York State Council on the Arts and the Council of the National Municipal League. In 1974 he was a member of the Governor's Task Force on the New York State Urban Development Corp. and, in 1972 and 1973, was a member of the Governor's Task Force on Financing Higher Education in New York State. Mr. Kresky, 50, is a resident of New York City.

LEONARD NADEL, Representative. Mr. Nadel is Senior Vice President of Abraham & Straus, a division of Federated Department Stores, Inc. He is Chairman of the Board of Trustees of Adelphi University, an Associate Trustee of Long Island Jewish Medical Center, a director of the Downtown Brooklyn Development Association and, in 1971 and 1972, was President of the Brooklyn Chamber of Commerce. Mr. Nadel, 53, is a resident of New York City.

NICHOLAS L. PITARO, Representative. Mr. Pitaro is a member of the law firm of Liggio & Pitaro, New York, New York. He has served as Counsel to the Public Service Committee of the New York State Assembly, as Assistant Counsel to the Majority Leader of the New York State Assembly, and as a member of the last New York State Constitutional Convention. He is President of the 106th Precinct Community Council, Queens County, and is active in other civic and community affairs. Mr. Pitaro, 55, is a resident of New York City.

ARTHUR J. QUINN, Representative. Mr. Quinn has been the President and a trustee of The New York Bank for Savings since 1969 and is a director of City Title Insurance Company, New York State Medical Care Facilities Finance Agency, and Community Funding Corporation. He is a trustee of St. John's University and Savings Bank Retirement System. Mr. Quinn, 60, is a resident of New York City.

ROBERT W. SEAVEY, Representative. Mr. Seavey is a member of the law firm of Seavey, Fingerit & Vogel, New York, New York. He has been the President of Neighborhood Developers Inc., a real estate development and construction firm, for the past five years. He was, from 1971 through 1974, Chairman of the Housing and Urban Development Committee of the Association of the Bar of The City of New York. Mr. Seavey, 47, is a resident of New York City.

M. PETER SCHWEITZER. Mr. Schweitzer is Chairman of the Board of Directors and Chief Executive Officer of West Chemical Products, Inc., Long Island City, New York. Prior to assuming that position in 1974, he was Vice Chairman of the Board of Directors and a member of the Executive Committee of Kimberly-Clark, Inc. Mr. Schweitzer, 64, is a resident of New York City.

HERBERT ELISH, Executive Director. Mr. Elish has been appointed by the Corporation as its Executive Director. In that position, he will direct the work of the Corporation's management, financial, accounting and legal staff. Mr. Elish is also the Executive Director of the Emergency Financial

Control Board. Prior to his appointment, Mr. Elish was a Vice President of the First National City Bank. From 1971 through 1973, he was employed by the City as, successively, Commissioner of Sanitation and Administrator of the Environmental Protection Administration. Mr. Elish, 42, is a resident of New York City.

The Act provides that the directors of the Corporation, except as otherwise provided by law, may engage in private employment or in a profession or business and that they shall be deemed to be state officers for the purposes of Sections 73 and 74 of the State Public Officers Law. Notwithstanding the provisions of such law or of any other law, the Corporation or any other instrumentality of the State may purchase from, sell to, borrow from, loan to, contract with or otherwise deal with any corporation, trust, association, partnership or other entity in which any director of the Corporation has a financial interest, direct or indirect, provided that such interest or affiliation is disclosed in the minutes of the Board of Directors of the Corporation and provided further that no director having such a financial interest or affiliation shall participate in any decision of the Board authorizing or affecting such transaction.

Directors and Representatives serve without salary. Each director is entitled to reimbursement for his actual and necessary expenses incurred in the performance of his official duties as a director and a per diem allowance of \$100 when rendering services as a director, subject to a maximum aggregate allowance of \$5,000 in any one fiscal year. Each Representative is entitled to reimbursement for his actual and necessary expenses incurred in the performance of his official duties as a Representative, but is not entitled to a per diem allowance.

LITIGATION

Establishment and Functions of Corporation

On July 3, 1975, an individual purporting to be a taxpayer of the City brought an action against the City, the State, the Corporation and other defendants, seeking, among other things, (i) a declaratory judgment determining that the establishment of the Corporation, its sale of debt obligations and transfer of the proceeds to the City are illegal and unconstitutional and (ii) an injunction prohibiting continuation of such acts. On July 4, 1975, the plaintiff served a notice of discontinuance of the action, without prejudice to his right to reinstitute his claim.

On July 18, 1975, the same individual reinstated an action, which, as to the Corporation, is substantially identical to his prior action. On July 29, 1975, the Corporation's motion for summary judgment, based on the grounds that the cause of action as to the Corporation has no merit, was granted. On September 10, 1975, the plaintiff appealed directly to the Court of Appeals.

Hawkins, Delafield & Wood, Bond Counsel for the Corporation, have rendered their opinion that, as to any relief sought by the plaintiff against the Corporation in the reinstated action, which in their opinion is without merit as to the Corporation, the Corporation will prevail in any final adjudication of the issues in such action, and that no final adjudication will in any way affect the validity of the bonds of the Corporation or the pledge or application of any revenues, monies or securities provided for the payment of the bonds of the Corporation, the existence or powers of the Corporation, or the application of the proceeds of such bonds as contemplated by this Official Statement. Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel for the Corporation, have rendered their opinion that the reinstated complaint is without merit as to the claim therein asserted against the Corporation and that the Corporation will prevail in any final adjudication.

Diversion of Revenues

On November 3, 1975, a national bank purporting to represent all holders of the City's bonds acquired before June 10, 1975 served a summons and complaint addressed to the Corporation, the City,

the State and certain officers of the City and State. The suit seeks, among other things, a declaratory judgment that the sections of the State Tax Law and the State Finance Law enacted as part of the Act are unconstitutional under Article 8, Section 2 of the State Constitution in depriving such holders of amounts to be received by the Corporation from the Sales Tax, which the plaintiff alleges would otherwise have constituted revenues of the City pledged for the payment of principal of and interest on such holders' City bonds. On November 19, 1975, plaintiff served an amended complaint, which added allegations that the sections of the State Tax Law and State Finance Law enacted as part of the Act are also unconstitutional under Article 1, Section 10 of the United States Constitution, the due process and equal protection clauses of the Fourteenth Amendment of the United States Constitution and the equal protection guarantee of Article 1, Section 11 of the State Constitution. Bond counsel has given its opinion to the Corporation that in a suit brought by a holder of any bonds or notes of the City, including the plaintiff in this lawsuit, asserting a right to the Stock Transfer Tax or the Sales Tax superior or equal to the rights of holders of bonds of the Corporation, including the Bonds, such holder will not prevail in the court of final jurisdiction.

The plaintiff bank in this suit also seeks a declaratory judgment that the City's publicly announced plan, upon any default, "to give priority of payment from the City's revenues to certain selected City employees, selected vendors, welfare recipients and certain other selected persons" before paying interest and principal on bonds of the City is unconstitutional under Article 8, Section 2 of the State Constitution in that the holders of City bonds are to be paid the principal of and interest on such bonds from the first revenues received by the City and is illegal and unconstitutional under the Federal Bankruptcy Act and the supremacy clause of the United States Constitution. The suit further asks for a declaratory judgment that the provisions of Title 6-A of the Local Finance Law are illegal and unconstitutional under the State Constitution, the Federal Bankruptcy Act and the United States Constitution (see "Moratorium and Stay Legislation—Stay Legislation"). Finally, the suit also seeks a declaratory judgment that the Financial Emergency Act "unconstitutionally diverts and expropriates to the [Emergency Financial Control Board] all of the City revenues mandated for application to payment of plaintiff's City bonds, and unconstitutionally abrogates the duty of the City Comptroller, as the City's fiscal officer," in violation of the State Constitution. Certain defendants, including the Corporation, have moved for summary judgment dismissing the complaint and declaring that such legislation is valid and constitutional. Such motion was argued on November 26, 1975 and decision was reserved by the court.

State Pension Funds Investment in Securities of the Corporation

Several lawsuits have sought to prevent the investment by certain State pension funds (the "Pension Funds") in the securities of the Corporation. These suits were brought by various not-for-profit corporations, and certain of their officers and members, and by various individuals, against Arthur Levitt, as sole trustee of certain of the Pension Funds, and against the board of trustees of certain other Pension Funds. The plaintiffs in these suits sought, among other things, (i) declaratory judgments that the provisions of the Financial Emergency Legislation which direct the investment of the funds of the Pension Funds in bonds of the Corporation, are ineffective, void, unreasonable and unconstitutional under both the New York and the United States Constitutions and (ii) injunctions to prevent the defendants from investing funds of the Pension Funds in securities of the Corporation, unless such investments were deemed, in good faith, by the defendants in their fiduciary capacities to be in the best interests of the Pension Funds.

On September 29, 1975, the Court of Appeals of the State declared unconstitutional under the State Constitution those portions of the Financial Emergency Legislation which mandated the investment by the Pension Funds of a portion of their assets in securities of the Corporation. The Court of Appeals' decision has now become final by virtue of the Court's denial of a motion for reargument by the State Attorney General, counsel for the defendant State Comptroller, and by the Corporation, as *amicus curiae*.

State Pension Funds Investment in State Securities

On October 17, 1975, the State Comptroller, as trustee of certain State pension funds, purchased \$250,000,000 in State notes. On the same day, the State advanced \$250,000,000 to the City to meet the State's obligation to make an advance to the City as required by the Financial Emergency Legislation. Certain plaintiffs in the suits described under "Litigation—State Pension Funds Investment in Securities of the Corporation" had challenged the purchase of State notes. Such plaintiffs' motion for a preliminary injunction barring that purchase was denied. On October 17, 1975, the Court of Appeals affirmed the lower court's decision.

City Pension Funds Investment in Securities of the Corporation

Relying upon the decision of the Court of Appeals referred to under "Litigation—State Pension Funds Investment in Securities of the Corporation," an association purporting to represent retired City civil service employees had sought to prevent the trustees of certain City pension funds from investing assets of those funds in securities of the Corporation pursuant to the mandate contained in the Financial Emergency Legislation. On October 17, 1975, a motion by those plaintiffs for a preliminary injunction barring the trustees of the City pension funds from making the proposed investments pursuant to the Legislation was denied by the State Supreme Court after the trustees had stated that they were purchasing the Corporation's securities on a voluntary basis and not pursuant to the mandate of the Financial Emergency Legislation. The plaintiffs have filed a notice of appeal to the Court of Appeals.

On November 14, 1975, a retired teacher filed suit against the Corporation and others in State Supreme Court seeking to restrain the trustees of the Teachers' Retirement Board from purchasing obligations of the State, the City or any instrumentality thereof, including the Corporation. A hearing on the motion to enjoin such purchases was held on November 24, 1975 and decision was reserved.

