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THE EFFECT OF PRESIDENT REAGAN'S ECONOMIC RECOVERY PROGRAM ON NEW YORK CITY

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THE EFFECT OF PRESIDENT REAGAN'S ECONOMIC RECOVERY PROGRAM ON NEW YORK CITY

MONDAY, NOVEMBER 9, 1981

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:10 a.m., in the 15th floor conference room, Home Insurance Building, New York, N.Y., Hon. Frederick W. Richmond (member of the committee) presiding.

Present: Representatives Richmond, Ferraro, and Green.

Also present: William R. Buechner, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE RICHMOND, PRESIDING

Representative RICHMOND. Good morning, ladies and gentlemen.

Today, the Joint Economic Committee has come to New York City to examine the impact of the Reagan administration's economic recovery program on the city's economy and fiscal condition. With the President's program going into effect on October 1, just over 1 month ago, this hearing is the first attempt by Congress to evaluate how it is affecting the ability of local governments to carry out their responsibilities.

The element of the Reagan program that promises to cause the most serious problems for local governments is the budget cuts which the President proposed in March and which Congress enacted in July. Of the $35 billion in cuts that have been enacted so far, as much as $13 billion is coming out of programs that directly affect the budgets of State and local governments. This represents a 25-percent reduction in State and local aid from the Federal Government.

Waste treatment grants, for example, have been cut $300 million, public service jobs under CETA have been cut $3.6 billion, job training funds have been cut $700 million, and social service grants have been cut $1.2 billion.

On top of these cuts, many programs that help middle- and lower-income citizens have also been slashed—food stamps, AFDC, and student loans, just to name a few. In September, the Office of Management and Budget released a study showing that the Northeast will be hurt most by many of these cuts.

It seems ironic that this administration, which wants to turn back many of its responsibilities to State and local governments, is at the same time slashing the Federal aid programs that are designed to help local governments carry out those responsibilities.

How are local governments going to adjust to these budget cuts? How are they going to make up the revenue loss? What services and capital spending will have to be cut? What maintenance will have to be cut? Who is going to be hurt? These are some of the questions we hope to address at this hearing.

We also want to look into the high interest rates that local governments have had to endure during the past year. Recently, State and local governments have had to pay as much as 14 percent to float tax-exempt bonds. Even though interest rates have eased during the past few weeks, local governments today are still paying twice what they had to pay only 2 years ago. Municipal governments now pay 85 percent of the Treasury bond rate compared to only 70 percent 2 years ago.

How is this affecting the capital budgets and investment plans of State and local governments? How badly will the spending we put off today come back to haunt us 5 or 10 years from now when our urban infrastructure actually collapses?

Today's hearing will focus on New York City in an effort to begin answering these questions.

Good morning. It's a pleasure to have Congressman Bill Green and Congresswoman Geraldine Ferraro, members of the New York City delegation, joining the Joint Economic Committee for these hearings this week. Congressman Green.

Opening Statement of Representative Green

Representative Green. Thank you very much for inviting me, Representative Richmond. I think it is very important that we do find out in the field what is going on and I'm especially pleased to see Mayor Koch and welcome him to the all-too-thin ranks of those elected on the Republican line.

I'd like to focus today on mass transit, if I could, because that's one area where I was the lead person for the so-called gypsy moths in fighting for mass transit funding by the Federal Government. We did, up to now, succeed in holding off proposed cuts in operating subsidies for mass transit. I realize it's a little unfair to raise mass transit in a hearing where city officials are the major witnesses, because I understand full well that the Governor appoints the majority of the board of the MTA. The MTA is a State agency and that's where the responsibilities lie. But I must say, as one reads continuing stories of the very low rate of productivity in the repair and maintenance shops of the MTA; and as one reads continuing stories of MTA employees being given superovertime in their final years, so they can collect pensions greater than their base year, in their year of retirement; I find it somewhat difficult to answer the criticism of Secretary of Transportation Lewis that operating subsidies for mass transit aren't a waste, from the point of view of the Federal taxpayer. The lastest series in the Daily News was only the most recent of what is a recurrent story. You see it in some media or other every year and nothing seems to change.

