FIFTH DISTRICT REPORT

BY CONGRESSMAN PAUL TSONGAS

NEW YORK CRISIS SPELLS TROUBLE FOR OTHER URBAN AREAS

The financial crisis in New York is a tale of many cities. The possible bankruptcy of New York City casts a long shadow on all of our cities and dependent suburban communities. The $6 billion fiscal year shortfall of the nation's largest city is an indication of acute urban problems, aggravated by the recession in which the country finds itself.

The New York City crisis has the potential to restrict municipal capital to the point of forcing a score of major cities into bankruptcy. A reassessment is already underway on the part of cities, states, federal agencies, and lending institutions on the subject of municipal financing. In the meantime, communities are having a more difficult time borrowing money and selling municipal bonds. Since every city and town must borrow to pay for construction of schools and public buildings, for salaries, and for economic development, a day of fiscal reckoning may be approaching for urban centers across the country.

Why New York Doesn't Have Any Money

In simple terms, New York City's financial woes are a result of spending more money than can be raised. With eroding tax bases, the burden of inflation, and increased services, the problem is common to all cities.

The chart below, for the current month, illustrates New York City's deepening deficit situation.

<u>NEW YORK CITY CASH SHORTAGE</u>

PROJECTED RECEIPTS	(FIGURES IN MILLIONS OF DOLLARS)
Real estate tax	$313.1
General fund	
City taxes	177.8
State taxes	74.9
Welfare aid	135.8
Other state aid	37.0
Other federal aid	21.1
Miscellaneous	9.1
TOTAL RECEIPTS	$768.8
PROJECTED EXPENDITURES	
Payroll	$501.7
Debt	595.3
Welfare and Medicaid	259.6
Transit Authority, Housing Authority, Health & Hospitals Corporation	43.9
Pensions, Insurance, Social Security	97.9
Construction	102.9
Vendors & Miscellaneous	73.5
TOTAL EXPENDITURES	$1,674.8
PROJECTED DEFICIT	$ 906.0

It is obvious that a monthly deficit of nearly one billion dollars is hard to overcome. Last week the New York Legislature voted $2.3 billion to stave off default by the City for the next three months. But both the State, the City, and the newly created Municipal Assistance Corporation ("Big Mac") are finding it difficult to secure the capital necessary to bail the City out of its difficultires.

Default for New York City would be catastrophic. It could prompt an additional default on the part of the State, take the City out of the money market for years and cause major banks to experience a serious capital shortage. The effect on other large cities would be profound. Newark, Detroit and Atlanta have already been forced to pay higher interest rates on bond offers.

Local City Treasurers Concerned

In a discussion with City Treasurers in Lowell and Lawrence, it is clear that the problems in New York City are already being felt around the country. Lowell City Treasurer Pelkey sees a new wariness on the part of investor in municipal bonds. "Any capital shortage will obviously affect all municipalities," Pelkey says. Although Lawrence City Treasurer Roland Deziel has not yet encountered difficulties in obtaining loans, he states unequivocally that "a default on the part of New York City would increase the bond rate nationally."

"A Majority of Cities"

Lowell City Treasurer Pelkey makes an important point when he states that "this is not a financial situation unique to New York City." Pelkey believes that an examination of financial records would disclose that "a majority of cities are in difficult economic straits, perhaps with hidden bankruptcies." Older cities have relied on deficit spending and high interest borrowing while tax bases have continually diminished. The Lowell Treasurer says that unless "financial houses are put in order, there could be a succession of bankruptcies and defaults."

Congressional Reaction

After an initial reaction of non-concern, members of Congress with urban and suburban constituencies are now closely watching to see what will happen to New York City. Recently, the Banking and Currency Committee, of which I am a member, discussed the Congressional role in the New York situation. There is general concensus that it would be wrong to simply bail out New York City. This would not solve the long-term problem. The Committee may consider a plan which includes formation of a federally insured corporation which would certify proper fiscal conditions, then guarantee investment return on private loans and municipal loans and municipal bond issues. The corporation would be modeled after the Federal Deposit Insurance Corporation (FDIC) which insures bank deposits up to $40,000. Formation of this federal corporation would encourage fiscal responsibility. Municipalities would have to stabilize financial positions to qualify for this type of federal insurance. Capital would be available since there would be no risk to banks or purchasers of bonds. Membership fees could pay for the operation of such a federal corporation.

Interdependence

So the New York crisis is meaningful to Lowell and Lawrence, and to larger cities, such as Boston. In the Fifth District, suburban communities are dependent upon urban areas for employment, industrial production and distribution, for shopping, and for cultural attractions. Towns like North Reading, Acton, Lexington, and Bedford are to some degree linked to Boston on the Route 128 perimeter. Towns such as Methuen and Andover utilize many of the services that Lawrence provides. Dracut and Tewksbury are very much part of "Greater Lowell".

The health of our cities is vitally important to the nation as a whole. The threat that New York City poses is a threat potentially common to all cities. We must look towards fiscal responsibility and belt tightening while fighting against the recession we are now in. But the advantages and rich heritage of urban life should not be abandoned with scorn.