Lawsuit Affecting the UFT Contract

An action seeking to have the United Federation of Teachers ("UFT") contract with the City declared null and void was brought by a taxpayer and bondholder of the City on or about October 20, 1975. The Corporation has not been served in this suit, but has been named as a defendant on the claim that it "honor[s]" and "recognize[s]" the contract. Plaintiff has made purported service upon the UFT. The UFT has filed a motion to dismiss the complaint on the grounds that the court lacks personal jurisdiction over the defendants and that plaintiff lacks standing to sue.

State Loan of Credit

In September, 1975, an individual brought an action against the State, the Governor and the State Comptroller, alleging that (i) pursuant to legislation adopted for such purpose, the State, acting by defendants Governor and Comptroller of the State, had undertaken to borrow \$750,000,000 on the faith and credit of the State in aid of the City, (ii) \$250,000,000 of such amount had already been borrowed for such purpose, and (iii) the State had given or loaned its credit to or in aid of the City in violation of Article 7, Section 8 of the State Constitution by borrowing money in aid of the City. The plaintiff sought a declaratory judgment that the procedures established by the Financial Emergency Legislation "pursuant to which defendants have borrowed money on the credit of the State in aid of the City was not lawfully enacted and that any indebtedness incurred for such purpose is void and of no consequence or effect."

The Attorney General, as counsel for the defendants, filed a motion to dismiss the action and that motion was granted on October 15, 1975. On October 21, 1975, plaintiff appealed this ruling to the Court of Appeals.



Illegal Expenditures

On November 6, 1975, a State Senator began an action seeking to prevent the City Police Department from protecting property and personnel of the United Nations and of foreign embassies in the City, on the grounds that these organizations are not "within the territorial limits of the City", and therefore any expenditure of funds for such protection is unlawful. The action seeks to direct the Corporation to reject any budget of the City which authorizes such expenditures. The defendants have moved to dismiss this action. Plaintiff submitted supplemental papers in support of his motion for a preliminary injunction. The court has not yet rendered its decision.

Moratorium

On November 7, 1975, a national bank purporting to represent certain holders of notes maturing before June 30, 1976 filed suit in State Supreme Court seeking a declaratory judgment that the Moratorium Act is unconstitutional under the State Constitution and the United States Constitution and directing the City Comptroller to apply the first revenues received by the City to the payment of the City notes before using any moneys of the City for any other expenditure, except the payment of interest and principal when due on City bonds. The Corporation is not a defendant in such action.

See "Moratorium and Stay Legislation—Moratorium."

Lawsuits Alleging Fraud in the Sale of City Securities

Several separate class-action lawsuits have been commenced against the City, the Mayor, the City Comptroller and certain bank and non-bank dealers in City obligations, charging, in general, that, in connection with the sale of the City's bonds and notes, the defendants concealed material facts concerning the City's finances and in so doing defrauded plaintiff investors. The suits seek damages for the losses incurred as a result of the alleged concealment. The Corporation is not a defendant in any of these lawsuits and none of the complaints in such lawsuits contain any allegations, which, if proven, would impair the Corporation's ability to repay its bonds.

See "Rights of Noteholders."

VARIOUS CONTROL PROGRAMS

Conditions to Payments by the Corporation

At the time of any purchase from the City of obligations of the City, any exchange of the Corporation's bonds or notes for short-term obligations of the City or any other payment to the City of the Corporation's funds, the City is required to agree to observe and perform a number of statutory conditions, as they may be modified from time to time by the Corporation in accordance with the Act. No such modification, however, may be so substantial as effectively to constitute a waiver of the statutory conditions. The statutory conditions, as modified by the Corporation and agreed to by the City, are to remain in effect until all bonds and notes of the Corporation have been repaid or until the Corporation has accumulated in the capital reserve funds provided for in the Act or otherwise an amount equal to the principal of all its outstanding bonds and notes plus accrued interest thereon. However, the State Legislature may from time to time modify the provisions of the Act which establish the conditions with which the City must comply. Failure of the City to comply with any of the statutory conditions outlined below is not a default under the Bonds pursuant to the Second General Bond Resolution. An event of default may, however, occur under the Second General Bond Resolution if the Corporation fails to notify designated officials and to disclose publicly the failure of the City so to comply. See "Summary of Certain Provisions of the Second General Bond Resolution—Events of Default."

The City is entitled, at any time, to pay the Corporation an amount which, when added to the Capital Reserve Aid Fund, equals the principal of all the Corporation's outstanding bonds and accrued interest and redemption premiums, if any. If the City makes any such payment at a time when

the Corporation has outstanding bonds which are not then redeemable, the City must agree to pay the Corporation on demand an amount equal to the amount, if any, by which the amount of interest on such bonds exceeds the Corporation's income from the investment of its funds. In the event of any such payment by the City, it shall not thereafter be required to comply with the conditions described herein.

Subject to the foregoing, the statutory conditions that the City is required to observe and perform are as follows:

1. The City is to certify that (a) it is in compliance with such of the conditions, described below, as the Corporation may specify; (b) it is undertaking to comply with any of such specified conditions as the Corporation may then require; and (c) all local legislative and executive action then required to permit such compliance by the City has been taken.

2. The City has informed the Corporation that the City has initiated steps to adopt as its method of accounting the accounting principles set forth in the State Comptroller's Uniform System of Accounts for Municipalities, as that system may be modified by the State Comptroller in consultation with the City Comptroller. The City is to complete the transition to such accounting method as promptly as is reasonably practicable, so that the audited financial statements (required by condition 3 below) provided to the Corporation for the City's fiscal year ending June 30, 1978 and for each subsequent fiscal year can be prepared in accordance with such accounting method. Because the City's adoption of the foregoing accounting method may result in substantial adjustments from its present method, the Corporation and the City are to consult, over the course of the introduction and adoption of the new method, in order to formulate a mutually acceptable method of phasing such adjustments into the new method over such reasonable period, not exceeding ten years, as the Corporation determines to be appropriate. The financial statements and other information to be furnished to the Corporation by the City during such period are to be prepared in accordance with such determination.

3. The City is to take such action as may be necessary to enable the State Comptroller, or at his election an independent certified public accounting firm retained by the City but satisfactory to the State Comptroller, to perform an annual audit and to furnish to the Corporation an annual report, beginning with the City's fiscal year ending June 30, 1978, and for each subsequent fiscal year, as to the financial statements of the City. Each such report is to be prepared in accordance with the accounting method described in condition 2 above.

4. Beginning with the City's fiscal year ending June 30, 1977, the City is to deliver a proposed expense budget to the Corporation. Such delivery is to be made concurrently with the initial submission of a proposed expense budget to the Board of Estimate and the City Council but in no event later than 45 days prior to the beginning of such fiscal year. The proposed expense budget delivered to the Corporation is to be accompanied by (a) a statement setting forth the assumptions of income and expense used in its preparation, (b) a reconciliation of the differences, if any, between such proposed expense budget and the proposed expense budget submitted to the Board of Estimate and the City Council, and (c) a certificate of the Mayor stating that such assumptions are reasonable and that operation within the proposed budget is feasible (and explaining the reasons for any differences from the proposed expense budget submitted to the Board of Estimate and City Council). The City is in each of its fiscal years to adopt and maintain an expense budget in which the total of all income items equals or exceeds the total of all expenditure items. In addition, for the City's fiscal year ending June 30, 1978, and for each of its subsequent fiscal years, the total of all income items is to equal or exceed the total of all expenditure items in each expense budget adopted by the City, after any adjustments necessary to conform to the accounting method which will be required by the Corporation as described in condition 2 above. The City is also to maintain a balanced budget in accordance with such accounting method.

5. The City is, over a period of ten fiscal years beginning with its fiscal year ending June 30, 1977, to eliminate from its capital budget those expenses that are properly includable only in its

expense budget, as determined in accordance with the State Comptroller's Uniform System of Accounts for Municipalities, as that system may be modified by the State Comptroller in consultation with the City Comptroller. The determination of which items are properly includable only in the City's expense budget is to be made in accordance with the aforesaid accounting principles regardless of any prior or subsequent act of the State Legislature otherwise classifying such items.

6. If after an expense budget has been adopted by the City an increase in that budget is proposed, the Mayor is to submit such proposed increase to the Corporation concurrently with its submission to the Board of Estimate and the City Council. The City is to include in such submission to the Corporation a statement of the source of current income or other identifiable and currently available funds required for the payment of such increase.

7. Beginning as soon as the Corporation may specify but not later than December 1, 1975, the City Budget Director is to deliver to the Corporation, for each fiscal quarter of the City, an expenditure plan to implement the City's expense budget for such fiscal quarter. The City Budget Director is to deliver to the Corporation, within 30 days after the end of each such fiscal quarter, an operations report reflecting results of the City's operations for such fiscal quarter and stating whether the City has operated within the related expenditure plan.

8. The City is to comply in all material respects with the expenditure limitations in its budgets, except insofar as any noncompliance is the result of (i) such unanticipated circumstance occurring during such fiscal year that would permit the issuance of budget notes under the State Local Finance Law or (ii) a mandatory increase in expenditures by reason of State or Federal legislation enacted after the adoption of the City's budget for such fiscal year.

9. The City is not to permit the aggregate principal amount of its outstanding short-term obligations plus the aggregate principal amount of all the bonds and notes issued by the Corporation (less any bonds or notes of the Corporation which have been refunded or renewed and less any short-term obligations of the City then held by the Corporation) to exceed (i) \$6,100,000,000 (hereinafter the "Base Debt Limit") plus (ii) an additional amount, not exceeding 10% of the Base Debt Limit. Notwithstanding the foregoing, during the fiscal years of the City ending June 30, 1976 and 1977, such additional amount may not exceed 30% of the Base Debt Limit; during the fiscal year ending June 30, 1978, the additional amount may not exceed 25% of the Base Debt Limit; during the fiscal year ending June 30, 1979, the additional amount may not exceed 20% of the Base Debt Limit; and during the fiscal year ending June 30, 1980, the additional amount may not exceed 15% of the Base Debt Limit. In addition to the foregoing limitation, the City is not, at any date, to permit the aggregate principal amount of its outstanding short-term obligations (excluding bond anticipation notes) plus the aggregate principal amount of all bonds and notes issued by the Corporation (less any notes or bonds refunded or renewed and less any short-term obligations of the City then held by the Corporation and less any short-term obligations of the City issued and payable within the same fiscal year) to exceed \$4,500,000,000 plus, in the discretion of the Board of Directors, an additional amount not exceeding \$500,000,000, plus in the further discretion of the Board of Directors until June 30, 1976, a further additional amount of \$100,000,000. At the date of this Exchange Offer the Board had authorized and the City had utilized slightly more than \$500,000,000 of such additional amounts.

Notwithstanding any other provision of the Act, the Corporation is not authorized to modify or waive the limitations specified in condition 9 above as to the maximum aggregate amount of short-term obligations of the City permitted to be outstanding.