In terms of capital budget funds, it was I who played the lead role in getting into the Republican tax bill the provision which allowed the MTA to sell investment tax credit, the $15 million sale to Metromedia being but the first, which will help the MTA acquire additional rolling stock. But again, I was also present when the former MTA head, Harold Fisher, told the ranking Republican on the Public Works Subcommittee in charge of mass transit funds that he couldn't spend more than the $300 million a year that he was already getting in Federal, State, and local capital funds because the procurement rules to which the MTA was subject, just didn't let him do it. And we know now there was a regional planning association study showing the backing up of capital funds within the MTA system. It seems to me this is more than just an ordinary management problem. I personally know Dick Ravitch and I have a great deal of respect for him as a manager. But I do have to ask, as I fight for these funds at the Federal level: What is being done at the State and local levels to see that the mass transit funds are used efficiently and effectively? We have had these reports practically every year about the inability of the MTA to use these funds effectively.

So I think these are problems that we also have to address, Representative Richmond, as we look at the flow of Federal funds into State and local government. Are they being used as effectively as they can be?

Representative RICHMOND. Thank you, Representative Green. And now Congresswoman Geraldine Ferraro.

OPENING STATEMENT OF REPRESENTATIVE FERRARO

Representative FERRARO. Thank you, Representative Richmond. I would first of all like to commend you for holding this hearing on the impact of the Reagan administration's budget and tax cuts on the Nation's greatest city.

I do have one observation about the timing of these hearings, however. Normally, the way Congress handles legislative proposals, especially proposals as far-reaching as the Reagan economic program, would be to hold hearings like this before passing new laws. It might have been useful to have had more input from the city and State officials who will be our partners in this so-called New Federalism before we put this program into effect.

Of course, I certainly don't intend this as any criticism of Fred Richmond, who I know shares many of my concerns about this program. But the administration and its supporters insisted on the program being enacted as quickly as possible, with as little prior scrutiny and discussion as possible.

I can't say I blame them. Only 1 month after being put in place, Reaganomics is now starting to be seen as what some of us feared it was all along—a blueprint for disaster for our cities and many of the people who live in them. Reaganomics gives a handout to the wealthy and the back of its hand to middle-class working Americans and to the poor. It turns away from a Federal role in repairing the crumbling infrastructure of our great cities.

As a member of the House Committee on Public Works and Transportation, I have a special concern for the public physical plant. The task of repairing bridges and highways, modernizing public transit systems, and improving water delivery and sewage treatment systems is awesome. We just cannot ignore it and hope it will go away, and yet the Reagan program would at best put these problems on hold and at worst simply deny any Federal responsibility for their solution.

When Congress acted on the Reagan program, the President asked us to close our eyes and have faith. Now we must open our eyes to see what we have done. This hearing is a good opportunity for us to start opening our eyes. Thank you.

Representative RICHMOND. Thank you, Congresswoman Ferraro.

Our first witness is the chief executive of the city of New York, Hon. Edward Koch, who has been elected by every part of the city of New York.

Mayor KOCH. I have with me the deputy mayor for economic development, Karen Gerard. May I bring her to the table with me?

Representative RICHMOND. Certainly.

Mayor KOCH. Shall I proceed?

Representative RICHMOND. Mr. Koch, you have done these longer than I have.

STATEMENT OF HON. EDWARD I. KOCH, MAYOR, CITY OF NEW YORK, ACCOMPANIED BY KAREN GERARD, DEPUTY MAYOR FOR ECONOMIC DEVELOPMENT

Mayor KOCH. First, I want to thank you, members of the New York delegation, for all that you have done to date. Each of you has, in various areas which impact directly upon the city, done something to alleviate the pain inflicted upon the reductions that ultimately were imposed by the Congress. So, Congressman Richmond, you fought valiantly and reduced some of the reductions in the food stamp program and other social service programs, and while obviously you and everybody else who had a feeling about the matter were distressed at the final cuts, it would have been even greater had you not been successful in interceding. And Bill Green not only helped us in the mass transit area but also in the MEDCAPS which, had they gone forward as originally scheduled, would have meant multimillions of dollars in additional losses. And Geraldine Ferraro has helped us enormously in the area of stretching out our commitments under the various water improvement programs. The Congress imposes a sanction as to how we have to clean up our water and then they take away the money, and I mean it is a "Catch-22." And the fact is that as a result of what Geraldine Ferraro has done we were able to get at least in the House report, language that will help us, and I'm hopeful that that language will indeed be accepted as a result of your efforts in the conference. And I want to thank each of you for everything you have done to date and ask you to do more, which we all have to do because of the problems that we have.