Not less than 20 days prior to the issuance of any short-term obligations by the City, other than issuance to the Corporation, the City Comptroller is to notify the Corporation of the proposed issuance, specifying the amount and proposed terms thereof and the authority under which such obligations are

proposed to be issued, together with the certificate of the City Budget Director specifying the proposed source of the funds for the redemption thereof. If, within ten days of such notice, the Corporation determines, after consultation with the City Comptroller and the City Budget Director, that the issuance of such obligations would violate the limitations specified above, the Corporation is to deliver to the City Comptroller a certified copy of such determination and the City Comptroller is not thereafter to issue such obligations.

Powers of the Corporation

The Act authorizes the Corporation to pay to the City part or all of such amounts as the Mayor from time to time certifies to the Corporation as the amounts required by the City to enable it to pay either the principal of and interest on, at maturity, any short-term obligations of the City or certain operating expenses of the City. In lieu of making direct payments to the City, the Corporation may purchase City obligations from the City having a maturity date not later than 15 years from the original date of issue. All amounts received by the City pursuant to any payment or purchase described in this paragraph must, in the case of amounts to be used for the payment of short-term City obligations, be held in trust for such purpose by the City and, in the case of amounts to be used for the payment of operating expenses by the City, be used to pay such operating expenses.

The Act provides that the outstanding amounts paid to the City for operating expenses in the manner described in the previous paragraph shall not exceed \$1,925,000,000 and shall be evidenced by obligations issued by the City. Not more than an aggregate of \$900,000,000 of such obligations shall mature in a fiscal year succeeding the fiscal year in which issued; the balance of \$1,025,000,000 shall be payable in the fiscal year in which issued. The City is obligated to apply to welfare or public education purposes as to which State assistance advances have been or will be advanced to the City, not less than \$750,000,000 of the amount received for operating expenses that are evidenced by obligations of the City maturing in a fiscal year succeeding the fiscal year in which issued. The Corporation's advances to the City for operating expenses to the date of this Exchange Offer aggregate approximately \$1,725,000,000.

In addition to granting the Corporation the power to make the payments and purchases described in the two immediately preceding paragraphs, the Act authorizes the Corporation to issue its bonds or notes in exchange for short-term obligations of the City as provided therein, provided that the principal amount of the Corporation's bonds or notes issued in any such exchange shall not exceed the principal amount of such short-term obligations of the City and accrued interest thereon at the stated rate to the date of such exchange. Upon receipt of the short-term obligations of the City in any such exchange, the Corporation is permitted by the Act to deliver such short-term obligations to the City, which will thereupon cancel such obligations without making any payment of principal amount or accrued interest thereon, and the City shall have no further liability with respect to the obligations so cancelled. The Act, however, prohibits the Corporation from delivering to the City for cancellation bond anticipation notes of the City received in any such exchange unless the City pays the principal amount and accrued interest thereon or pays accrued interest and exchanges such bond anticipation notes for other bond anticipation notes of the City in equal principal amounts and at not less than the same interest rate, in refunding or renewal thereof.

The Act further prohibits the Corporation from making the payments to or purchases from or exchanging any of its bonds or notes for short-term obligations of the City, as described above, unless the City shall have agreed to observe and perform the conditions described above under the caption "Conditions to Payments by the Corporation", subject to such modifications as are described therein and as the Corporation may then approve. In addition, no such exchange of obligations may be made unless the board of directors of the Corporation shall have determined that the terms of such exchange will not prejudice the rights of holders of other bonds and notes of the City.



Review by the Corporation

In order to determine whether the City has taken or is taking action to comply with the conditions specified above, the Corporation is authorized to conduct a review of the records, accounts, budgets, forecasts, projections and other relevant materials of the City. The City is to make available for such review all of its books and records and is to furnish copies of all financial statements, budgets, forecasts, projections, information or corrective action taken by the City in response to any notices from the Corporation. The City is to make its officers and employees available to and is otherwise to cooperate with the persons conducting any such review for the Corporation.

Action by the Corporation

The proposed expense budgets (including related revenue estimates) and the proposed modifications thereof, the reports on expense items in the capital budget, and the expenditure plans and operations reports, all of which are to be submitted to the Corporation as set forth under the caption "Conditions to Payments by the Corporation", are to be reviewed by the Corporation's staff or designee promptly upon receipt.

If within 45 days after the receipt of the above information, the Board of Directors of the Corporation determines (a) that, in its judgment, the City's expense budget will not be balanced, either by its terms or because income is overestimated or expenditures are underestimated therein, or that a report of proposed modifications indicates that as a result thereof the expense budget would not be balanced, or (b) that one or more of the other conditions described above under the caption "Conditions" has not been met or will not be met, then the Corporation shall promptly notify the Mayor of such determination and shall review with him the manner in which corrective action may be taken in order to balance the expense budget or comply with such other conditions.

In the event that the Board of Directors of the Corporation (a) determines, following such review with the Mayor, that the corrective action necessary to balance the budget or cause compliance with such other conditions will not be taken, (b) determines, as a result of a review made pursuant to the authority discussed above under the caption "Review by the Corporation", that the City is not in compliance with any of the conditions specified above under the caption "Conditions to Payments by the Corporation" or that any representation or undertaking contained in any certificate delivered pursuant to the requirements discussed above is materially incorrect or has not been complied with in all material respects or (c) agrees to any limitation of the implementation of the requirements discussed above under the caption "Conditions to Payments by the Corporation", then the Corporation is to certify promptly a copy of such determination or modification to the Governor, the State Legislature, the State Comptroller, the Mayor, the Board of Estimate, the City Council and the City Comptroller and is to disclose such determination or modification to the public.

The foregoing actions are not to be exclusive and the Corporation is to have and may exercise all other rights and remedies provided by law.

Control Board

The members of the Control Board created pursuant to the Financial Emergency Legislation (see "Three-Year Financial Plan") are the Governor and Comptroller of the State, the Mayor and Comptroller of the City, and William M. Ellinghaus (formerly Chairman of the Corporation), Albert V. Casey and David I. Margolis, the latter three being appointees of the Governor.

Pursuant to the Financial Emergency Legislation, the Control Board is required to develop in conjunction with the City, the City Financial Plan for the fiscal years ending June 30, 1976, 1977 and 1978 for the City.

The City Financial Plan is to constitute a program by which (1) the City will achieve a budget for its fiscal year ending June 30, 1978 balanced in accordance with the accounting principles set forth in the State Comptroller's Uniform System of Accounts for Municipalities, as the same may be modified

by the State Comptroller in consultation with the City Comptroller, and (2) the State-imposed limitations contained in the Act on outstanding short-term obligations of the City will be observed at all times.

As discussed above under the caption "Three-Year Financial Plan", on October 20, 1975 the Control Board approved the City Financial Plan, but the City Financial Plan is based upon the assumption that, over the life of such Plan, there will be available to the City approximately \$6,800,000,000 from sources not yet committed at the time of the adoption of the Plan.

The Control Board may, upon the request of the City, allow (a) an increase in the expense budget (other than for the required amounts) of the City or of a covered organization for any fiscal year (which increase may be cumulative) equal to two percent of the current expense budgets (other than the required amounts), or (b) such further increases as the Control Board may approve as required to meet the impact of substantial inflation after the effective date of the Emergency Act, but in either case only if the Control Board determines that increased revenues are available in an amount equal to the requested increase in expenditures.

As announced by the Control Board, the City Financial Plan contemplates that the City will furnish on a regular and timely basis sufficient underlying detail to enable the Control Board to monitor and implement the City Financial Plan. Although the details of the monitoring program by the Board have not yet been completely worked out, the Control Board announced that its monitoring plan will include:

- (1) monthly reports on operating programs and quarterly reports on capital programs by agency;
- (2) monthly reports on revenues by category; and
- (3) a system of early warning safeguards, which will direct early attention to areas of potential non-compliance.

Pursuant to the Emergency Act, commencing on October 20, 1975, the effective date of the City Financial Plan, and continuing for the duration of the emergency period, all revenues received by the City or any covered organization became revenues of the Emergency Financial Control Board Fund (the "Fund") and are for the account of the City and the appropriate covered organizations, and all funds, and accounts as thereafter established by the City or the covered organizations became funds and accounts of the Fund,* except to the extent expressly prohibited by federal law or where such revenues or funds and accounts are pledged to the payment of, or prohibited by covenants or agreements relating to, any outstanding bonds, notes or other obligations of covered organizations. Disbursements from the Fund are made by the Control Board in accordance with the approved City Financial Plan. In addition, the Emergency Act provides that the Control Board shall establish and adopt procedures with respect to the deposit of revenues in the Fund, the investment of moneys therein and the disbursement of moneys from the Fund.

The Control Board, at its meeting on October 20, 1975, adopted certain resolutions implementing the above requirements. The Control Board resolved that it was its intention to promulgate regulatory procedures in detail in the near future and that, until such procedures were promulgated, it elected to continue in effect the existing agreements between the City and the banks in which the accounts of the City are maintained (the "Banks"), subject, however, to certain modifications, effective October 20, 1975, including (i) continuing the validity of the present signatories for the accounts of the City until the Control Board notifies the Banks to terminate such validity, (ii) designating the signature of any member of the Control Board plus the signature of the State's Special Deputy Comptroller for the City of New York (the "Special Deputy Comptroller") as alternative signatories for such accounts, and (iii) empowering the Special Deputy Comptroller to prohibit, restrict, direct or otherwise control the deposit of moneys into, or the disbursement of moneys from, any such accounts.

* The Control Board has the power to exempt revenues, funds or accounts from these requirements but has not done so to date.

In addition to its responsibilities with respect to the City Financial Plan, the Control Board is also charged with responsibility for the review and approval of proposed City contracts or obligations and, in coordination with the Corporation, the approval of long-term and short-term borrowing by the City or any covered organization. In carrying out these responsibilities the Control Board is empowered to receive from the City and the covered organizations such financial and management information as it deems necessary or desirable and to carry out independent audits of the records of the City and the covered organizations.

The Financial Emergency Legislation also provides for the appointment of a Special Deputy Comptroller for the City. Sidney Schwartz, formerly with the State Comptroller's office, has been named to that position. The Special Deputy Comptroller is to assist the Control Board in carrying out its functions.

See "Various Control Programs—Powers of the Corporation" as to the Corporation's continuing obligations under the Act.

Other Developments

In September, 1975, the Mayor appointed Kenneth Axelson as Deputy Mayor of the City of New York for Finance. Mr. Axelson has taken a leave from his position as an Executive Vice President of J. C. Penney Co. while he serves as Deputy Mayor. On November 16, 1975, James A. Cavanagh, First Deputy Mayor of the City, announced his resignation effective December 31, 1975. The mayor has named John E. Zuccotti, Chairman of the City Planning Commission, to replace Mr. Cavanagh.

SUMMARY OF CERTAIN PROVISIONS OF THE SECOND GENERAL BOND RESOLUTION

Following is a summary of certain provisions of the Second General Bond Resolution. The Summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Second General Bond Resolution, to which reference is hereby made and copies of which are available from the Corporation.