I have a very lengthy prepared statement which I would like to file.

Representative RICHMOND. Without objection, it will be a part of our printed record, Mr. Mayor.

Mayor KOCH. Then I have a shorter statement which I would like to refer to because it has figures in it, and then I'll take your questions.

I want to make the following points.

Representative RICHMOND. Excuse me. We understand you have to leave at 10:45.

Mayor KOCH. Yes, sir, if that's all right.

Representative RICHMOND. And I think we each would like 10 minutes for questions.

Mayor KOCH. I'll try to be very brief.

Representative RICHMOND. Fine.

Mayor KOCH. The first point is that a healthy economic climate is more than a matter of financial stability. You have to make certain that the people who live in the city, where they are in need of help, are going to receive it. There are basic minimums. Those basic minimums have been reduced as a result of the most recent adopted program on the part of the Congress which accepted almost in full the Reagan administration's requests, and what is most distressing to us at this point is that, having imposed cuts that we believe could have been ameliorated and that could have been better in terms of where they impacted, there is now an attempt to increase those reductions.

Those increased reductions, whether at the 12 percent level which was originally requested—and I understand they are cutting back a little bit on that—but nevertheless, any further reductions would be terrible from our point of view, basically because we are already 5 months into the fiscal year. We have spent the money.

Now we had every reasonable basis for spending the money. It's not like we're profligate. Every city in the country has fiscal year and most of them start on July 1, and the Federal Government's fiscal year starts in October, but our year starts on July 1. We have to take the moneys that are projected coming from the city, coming from the State, coming from the Feds, and the breakdown of our budget is basically 60 percent locally raised, 20 percent State raised, and 20 percent Federal raised; and we then go out and spend it in many programs one-twelfth each month, so we have basically spent 5 months of the money that you want to now recapture.

I'm not talking about the three Members of the Congress that are here, but the Reagan administration has made a demand upon you that you now have further cuts and we are hopeful that you will resist that. We would resist them on the merits in terms of the fact that it's wrong to make those cuts, but there's an even greater reason on a pragmatic basis, to wit, the money has been spent and if you now withdraw the money because we spent the money based on the projections, then you're having a double hit. We have to recoup the money that's been spent as well as not spend for the next 7 months, and that would have enormous adverse impact in a whole host of areas.

I'm not going to give you the various figures—they are in my prepared statement—that relate to the reductions already made I have attached an analysis prepared by the Office of Management and Budget setting forth the details of the reductions already made.

Now we have accommodated for those reductions. The first round we have accommodated for by cutting some programs, by using our modest budget surplus that we were able, under generally accepted accounting procedures, to use; but, nevertheless, we have cut programs. And then in the area where we haven't been able to make it up at all would be the third party payments or the transfer payments so-called, where people who were receiving food stamps are cut off or receiving less. Where people who have been out working and who are on welfare but nevertheless because we want to get them off welfare thay are able to keep some of the welfare and some of the work dollars, under the new program they are better off on welfare. And I must tell you, people who are poor are just as smart as people who are rich, and they can count, and if they know that when they work they get nothing out of it, they are not going to work. It's as simple as that. If you get nothing from your work, unless you're highly motivated and do pro bono work, you're not going to work. And, therefore, it's counterproductive to do what they are doing.

Then, as it relates to our mass transit, if you go ahead with the further cuts—and we'll get into the questions that you have posed about mass transit—it would seriously impact upon our ability to go forward with some of our mass transit capital projects.

I think I'll stop there because I'd like to respond to your questions and just simply rely on the prepared statement being filed to give you the full figures and impact upon our budget.

[The prepared statement of Mayor Koch, together with an attachment, follows:]

Prepared Statement of Hon. Edward I. Koch

Thank you for the opportunity to testify before you today on the effects of the Reagan fiscal program on New York City's economy and fiscal position. As I have stated before, I recognize the necessity of reducing federal spending and attempting to bring the budget into balance. I have also endorsed, with caution, the concept of using federal tax reform as a means of stimulating capital investment and raising the rate of real economic growth.