Certain Defined Terms

"Bond Service Fund" shall mean the Fund by that name established by Section 602 of the Resolution.

"Capital Reserve Fund" shall mean the Fund by that name established by Section 602 of the Resolution.

"Capital Reserve Fund Requirement" shall mean, as of any date of calculation, the amount referred to as the capital reserve fund requirement in subdivision 4 of Section 3036-a of the Act, including, as provided in Section 901 of the Second General Bond Resolution for such purposes, any unpaid and matured amounts of principal and interest on the Bonds or such larger amounts as may hereafter be authorized pursuant to the Act as amended from time to time.

"First General Bond Resolution" shall mean the General Bond Resolution adopted by the Corporation on July 2, 1975 as heretofore and hereafter supplemented in accordance with the terms thereof.

"Fiscal Year" shall mean any twelve (12) consecutive calendar months commencing with the first day of July and ending on the last day of the following June.

"Operating Expenses" shall mean the Corporation's expenses of carrying out and administering its powers, duties and functions, as authorized by the Act, as then in effect, and shall include, without

limiting the generality of the foregoing: administrative expenses, legal, accounting and consultants' services and expenses, payments to pension, retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Corporation under the provisions of the Act, as then in effect, or this Resolution or the First General Bond Resolution or otherwise.

"Operating Fund" shall mean the Fund by that name established by Section 602 of the First General Bond Resolution.

"Outstanding", when used with reference to Bonds, other than Bonds referred to in Section 1105 of the Resolution, shall mean, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except: (i) any Bonds cancelled by the Trustee at or prior to such date, (ii) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in Article IV of the Resolution provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Section 406 or Section 1106 of the Resolution, and (iv) Bonds deemed to have been paid as provided in subsection 2 of Section 1401 of the Resolution.

"Outstanding Note Resolutions" shall mean the Note Resolutions adopted by the Corporation on September 15, 1975 and November 17, 1975.

"Outstanding Notes" means the Notes issued by the Corporation pursuant to the Outstanding Note Resolutions.

"Paying Agent" for the Bonds of any Series shall mean the bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution and a Series Resolution or any other resolution of the Corporation adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

"Per Capita Aid" shall mean the amounts of per capita aid payable to the City pursuant to Section 54 of the State Finance Law.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution and the Series Resolution pursuant to which the same was issued.

"Resolution" shall mean the Second General Bond Resolution as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof.

"Revenues" shall mean all payments to the Corporation pursuant to Sections 3036 and 3036-a of the Act except any payments to the Corporation for credit to the Operating Fund.

"Serial Bonds" shall mean the bonds so designated in a Series Resolution.

"Series of Bonds" or "Bonds of a Series" or words of similar meaning shall mean the Series of Bonds authorized by a Series Resolution.

"Series Resolution" shall mean a resolution of the Corporation authorizing the issuance of a Series of Bonds in accordance with the terms and provisions thereof adopted by the Corporation in accordance with Article X of the Resolution.

"Sinking Fund Installment" shall mean as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, the amount of money required by a Series Resolution, pursuant to which such Bonds were issued, to be paid at all events by the Corporation on a single future July 1 for the retirement of any Outstanding Bonds of said Series which mature

after said future July 1, but does not include any amount payable by the Corporation by reason only of the maturity of a Bond, and said future July 1 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be the Bonds entitled to such Sinking Fund Installment.

"Special Aid Account" shall mean the special account created for the Corporation in the State Aid Fund.

"State" shall mean the State of New York.

"State Aid Fund" shall mean the Municipal Assistance State Aid Fund established pursuant to Section 92-e of the State Finance Law.

"Stock Transfer Tax" shall mean the tax on the sale or transfer of stock or other certificates imposed by Article 12 of the Tax Law of the State.

"Supplemental Resolution" shall mean a resolution supplemental to or amendatory of the Resolution, adopted by the Corporation in accordance with Article X of the Resolution.

"Term Bonds" shall mean the bonds so designated in a Series Resolution and payable from Sinking Fund Installments.

"Trustee" shall mean United States Trust Company of New York and its successor or successors and any other bank or trust company at any time substituted in its place pursuant to the Resolution.

Authorization of Bonds

The Resolution creates an issue of Bonds which are general obligations of the Corporation and are secured by the pledge of the revenues of the Corporation and the moneys and securities in the Bond Service Fund and Capital Reserve Fund as described in the caption "Provisions for Payment of the Bonds." The Bonds shall not be a debt of the State or the City.

(Resolution, Section 201)

Additional Bonds and Notes

No Series of Bonds, other than any Series of Bonds authorized by one or more Series Resolutions adopted prior to November 30, 1975, issued under the Resolution shall be authenticated and delivered by the Trustee nor shall Bonds be issued by the Corporation except upon receipt by the trustee of:

(1) A certificate by the New York State Commissioner of Taxation and Finance setting forth the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such certificate, of the Sales Tax and Stock Transfer Tax, and such other taxes, which as of the date of issuance of any such Series of Bonds, are levied and collected by the State and are payable into the Special Account in the Municipal Assistance Tax Fund established for the Corporation.

Where the amount for such 12 consecutive calendar months is greater than the revenue expected by said Commissioner for the next succeeding 12 months from such Sales Tax, Stock Transfer Tax and such other taxes, the certificate shall set forth the estimated amount which is expected to be levied and collected in such next succeeding 12 months and paid into such Special Account. Any distortion for any such prior 12 consecutive month period occasioned by a change in payment dates, prepayments and late payments of such Sales Tax, Stock Transfer Tax or certain other taxes shall be taken into account in such certification by increasing or decreasing the estimated amount of Sales Tax, Stock Transfer Tax or such other taxes to be levied and collected. In the event the Sales Tax or such other taxes have not been in effect for 12 calendar months said Commissioner shall use, respectively, collections of the sales and compensating use taxes previously imposed by the City or collections of the tax similarly based to the other taxes referred to above if such tax was previously imposed by the City, as the amount to be certified in lieu of actual collections of the Sales Tax or other taxes, for those months the Sales Tax or other taxes were not in effect;

(2) A certificate of the State Comptroller setting forth the amount of Per Capita Aid to be apportioned and paid into the Special Aid Account for the fiscal year of the State during which such series of Bonds are issued.

(3) A certificate by an authorized officer of the Corporation setting forth (a) the maximum amount of principal and interest maturing or otherwise coming due in the current or any succeeding fiscal year or any outstanding obligation issued, pursuant to the First General Bond Resolution and the outstanding Note Resolutions, (b) the aggregate amount of the principal on Serial Bonds, the Sinking Fund Installments, maturities of Term Bonds not required to be paid from Sinking Fund Installments and interest on all Outstanding Bonds, including such Series, for each Fiscal Year and (c) the aggregate amount of Operating Expenses as estimated by an authorized officer for the current Fiscal Year; and

(4) A certificate by an authorized officer of the Corporation stating that the aggregate of the amounts set forth pursuant to paragraphs (1) and (2) above after deducting the amount set forth pursuant to paragraph 3(a) above and the Operating Expenses set forth pursuant to paragraph (3) (c) above, will be at least 1.2 times such aggregate amount set forth in 3(b) above for each Fiscal Year set forth pursuant to paragraph 3(b) above.

(Resolution, Section 202)

The Pledge Effected by the Resolution

The proceeds of sale of the Bonds, the Revenues, and all Funds established by the Resolution, and other moneys and securities referred to therein are pledged for the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. The pledge created by the Resolution insofar as it relates to revenues, moneys and securities and funds pledged either under the First General Bond Resolution or the Outstanding Note Resolutions is and is expressly declared to be, subordinate in all respects to the pledge of such revenues, moneys and securities and funds created by the First General Bond Resolution or the Outstanding Note Resolutions.

(Resolution, Section 601)

Establishment of Funds

The Resolution establishes the following Funds:

- (1) Bond Service Fund, which is held by the Trustee; and
- (2) Capital Reserve Fund, which is held by the Trustee.

(Resolution, Section 602)

Application of Payments

Any payment received by the Corporation in accordance with subdivision 1 of Section 3036-a of the Act shall be applied to the Operating Fund, the Bond Service Fund, and the Capital Reserve Fund in accordance with the certification of the Chairman of the Corporation pursuant to which such payment is made. If the amount of any payment received is less than the amount so certified, such amount shall be applied *pro rata* to the respective Funds on the basis of the amounts as certified.

(Resolution, Section 603)

Operating Fund

The Corporation shall pay out of the Operating Fund the amounts required for the payment of Operating Expenses.

(Resolution, Section 604)

Bond Service Fund

1. The Trustee shall on or before the business day preceding each interest payment date for any Bonds pay, out of the amounts then held in the Bond Service Fund, to itself and the Paying Agents, the amounts respectively required for the payment of principal, Sinking Fund Installments, if any, and Redemption Price of, if any, and interest on any Bonds due and payable on such date, and such amounts so paid out shall be irrevocably pledged to and applied to such payments.

2. In the event that on the business day preceding any interest payment date, the amount in the Bond Service Fund shall be less than the amounts respectively required for payment of interest on the Outstanding Bonds and for the payment of the principal and Sinking Fund Installments of the Outstanding Bonds of any Series due and payable on such interest payment date, the Trustee shall withdraw from the Capital Reserve Fund and deposit into the Bond Service Fund such amounts as will increase the amount in the Bond Service Fund to an amount sufficient to make such payment or payments.

3. As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, pursuant to Section 403 of the Resolution, on such due date, Term Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the Term Bonds of such Series and maturity. The Trustee shall so call such Term Bonds for redemption whether or not it then has moneys in the Bond Service Fund sufficient to pay the applicable principal amount thereof, together with interest thereon to the redemption date. The Trustee shall pay out of the Bond Service Fund to the appropriate Paying Agents, on the day preceding each such redemption date, the amount required for the redemption of the Term Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

4. The Corporation may, at any time subsequent to the second day of July of any year but in no event less than 45 days prior to the succeeding first day of July on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys in the Bond Service Fund, at a price not in excess of par, plus unpaid interest accrued to the date of such purchase, Term Bonds payable from such Sinking Fund Installment and any Term Bonds so purchased prior to the first day of July shall be cancelled by the Trustee and evidence of such cancellation shall be given to the Corporation and the aggregate principal amount of the Term Bonds so purchased shall be credited against the Sinking Fund Installment due on such first day of July.

(Resolution, Section 605)

Capital Reserve Fund

1. The Corporation shall deposit into the Capital Reserve Fund: (i) all moneys paid to the Corporation pursuant to subdivisions 1, 2 and 3 of Section 3036-a of the Act for the purpose of maintaining or restoring the amount in such Fund to the Capital Reserve Fund Requirement; (ii) such portion of the proceeds of sale of Bonds, if any, as shall be prescribed by a Series Resolution authorizing the issuance thereof; and (iii) any other monies which may be made available to the Corporation for the purposes of the Capital Reserve Fund from any other source or sources.

2. Moneys and securities held for the credit of the Capital Reserve Fund shall be withdrawn by the Trustee and deposited to the credit of the Bond Service Fund at the times and in the amounts required to comply with the provisions of paragraph 2 of Section 605 of the Resolution. At any time after December 31, 1980, moneys and securities in the Capital Reserve Fund in excess of its Requirement, upon direction of the Corporation, may be deposited to the credit of the Bond Service Fund.

3. In order further to assure the maintenance of the Capital Reserve Fund in an amount equal to the Capital Reserve Fund Requirement and in compliance with the requirements of subdivision 3 of Section 3036-a of the Act, the Chairman of the Corporation shall annually, on or before December 1,

make and deliver to the Governor and Director of the Budget of the State said Chairman's certificate stating the sum, if any, required to restore the Capital Reserve Fund to an amount equal to the Capital Reserve Fund Requirement. All moneys received by the Corporation from the State pursuant to any such certification, in accordance with the provisions of subdivision 3 of Section 3036-a of the Act, as amended, shall be deposited in the Capital Reserve Fund, as required by paragraph 1 of Section 606 of the Resolution.

4. Moneys and securities held for the credit of the Capital Reserve Fund may, and at the direction of the Corporation shall, be withdrawn from the Capital Reserve Fund by the Trustee and deposited in the Bond Service Fund for the purchase or redemption of Bonds at any time provided that subsequent to such purchase or redemption the amount in the Capital Reserve Fund will not be less than the Capital Reserve Fund Requirement.

(Resolution, Section 606)

Maintenance of Certain Funds

In order to assure the maintenance of the Operating Fund, the Bond Service Fund and the Capital Reserve Fund, not less than 120 days before the beginning of each Fiscal Year (but prior to February 12 in each calendar year) (but not later than March 1, 1976 for the Fiscal Year ending June 30, 1976), the Chairman of the Corporation shall certify to the State Comptroller and to the Mayor and a copy to the Trustee a schedule setting for the cash requirements of the Corporation for such Fiscal Year and the time or times when such cash is required, which certification shall be revised from time to time as required. The total amount so certified by such Chairman for such Fiscal Year shall be equal to: (i) the amounts which are required to be deposited in the Capital Reserve Fund during such Fiscal Year in order to maintain the Capital Reserve Fund at the Capital Reserve Fund Requirement; (ii) the amounts required to be deposited in the Bond Service Fund to pay all interest on, and all payments of principal, Sinking Fund Installments, if any, and Redemption Price, if any, of Bonds maturing or otherwise coming due during such Fiscal Year; and (iii) the amounts required to be deposited in the Operating Fund as determined by the Corporation, to meet the Operating Expenses of the Corporation during such Fiscal Year. In order further to secure the obligations of the Corporation, including the Bonds, each payment (to be made on or before April 12, June 25, October 12 and January 12) by the State Comptroller to the Corporation in accordance with such certification shall be an amount, after taking into account moneys then in the Bond Service Fund and available for purposes of the Bond Service Fund during such Fiscal Year, not less than the sum of (A) 50% of the interest on all outstanding Bonds, the interest on which is payable from the Bond Service Fund of the Corporation payable within six months after the end of the period for which such payment is made plus (B) 25% of the principal and premium, if any, on all Bonds and Sinking Fund Installments of the Corporation payable within one year after the end of the period for which such payment is made and of such amount, if any, as may be required to be paid into the Capital Reserve Fund during the Fiscal Year of the Corporation of which such period is a part. If any increase shall occur in the cash requirements specified above, or if payments are required at a time or times earlier than previously certified or if the City shall for any reason fail to make timely payment of the principal and accrued interest due on any obligation issued by the City to the Corporation and maturing within the same Fiscal Year, such Chairman shall certify a revised schedule of cash requirements for such Fiscal Year to the State Comptroller and to the Mayor. The schedule accompanying each certification (or revision thereof) shall provide for such payment dates as the Corporation deems appropriate to assure that sufficient funds will be available to meet the obligations of the Corporation as they become due. The Chairman shall exclude from consideration in making any such certification with respect to the funds required by the Corporation for payment of principal of or interest on the Bonds, any amounts due to be received as payment of principal of or interest on obligations of the City held by the Corporation. (See "Provisions for Payment of the Bonds—Municipal Assistance Tax Fund".)

(Resolution, Section 607)

Further Assurances

The Corporation has covenanted that it shall cause the Chairman to make and deliver the certificates referred to in Sections 606 and 607 of the Resolution.

(Resolution, Section 904)

Payment of Bonds

The Corporation shall duly and punctually pay or cause to be paid the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds and in the coupons thereto appertaining, according to the true intent and meaning thereof, and shall duly and punctually pay or cause to be paid all Sinking Fund Installments, if any, becoming payable with respect to any Series of Bonds.

(Resolution, Section 901)

Office for Servicing Bonds

The Corporation shall at all times maintain an office or agency in the Borough of Manhattan, City and State of New York, where Bonds and coupons may be presented for payment, registration, transfer or exchange. The Corporation has appointed the Trustee as its agent to maintain such office or agency for the registration, transfer or exchange of Bonds.

(Resolution, Section 903)

Power to Issue Bonds and Make Pledges

The Corporation is duly authorized pursuant to law to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues, and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. The Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution and all corporate action on the part of the Corporation to that end has been duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms and the terms of the Resolution. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

(Resolution, Section 905)

Agreement of the State

In accordance with the provisions of Section 3015 of the Act, the Corporation has included in the Resolution a pledge and agreement with the Holders of the Bonds that the State will not limit or alter the rights vested pursuant to the Act in the Corporation to fulfill the terms of any agreements made with Bondholders, or in any way impair the rights and remedies of such Holders until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged. See "Agreement of the State of New York."

(Resolution, Section 906)

Creation of Liens

The Corporation shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the revenues, moneys and securities in the Capital Reserve Fund and shall not create or cause to be created any lien or charge prior to the Bonds on the revenues, monies and securities in the Bond Service Fund except to the extent provided in Section 601 provided, however,

that nothing contained in the Resolution shall prevent the Corporation from issuing (i) bonds, notes, or any other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created by the Resolution, (ii) obligations issued in accordance with Article II of the First General Bond Resolution and (iii) obligations issued in lieu of or in substitution for other obligations pursuant to Sections 304 and 307 and Sections 307 through 310 or Sections 406 or Section 1106 of the First General Bond Resolution.

(Resolution, Section 907)

General

Subject to the rights of holders of obligations issued pursuant to the First General Bond Resolution, the Corporation shall not modify or amend the First General Bond Resolution in any manner which would have a material adverse effect on the Bondholders, provided, however, that nothing herein shall prevent the Corporation from amending or supplementing the First General Bond Resolution to provide for the issuance of Bonds, Notes or Other Obligations (as such terms are defined in the First General Bond Resolution) as provided in the First General Bond Resolution. No such Bonds, Notes or Other Obligations shall be issued in accordance with Article II of the First General Bond Resolution if such issuance would cause the amounts stated in paragraphs (1) and (2) of subsection 3 of Section 203 after making the deductions provided to be less than 1.2 times such aggregate amount set forth in paragraph 3(b) of subsection 3 of Section 203 for each Fiscal Year set forth pursuant to said paragraph 3(b) if such certifications required to be made pursuant to such subsection 3 had been made at the time of the issuance of such Bonds, Notes or Other Obligations.

The Corporation hereby covenants and agrees with all who may be holders of the Bonds that it shall not issue and the Corporation represents hereby that there are presently not outstanding any Bonds, Notes, or Other Obligations (as such terms are defined in the First General Bond Resolution), or any bonds, notes or other obligations pursuant to any resolution, including the Outstanding Note Resolutions, of the Corporation, the holders of which would have a right to payment from the State Aid Fund prior or equal to the right of the holders of the Bonds to payment from such Fund.

(Resolution, Section 909)

Additional Obligations

The Corporation reserves the right to issue bonds, notes or any other obligations, under another and separate resolution so long as the same are not entitled to a charge or lien or right prior or equal to the charge or lien created by, or prior or equal to the rights of the Corporation and Holders of the Bonds provided by, the Resolution and the Act, or with respect to the moneys pledged under the Resolution or with respect to proceeds from the Per Capita Aid, the Sales Tax or the Stock Transfer Tax or the sources set forth in the Act. The foregoing shall not limit any right which the corporation has on the date of this resolution under the First General Bond Resolution.

(Resolution, Section 204)

Events of Default

The Resolution provides that it shall constitute an "event of default" if:

(a) the Corporation shall default in the payment of the principal or Sinking Fund Installments, if any, or Redemption Price of any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(b) the Corporation shall default in the payment of interest on any of the Bonds and such default shall continue for a period of thirty (30) days; or

(c) the Corporation shall fail or refuse to comply with the provisions of subdivision 1 of Section 3036-a of the Act, or the State Comptroller shall fail to pay to the Corporation, as and when required by such Section, for deposit in the Capital Reserve Fund, the Bond Service Fund



or the Operating Fund any amount or amounts as shall be certified by the Chairman of the Corporation pursuant to such provisions of the Act or the Corporation shall fail or refuse to deposit in the Capital Reserve Fund or the Bond Service Fund the amount or amounts received by the Corporation for deposit in such Funds; or

(d) the Corporation shall fail or refuse to comply with the provisions of subdivisions 2 and 3 of Section 3036 of the Act, or the State shall fail to appropriate and pay to the Corporation, as and when required by such Section, for deposit in the Capital Reserve Fund any amount or amounts as shall be certified by the Chairman pursuant to such provisions of the Act or the Corporation shall fail or refuse to deposit in the Capital Reserve Fund the amount or amounts received by the Corporation for deposit in such Fund; or

(e) the Corporation shall fail or refuse to comply with the provisions of the Act, other than as provided in (c) or (d) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Resolution, any Series Resolution, any Supplemental Resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Holders of not less than five per centum (5%) in principal amount of the Outstanding Bonds; or

(f) the State shall for any reason fail or refuse to continue the imposition of either the Sales Tax imposed by Section 1107 of Article 28 of the Tax Law as the same may be from time to time amended or the Stock Transfer Tax imposed by Sections 270 and 270-a of Article 12 of such Law as the same may be from time to time amended or if the rates of such taxes shall be reduced to rates less than those in effect on July 2, 1975; or

(g) the State shall fail to maintain the existence of either the Special Account or the Stock Transfer Fund; or

(h) the State shall for any reason fail or refuse to apportion and pay Per Capita Aid or shall fail to maintain the State Aid Fund and the Special Aid Account therein or shall reduce the amount of Per Capita Aid payable during the current Fiscal Year to an amount less than the maximum amount of principal of and interest on the Outstanding Bonds maturing or otherwise coming due in the current or any future Fiscal Year.

(Resolution, Section 1202)

Remedies

The Resolution vests the Trustee with all rights, powers and duties of a trustee appointed by Bondholders pursuant to Section 3017 of the Act and the right of Bondholders to appoint a trustee pursuant to such Section of the Act is thereby abrogated in accordance with the provision of subdivision 2(g) of Section 3012 of the Act.

(Resolution, Section 1201)

Upon the happening and continuance of any event of default specified in paragraph (a) or (b) of Section 1202 of the Resolution, the Trustee shall proceed, or upon the happening and continuance of any event of default specified in paragraph (c), (d), (e), (f), (g) or (h) of said Section, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such one or more of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders and to require the Corporation to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(b) by bringing suit upon the Bonds;

(c) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Holders of the Bonds;

(d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds; or

(e) in accordance with the provisions of the Act (including the requirement for 30 days notice to the Governor, the Corporation and the Attorney General of the State) to declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and its consequences.

In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Corporation for principal, Redemption Price, interest or otherwise, under any provision of the Resolution or a Series Resolution or of the Bonds, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Corporation for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable.

(Resolution, Section 1203)

Priority of Payments After Default

In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal, Sinking Fund Installments or Redemption Price then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Resolution, shall be applied as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: to the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according

to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and coupons.

(Resolution, Section 1204)

Series Resolutions and Supplemental Resolutions

A Series Resolution or Supplemental Resolution of the Corporation may be adopted at any time or from time to time, for any one or more of the following purposes: to provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed; to add additional covenants and agreements of the Corporation for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolution; to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Corporation which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect; to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolution; to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution of the Revenues, or of any other monies, securities or funds; to modify any of the provisions of the Resolution or any previously adopted Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Series Resolution or Supplemental Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; or, with the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect.

(Resolution, Section 1001)

Any of the provisions of the Resolution hereinbefore stated may be amended by a Supplemental Resolution, with the written consent (a) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (c) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two-thirds in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 1101 of the Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

(Resolution, Section 1101)

Any term or provision of the Resolution and the rights and obligations of the Corporation and of the Holders of the Bonds and coupons thereunder may be modified or amended with the consent of the Holders of all of the Bonds then Outstanding.

(Resolution, Section 1103)

Investment of Funds

1. Monies in the Bond Service Fund and the Capital Reserve Fund shall, as nearly as may be practicable, be invested by the Trustee upon direction of the Corporation in (a) direct obligations of the United States of America, direct obligations of the State or obligations the principal and interest of which are guaranteed by the United States of America or the State, (b) any bond, debenture, note, participation or other similar obligation issued by any of the following Federal agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, Farmers' Home Administration and Export-Import Bank, (c) if permitted by law, any bond, debenture, note, participation or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association, and (d) any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State of New York or held in the State treasury.

2. In lieu of the investments of moneys in obligations authorized in paragraph (1) above, the Trustee shall, to the extent permitted by the Act then in effect, upon direction of the Corporation in writing, signed by an authorized officer, deposit moneys from any fund or account held by the Trustee under the terms of the Resolution, in interest-bearing time deposits, or shall make other similar investment arrangements, including, but not limited to, repurchase agreements covering obligation of issuers enumerated as authorized for investments pursuant to the provisions of paragraph (1) above, with itself or a member bank or banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation or securities dealers approved by an authorized officer; provided, that each such interest-bearing time deposit or other similar investment arrangement shall permit the moneys so placed to be available for use at the times provided with respect to the investment or reinvestment of such monies; and provided further, that all monies in each such interest-bearing time deposit or other similar investment arrangement shall be continuously and fully secured by obligations of the issuers enumerated as authorized for investments pursuant to the provision of paragraph (1) above, of a market value equal at all times to the amount of the deposit or of the other similar investment arrangement.

3. Obligations purchased as an investment of monies in any fund or account held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

4. The Resolutions provide that the Trustee shall not be liable or responsible for the making of any investment authorized pursuant thereto, in the manner provided therein, or for any loss resulting from any such investment so made.

(Resolution, Sections 702 and 703)

Defeasance

1. If the Corporation shall pay or cause to be paid to the Holders of all Bonds and coupons then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the covenants, agreements and other obligations of the Corporation to the Bondholders shall be discharged and satisfied.

2. Bonds or coupons or interest installments for the payment or redemption of which monies shall have been set aside and shall be held in trust by the Trustee or any Paying Agent (through deposit by the Corporation of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 above. All Outstanding Bonds of any Series and all coupons appertaining to such Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in such paragraph 1 above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish as provided in Article IV of the Resolution notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either monies in an amount which shall be sufficient, or direct obligations of the United States of America the principal of and the interest on which, when due, will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient to pay, when due, the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds and coupons that the deposit required by (b) above has been made with the Trustee and that said Bonds and coupons are deemed to have been paid in accordance with Section 1401 of the Resolution and stating such maturity or redemption date upon which monies are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither direct obligations of the United States of America or monies deposited with the Trustee pursuant to Section 1401 of the Resolution nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment as received by the Trustee, shall be paid over to the Corporation free and clear of any trust, lien or pledge.

(Resolution, Section 1401)

AGREEMENT OF THE STATE OF NEW YORK

The State has pledged to and agreed with the holders of the Bonds that the State will not limit or alter the rights vested by the Act in the Corporation to fulfill the terms of any agreements made with holders of Bonds, or in any way impair the rights and remedies of such holders, until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of such holders, are fully met and discharged and in accordance with the authority granted to the Corporation pursuant to Section 3015 of the Act, the Corporation has included such pledge in the Second General Bond Resolution.

Such pledge and agreement does not, among other things, bind or obligate the State to appropriate funds for the payment of principal of or premium, if any, or interest on the Bonds. See "Provisions for Payment of the Bonds—Restoration of Capital Reserve Aid Fund."

LEGAL INVESTMENT

The Bonds are legal investments, under present provisions of New York law, for all public officers and bodies of the State and political subdivisions of the State and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State. Pursuant to the Act the Bonds may be deposited with, and may be received by, all public officers and bodies of the State and all political subdivisions thereof and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

APPROVAL OF LEGALITY

Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Corporation expects to render an approving opinion in the form attached to this Official Statement as Exhibit A. Certain legal matters will be passed on for the Corporation by its General Counsel, Paul, Weiss, Rifkind, Wharton & Garrison, New York, New York. Carter, Ledyard & Milburn, New York, New York, have acted as counsel for the Trustee.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing statutes and court decisions, interest on the Bonds is exempt from Federal income taxes, and at all times shall be free from State and City personal income taxes.

Lazard Frères & Co., New York, New York, is acting without compensation as financial advisor to the Corporation. Felix G. Rohatyn, Chairman of the Corporation, is a general partner of such firm.

The references herein to the Act, the Tax Law, the State Finance Law, the Financial Emergency Legislation and the Resolutions are summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Act, such Laws and the Resolutions for full and complete statements of such provisions. Copies of such Act, such Laws and such Resolutions are available at the office of the Corporation.

The delivery of this Official Statement has been duly authorized by the Corporation.

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Exhibit A

[LETTERHEAD OF HAWKINS, DELAFIELD & WOOD]

December ..., 1975

MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK
New York, New York

DEAR SIRs:

We have examined a record of proceedings relating to the issuance of \$. aggregate principal amount of 1975 Series .. Bonds (the "1975 Series .. Bonds") of the Municipal Assistance Corporation For The City of New York (the "Corporation"), a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation, created and existing under and pursuant to the Constitution and statutes of the State, including the New York State Municipal Assistance Corporation Act, as amended by the Municipal Assistance Corporation for the city of New York Act, being Titles I, II and III of Article 10 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended to the date hereof (the "Act").

The 1975 Series .. Bonds are authorized and issued under and pursuant to the Act and the Second General Bond Resolution of the Corporation (the "Second General Bond Resolution") and the 1975 Series .. Resolution (the "Series Resolution"), adopted November .., 1975. Said resolutions are herein collectively called the "Resolutions".

The 1975 Series .. Bonds are part of an issue of bonds of the Corporation (the "Bonds") which the Corporation has established and created under the terms of the Second General Bond Resolution and is authorized to issue from time to time for the corporate purposes of the Corporation authorized by the Act, as then in effect and without limitation as to amount except as provided in the General Bond Resolution or as may be limited by law. The 1975 Series .. Bonds are being issued for the purpose of effecting an exchange of such 1975 Series Bonds for an equal aggregate principal amount of certain short-term obligations of The City of New York, New York ("The City") scheduled to mature on (the "City Maturity Date").

The Corporation is authorized to issue Bonds, in addition to the 1975 Series Bonds, only upon the terms and conditions set forth in the Second General Bond Resolution and such Bonds, when issued, shall with the 1975 Series Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second General Bond Resolution. The Corporation has issued other bonds under a first general bond resolution and other obligations subordinate thereto. The Bonds are not on a parity with such bonds and other obligations.

The 1975 Series Bonds are dated, 1975 except as otherwise provided in the Resolutions with respect to fully registered 1975 Series Bonds and will mature on July 1, 1986 and will bear interest from the date thereof or the City Maturity Date, whichever is later, payable July 1, 1976 and semi-annually thereafter on January 1 and July 1 in each year until the Corporation's obligation with respect to the principal thereof shall be discharged, but only with respect to interest due on or

before the maturity of coupon 1975 Series Bonds according to the tenor and upon presentation and surrender of the attached coupons as they respectively become due and payable, at the rate of eight per centum (8%) per annum.

The 1975 Series Bonds are issued initially in fully registered form without coupons in the denomination of \$5,000 or an integral multiple of \$5,000 and thereafter either in such fully registered form or coupon form in the denomination of \$5,000, registrable as to principal only. Coupon and fully registered 1975 Series Bonds are interchangeable as provided in the Resolutions. Coupon 1975 Series Bonds are lettered and fully registered 1975 Series Bonds are lettered Coupon 1975 Series Bonds and fully registered 1975 Series Bonds are numbered consecutively from one upward.

The 1975 Series Bonds are subject to redemption at the election of the Corporation as a whole on any interest payment date on or after July 1, 1981 as provided in the Resolutions at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The 1975 Series Bonds are subject to redemption, in part, by lot as provided in the Resolutions, on July 1 in each of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each of the years shown below the principal amount of such 1975 Series Bonds specified therefor:

<u>Year</u>	<u>Amount</u>
1977	\$
1978	
1979	
1980	
1981	
1982	
1983	
1984	
1985	
1986	

Chapters 168, 169, 868 and 870 of the Laws of 1975, as amended to the date hereof, each enacted by the People of the State, represented in Senate and Assembly of the State and signed into law by the Governor of the State (the "Enabling Legislation") provide for, among other things, inserting of the Act in the Public Authorities Law, creating the Corporation as aforesaid, adding a new section 92-e to Article 6 of the State Finance Law, constituting Chapter 56 of such Consolidated Laws, establishing a municipal assistance aid fund (the "Aid Assistance Fund") and a special account for the Corporation within the Aid Assistance Fund (the "Special Aid Account"), amending section 54 of the State Finance Law to provide for the apportionment and payment into the Special Aid Account of amounts of per capita aid appropriated by the Legislature of the State and otherwise payable out of the general fund of the State to The City thereunder subject to payments being made as follows: (i) any amounts required to be paid to the City University Construction Fund pursuant to the City University Construction Fund Act, Article 125-B of the Education Law, constituting Chapter 16 of such Consolidated Laws; (ii) any amounts required to be paid to the New York City Housing Development Corporation pursuant to the New York City Housing Development Corporation Act, Article XII of the Private Housing Finance Law, constituting Chapter 41 of such Consolidated Laws; (iii) any amounts required to be paid by The City to the New York City Transit Authority pursuant to the provisions of chapter seven of the laws of the State of nineteen hundred seventy-two; (iv) any amounts required to be paid by The City to the State to repay an advance made in nineteen hundred seventy-four to subsidize the fare of the New York City Transit Authority; and (v) five hundred thousand

dollars to the chief fiscal officer of The City for payment to the trustees of the police pension fund of such City pursuant to the provisions of paragraph e of subdivision 7 of such section 54 of the State Finance Law, suspending the power of The City to adopt local laws for the imposition of certain sales and compensating use taxes pursuant to sections 1210 and 1212-A of Article 29 of the Tax Law, constituting Chapter 60 of such Consolidated Laws, and the taxes imposed pursuant to said sections, until all notes and bonds of the Corporation, including the 1975 Series Bonds, and interest thereon have been fully paid and discharged, adding a new section 92-d to Article 6 of the State Finance Law establishing a municipal assistance tax fund (the "Tax Assistance Fund") and a special account for the Corporation within the Tax Assistance Fund (the "Special Tax Account"), adding a new section 1107 to Article 28 of said Tax Law imposing sales and compensating use taxes in The City at a rate of four percent (4%) on certain items therein described and at a rate of six percent (6%) on the sale of certain parking services (the "Sales Tax"), the revenues derived from which, less such amounts as the Commissioner of Taxation and Finance determines to be necessary for reasonable costs in administering, collecting and distributing such taxes, are required to be paid into the Special Tax Account, together with, after deducting such costs, such amounts, beginning with the fiscal year of the State commencing April 1, 1976, as may be required under the Enabling Legislation to be transferred from the Stock Transfer Tax Fund established by section 92-b of Article 6 of said State Finance Law, into which the revenues derived from a tax imposed by Article 12 of the Tax Law (the "Stock Transfer Tax") are deposited.

We are of the opinion that:

1. The Corporation is duly created and validly exists as a corporate governmental agency and instrumentality of the State constituting a public benefit corporation under the laws of the State, including the Constitution of the State and the Act, with the good right and lawful authority and power to adopt the Resolutions, to issue the Bonds including the 1975 Series Bonds thereunder, and to perform the obligations and covenants contained in the Resolutions and the 1975 Series Bonds. Under the laws of the State, including the Constitution of the State, the Enabling Legislation, including the Act, is valid with respect to all provisions thereof material to the subject matters of this opinion letter.

2. The Series Resolution has been duly and lawfully adopted in accordance with the provisions of the Second General Bond Resolution and is authorized and permitted by the Second General Bond Resolution. The Resolutions have been duly and lawfully adopted by the Corporation and both are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms, and no other authorization for the Resolutions is required. The Resolutions create the valid pledge and lien which they purport to create of the revenues, moneys, securities and funds held or set aside under the Resolutions, subject only to the application thereof to the purposes and on the conditions permitted by the Resolutions. The lien created by the Resolutions on such revenues, moneys, securities and funds in the Bond Service Fund and the Capital Reserve Fund is and will be prior to all other liens thereon. All revenues, moneys and securities, as and when received, in the Bond Service Fund and the Capital Reserve Fund in accordance with the Resolutions, will be validly subjected to the pledge and lien created by the Resolutions.

3. The 1975 Series Bonds have been duly and validly authorized and issued by the Corporation in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolutions. The 1975 Series Bonds are valid and binding general obligations of the Corporation payable as provided in the Resolutions, are enforceable in accordance with their terms, respectively, and the terms of the Resolutions, and are entitled, together with additional Bonds issued under the Second General Bond Resolution, to the equal benefit, protection and security of the provisions, covenants and obligations of the Second General Bond Resolution and of the Act.

4. Pursuant to the Act and the Second General Bond Resolution, the Corporation has validly covenanted that the Chairman of the Corporation shall annually, on or before December 1, make and deliver to the Governor and Director of the Budget of the State his certificate stating such sum, if any, as shall be necessary to restore the amount in such Capital Reserve Fund to an amount equal to the

Capital Reserve Fund requirement under the Second General Bond Resolution. Subdivision 3 of Section 3036-a of the Act providing for the appropriation and payment to the Corporation for deposit in the Capital Reserve Fund of such sum as shall be so certified by the Chairman, does not constitute an enforceable obligation or debt of the State, the amount of such sum being subject to annual appropriation for such purpose by the Legislature of the State, which is empowered, but is not bound or obligated, to appropriate such amount.

5. Pursuant to the Act and the Second General Bond Resolution, the Corporation has validly covenanted that the Chairman of the Corporation shall certify to the State Comptroller and the Mayor of The City, the amounts required, pursuant to subdivision 1 of Section 3036 and of Section 3036-a of the Act, for deposit in the funds established by the Second General Bond Resolution at the time or times and in the manner provided therein, including the amounts required for deposit in the Bond Service Fund to pay all interest and all principal and redemption premium, if any, on bonds maturing or otherwise coming due and for deposit in the Capital Reserve Fund to maintain such Fund at such Capital Reserve Fund requirement. Said subdivisions provide for the State Comptroller to pay such amounts to the Corporation for deposit as aforesaid, the source of such payments being the Aid Assistance Fund into which is paid such per capita aid, subject to certain prior claims as described above, and, to the extent required, available and subject to the prior claim of the holders of obligations of the Corporation issued or to be issued pursuant to the First General Bond Resolution and the Outstanding Note Resolutions (both such terms as defined in the Second General Bond Resolution), the Tax Assistance Fund into which is paid the Sales Tax, and to the extent required, out of the Stock Transfer Tax Fund, the Stock Transfer Tax. The amount of per capita aid payable to The City and available for apportionment and payment from the general fund of the State treasury and of such payments out of the Aid and Tax Assistance Funds to the Corporation are subject to annual appropriation for such purposes by the Legislature of the State which is empowered, but is not bound or obligated, to appropriate any such amounts so certified by the Chairman, as aforesaid.

6. The 1975 Series . . Bonds do not constitute a debt either of the State or The City, and neither the State nor The City shall be liable thereon, nor shall the 1975 Series . . Bonds be payable out of any funds other than those of the Corporation.

7. The State has the good right and lawful authority under and pursuant to the present provisions of the Constitution of the State:

(a) to at least annually appropriate out of the general fund of the State amounts for the purpose of per capita aid and to provide, with respect to certain amounts of such per capita aid payable to The City in accordance with the provisions of section 54 of the State Finance Law, for the apportionment and payment into the Special Aid Account, of amounts sufficient to enable the Corporation to fulfill the terms of the Resolutions and to carry out its corporate purposes, but the State is not bound or obligated to make any, or maintain any level of, such appropriation of per capita aid or to continue such procedure for apportionment and payment of such aid;

(b) to the extent amounts referred to in 7(a) hereof are insufficient and subject to such prior claims referred to in 5 hereof, to provide for the appropriation of, and at least annually to appropriate to, the Corporation, from the Special Tax Account, and commencing with the fiscal year of the State commencing April 1, 1976 from the Stock Transfer Tax Fund, amounts sufficient to enable the Corporation to fulfill the terms of the Resolutions and to carry out its corporate purposes, but the State is not bound or obligated to make such appropriations;

(c) to suspend the power of The City to adopt local laws for the imposition of certain sales and compensating use taxes and the taxes levied thereunder, in accordance with the Enabling Legislation;

(d) to impose and to increase or decrease the Sales Tax and the Stock Transfer Tax but the State is not bound or obligated to continue the imposition of said taxes;

(e) to establish the Aid Assistance Fund and the Special Aid Account within the Aid Assistance Fund, the Stock Transfer Tax Fund, the Tax Assistance Fund and the Special Tax Account within the Tax Assistance Fund but the State is not bound or obligated to maintain the existence of said funds or accounts.

8. The Corporation, the holders of the Bonds, holders of any evidence of indebtedness of the Corporation or the holders of bonds or notes of The City do not have nor will they have a lien on the per capita aid referred to hereinbefore or Stock Transfer Tax or the Stock Transfer Tax Fund, the Sales Tax, or the Special Accounts for the Corporation in the Aid and Tax Assistance Funds. We are further of the opinion that, in any suit, action or other proceeding brought by the holder of any bonds or notes of The City of New York (whether under Chapter 9 of the Federal Bankruptcy Act or otherwise) asserting a right to any such Taxes, such Stock Transfer Tax Fund or such Special Accounts superior or equal to the rights of holders of bonds issued under the Second General Bond Resolution, such holder will not prevail in the court of final jurisdiction.

9. Upon a failure of the Legislature of the State to make a timely appropriation for the payment of principal of or interest on bonds and notes of the State, including sinking fund payments, Article 7, Section 16 of the Constitution of the State, provides that the Comptroller of the State shall set apart from the first revenues thereafter received, applicable to the general fund of the State a sum sufficient to pay such State obligations and shall so set aside and apply the moneys thus set apart. Moneys on deposit in the Stock Transfer Tax Fund and the Municipal Assistance Tax Fund, including the Special Tax Account therein (each such account or fund as presently constituted being a special fund of the State) and collections of the Sales Tax and Stock Transfer Tax, which, under existing law, are to be deposited into the Special Tax Account and the Stock Transfer Tax Fund, do not constitute revenues, under existing law, applicable to the general fund of the State, within the meaning of said Article 7, Section 16 and hence, in the event of a failure of the Legislature of the State to make a timely appropriation for such payment of the State obligations moneys on deposit in, and collections on account of, such special funds are not authorized or mandated to be set apart, set aside or applied by the Comptroller of the State for the payment of such State obligations. Per Capita aid is, under existing law derived from the general fund and hence, in the event of a failure to appropriate as above described, revenues of the State, otherwise payable into the general fund and therefor available for appropriation as per capita aid will be subject to being set apart, set aside, and so applied as aforesaid.

10. Under existing statutes and court decisions, interest on the 1975 Series Bonds is exempt from Federal income taxes and shall at all times be free from New York State and New York City personal income taxes.

11. No registration with, consent of, or approval by any governmental agency or commission is necessary for the execution and delivery and the issuance of the 1975 Series Bonds.

12. The adoption and performance of, and compliance with, all of the terms and conditions of the Resolutions and the 1975 Series Bonds, and the execution and delivery of the 1975 Series Bonds, will not result in a violation of or be in conflict with any term or provision of any existing law.

13. Your attention should be called to a suit entitled *Flushing National Bank, on behalf of itself and all other holders of notes of The City of New York maturing on or before June 30, 1976, plaintiff, against The City of New York; State of New York; and Harrison J. Goldin, Comptroller of the City of New York, defendants*, filed on November 17, 1975 in the Supreme Court of the State of New York, County of New York, wherein the plaintiff, demands, among other things, judgment declaring and adjudicating that the New York State Emergency Moratorium Act of the City of New York, enacted by the Legislature and signed by the Governor of the State on November 15, 1975, is unconstitutional, alleging, among other things, violations of the New York State Constitution and United States Constitution.

Said Moratorium Act, among other things, and subject to two conditions, provides that during the moratorium period therein defined, and notwithstanding any inconsistent provisions of any law, general, special or local or of any agreement or short-term obligation of The City that although the payment of such short-term obligation may be due by the terms thereof or the terms of any general or special or local law or agreement, no action or special proceeding shall be commenced or continued in any court in any

jurisdiction (a) upon any such short-term obligation, or the indebtedness or liability evidenced thereby, or (b) seeking the levy of taxes or application of any funds, property, receivables or revenues of The City on account of any such short-term obligation or the indebtedness evidenced thereby.

In the event that the constitutionality of said Moratorium Act is sustained by a court of final jurisdiction, such judicial determination could support the constitutionality of similar legislative enactments which may adversely affect certain terms and conditions of the Bonds and the Resolutions, including the payment of principal and interest thereon, and the enforceability thereof.

We have examined the form of the 1975 Series Bond numbered and, in our opinion, the form of said Bond is regular and proper.

Very truly yours,

EMBARGOED FOR RELEASE UNTIL 7:31 P.M. EST November 26, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

NEW YORK CITY'S FISCAL SITUATION

BACKGROUND

Yesterday the New York State legislature put into place the final piece of a financial package designed to restore New York City's fiscal integrity. This action is the culmination of a series of efforts, the most important of which have occurred during the last three weeks, by the elected officials of New York State and New York City, labor unions, financial institutions and others. These efforts have set the stage for accomplishing three fundamental objectives:

- Financing the past deficits of New York City without resort to Federal aid.
- Financing the anticipated deficits of New York City during the next two years without resort to Federal aid.
- Accelerating the period within which New York City's budget will be brought into balance.

The accomplishment of these objectives will insure that over the course of any New York City fiscal year, the City will have adequate funds to meet all of its financial obligations, a result many thought impossible a few weeks ago. Within any fiscal year, however, New York City will have deficits in some months and surpluses in others. According to information furnished by New York City, for the balance of the current fiscal year, the City will run a deficit of \$141 million in December; \$324 million in January; \$310 million in February; and \$500 million in March. In April, May and June, however, it will run monthly surpluses of \$334 million, \$345 million and \$596 million, respectively, leaving receipts and expenditures in balance for the fiscal year.

Historically, the seasonal imbalance between a city's receipts and expenditures is usually financed by borrowing in private markets. Under current conditions, including the substantial existing commitments of the private financial sector in respect of New York City and State and the uncertainties which have prevailed over the recent past, private market financing for New York City's seasonal imbalance is not available at this time.

Because seasonal financing is necessary to provide essential services to the people of New York City, the President will fulfill his pledge to insure the continuation of such services by transmitting to Congress the New York City Seasonal Financing Act of 1975.

more



SUMMARY OF THE NEW YORK CITY SEASONAL FINANCING ACT OF 1975

The Act provides for Federal short term loans to the City or any agency authorized by the State to act for the City, in an aggregate outstanding amount not to exceed \$2.3 billion. Such loans will have a maturity date not later than the last day of the fiscal year of the City in which the loan was issued.

According to New York City, the anticipated amount of such Federal seasonal assistance required is \$1.3 billion in fiscal 1976 and \$2.1 billion in each of the following two fiscal years.

Loans by the Federal Government will bear interest at a rate 1% higher than the Treasury borrowing rate. No loan will be provided unless all matured loans have been repaid in accordance with their terms and there is compliance with the terms of any such outstanding loans.

A loan may be made only if the Secretary determines that there is a reasonable prospect of repayment. Loans will bear such terms and conditions as may be established by the Secretary of the Treasury to insure repayment of such obligations in accordance with their terms. The Secretary may require such security as he deems appropriate. To offset any claim that the United States may have against New York City under the Act, the Secretary will be authorized to withhold any payments from the United States to the City, either directly or through the State, which may be due under any law.

The authority of the Secretary to make new loans will terminate on June 30, 1978.

ACTIONS BY NEW YORK CITY AND NEW YORK STATE

Governor Carey and Mayor Beame have informed Administration officials that the actions listed below are being implemented. New York State and City officials are delivering documentation verifying such actions for the Administration to review.

The following actions are designed to insure a balanced city budget by June 30, 1978:

- a. The three-year Emergency Financial Control Board (EFCB) plan will produce a modest surplus in the City's expense budget by fiscal year 1977-78.
- b. The State Legislature has voted over \$200 million of additional City taxes which will be imposed by the EFCB.



- c. A portion of annual City contributions to the pension systems has been shifted to the employees by legislation. On an annual basis, the savings to the City would be \$85 million and the impact on the employees would be \$107 million per annum.
- d. The City has laid off about 22,000 employees since January 1 and increased taxes over \$300 million this past summer. Additional personnel reductions of over 40,000 employees are contemplated in fiscal years 1977-1978.
- e. A partial wage deferral was imposed this fall.
- f. The City has reduced its subsidy to the City University by \$32 million.
- g. The New York City transit fare has been increased from 35¢ to 50¢.

The following actions are designed to enable New York City to meet its financing requirements:

- a. Moratorium legislation has been enacted with respect to \$2.6 billion of City short-term notes.
- b. An exchange offer has been approved by the MAC Board for an exchange of 10-year 8% MAC bonds for the \$1.6 billion of City notes held by the public.
- c. The New York banks and pension systems have agreed to take 10-year 6% City securities as part of the moratorium in exchange for \$1 billion of City notes.
- d. The New York banks and pension systems have agreed to take 10-year 6% MAC bonds in exchange for \$1.7 billion of MAC bonds bearing higher interest rates and/or shorter maturities.
- e. New York City pension systems have agreed to purchase \$2.5 billion of new MAC and/or City securities over the next three years. This commitment is subject to appropriate trustee indemnification.
- f. MAC has provided about \$3.5 billion of financing to the City, of which \$1.5 billion is refinancing of short-term debt.

The City and State have implemented the following management changes:

- a. Creation of MAC and EFCB control mechanisms.
- b. Extensive management changes are being made in the City, including a new Deputy Mayor for Finance and a new Chief of Planning.

more



The following proposals have been made to reform the New York City pension program:

- a. The EFCB has passed a resolution directing the City to terminate the practice of using, for budgetary purposes, all income of the pension systems in excess of 4% per annum. In the year beginning July 1, 1976, this will result in approximately \$136 million per annum of additional income to the pension systems and a commensurate increase in the City's expenses. The EFCB has also directed the City management to take action and report back within 30 days with respect to termination of the practices resulting in the abuse of overtime in the last year of employment, thereby creating excessive pension burdens on the City.
- b. Governor Carey has directed Mr. Richard Shinn, President of the Metropolitan Life Insurance Company, to report to the EFCB by December 31 on the actuarial soundness of the City pension funds. The EFCB has directed the City to prepare and submit to the Control Board such legislative requests and other amendments as may be necessary as a result of the Shinn study to put the funds on a sound actuarial basis and to have those recommendations to the Control Board no later than January 31, 1976.

SUMMARY OF STATE FINANCIAL PLAN TO ELIMINATE CASH DEFICIT FOR PERIOD DECEMBER 1, 1975 THROUGH JUNE 30, 1976

Estimated cash deficit as of 10/29/75*/ \$ 3.95 Billion

Less effect of Carey plan to reduce deficit

-- New city taxes	\$ 100	Million
-- State advance	\$ 800	Million
-- Debt moratorium, exchange offer, & restructuring	\$2450	Million
-- Employee contribution to pension funds	\$ 50	Million
-- Pension fund loans to New York City	\$ 550	Million

Current estimate of cash deficit 0

*Estimate of New York City, New York State, and congressional committees.

NEW YORK CITY SEASONAL CASH FLOW NEEDS

New York City has estimated its seasonal cash flow needs as follows:

	Cumulative Needs (dollars in millions)		
	<u>FY 1975-76</u>	<u>FY 1976-77</u>	<u>FY 1977-78</u>
July	--	\$1100	\$1041
August	--	1462	1413
September	--	1197	1237
October	--	1585	1293
November	--	1614	1325
December	\$141	2063	1670
January	465	2062	1697
February	775	2017	1645
March	1275 peak	2120 peak	1994 peak
April	941	1528	1369
May	596	1103	996
June	0	0	0



copy
10/10
N.Y. City file

November 23, 1975

Dear Jim:

Several significant developments in the New York City financial situation have occurred during the past month. As you know, I have steadfastly opposed Federal help for New York which would permit the City to avoid taking responsibility for managing its own affairs.

It is my judgment that New York State and City officials, union and financial leaders have now initiated a plan which, if effectively implemented, will restore the City to a position of financial solvency. I am convinced that the significant steps taken in recent days resulted from an awareness that responsibility for putting the City's financial affairs in order rested in New York and would not be assumed elsewhere.

Accordingly, I have asked the Congress for authority to provide a temporary line of credit to the State of New York to enable it to supply seasonal financing of essential services to the people of New York City. The funds will be loaned on a seasonal basis to be repaid in full, with interest, at the end of each fiscal year.

I am anxious that you understand the facts which I considered in making this decision. The text of my statement on Wednesday and a fact sheet on the New York situation are attached.



The process of restoring financial solvency to the City of New York will be a difficult one, but it has begun. I trust that we will all learn the lessons that are here for us and will renew our individual efforts in assuring fiscal responsibility.

Sincerely,

The Honorable James E. Longley
Governor of Maine
Augusta, Maine 04330

Enclosures

GRF:JF:PAT:bmr



November 28, 1975

Dear Governor _____

Several significant developments in the New York City financial situation have occurred during the past month. As you know, I have steadfastly opposed Federal help for New York City which would permit them to avoid taking responsibility for managing their own affairs.

It is my judgment that New York State and City officials, union and financial leaders have now initiated a plan which, if effectively implemented, will restore the City to a position of financial solvency. I am convinced that the significant steps taken in recent days in New York resulted from an awareness that responsibility for putting the City's financial affairs in order rested in New York, and would not be assumed elsewhere. Accordingly, I decided to ask the Congress for authority to provide a temporary line of credit to the State of New York to enable it to supply seasonal financing of essential services to the people of New York City. The funds will be loaned on a seasonal basis to be repaid in full, with interest, at the end of each fiscal year. I am anxious that you understand the facts which I considered in making this decision. The text of my



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The process of restoring financial solvency to the City of New York will be a difficult one, but it has begun. I trust that we will all learn the lessons that are here for us and will renew our individual efforts in assuring fiscal responsibility.