There are two points that I would like to address today. The first is that a healthy economic climate is more than a matter of financial stability: a prospering, revitalized economy requires the backup support of basic social services. The cuts in these social services, both those already adopted by Congress and the additional 12 percent proposed by the Administration, will not simply affect individuals, they will ultimately undermine the recovery of the private sector. The second point is that while the Reagan Administration, in accordance with the concept of load-sharing, is returning financial responsibility to the states, it is at the same time undermining our capacity to generate revenues. Through a combination of tax cuts and monetary policy the federal government is jeopardizing the ability of states and localities, particularly those in older urban areas, to pick up their share of the load.

When New York City was threatened with bankruptcy in 1975, it became clear that our first priority had to be the revitalization of our financial base. In 1978 when I took office, the City's real deficit was $712 million. Since that time, we have pursued policies of fiscal restraint, tax reform and increased productivity that have resulted in the City's first truly balanced budget, a year ahead of schedule. In addition,we have restrained the growth of City government to 4 percent annually and have restored the growth of private sector jobs.

These policies will be successful only with the proper blend of spending cuts, tax cuts, monetary policy and budget balancing. I continue to object to the size and nature of the cuts that have been made in the federal budget and taxes under the Reagan Administration.

Seven months ago - in response to a challenge by the Administration - New York City submitted a list of alternative federal budget and tax cuts that would achieve the goal of reduced federal expenditures while maintaining social responsibility. These suggestions included the elimination of unnecessary water projects, and repeal of the percentage depletion allowance for oil and gas. Unfortunately, few of our suggestions were adopted.

Now, only months after the passage of the Omnibus Reconciliation Act of 1981, President Reagan is proposing new and more drastic reductions in Federal aid to States and localities. The City has estimated that the Reconciliation Act reductions, alone, would reduce aid to the City's expense budget by $273 million, the capital budget by $222 million and off-budget items and income transfer payments to our residents by $203 million, for a total federal aid loss of $698 million in 1982. The losses in these categories would increase to $336 million, $775 million and $274 million respectively in 1983. The additional cuts would further reduce the expense budget by $69 million, the capital budget by $45 million and the off-budget and income transfer payments by $76 million in 1982, and $145 million, $48 million and $82 million respectively in 1983. I am attaching an analysis prepared by the

Office of Management and Budget on October 15, 1981, setting forth the details of these reductions.

The first round of budget cuts came at a time when the City could take steps to lessen the impact of those cuts on City services. We did succeed in keeping essential City services intact - and we also kept our own budget balanced. But the human cost of the first round of budget cuts was high - for those on welfare, for those who receive food stamps, for the elderly and for the young. Overall, from the first round of the 1982 cuts, the City made up $193 million of the $273 million in losses to the operating budget.

The Administration's new twelve percent reductions - at a time when we are well into our fifth month of our current fiscal year - pose a quite different problem. They are unbearable. If carried out, they will inflict great pain on every city in the country and on every sector in our society - except the wealthy. We are well into our fiscal year and we do not have the funds to cover the extra $190 million reductions in federal money, much less the $69 million of that portion that would be coming out of our operating budget.

Perhaps the best way to present our concerns would be to first show how reductions in federal spending - both initial cuts and recently proposed 12 percent cuts - will affect New York City service delivery, capital programs and residents. I will then describe how the remainder of the President's Program for Economic Recovery - the reductions in taxes, monetary policy and other federal actions - will affect New York City's ability to offset the impacts of federal cutbacks.

Reducing Federal Spending

Let us begin with the leading edge of the Administration's program: the goal of reducing the federal budget. While it is essential to reestablish a climate in which the economy can prosper, we have found that the health of the private sector depends upon a strong and flexible public infrastructure and on the delivery of social services. The Economic Recovery Program is reducing the federal commitment which helps to fund basic services traditionally provided by State and local governments: roads, bridges, mass transit, sewage treatment and water supply, and, through the application of general revenue sharing, funds which have in the past been used to provide for essential uniformed services of sanitation, fire and police protection. Less visible, but no less important, the public services of education, job training and health care supply the business community with an able, technically proficient and healthy labor force.

In each of these areas, the Reagan Administration is following a policy of severe cutbacks that will ultimately have an adverse effect on the operating environments for business.

The economic expansion President Reagan is predicting requires a strong and healthy public infrastructure. Industry cannot expand without adequate water and sewage systems, and well maintained roads, bridges and mass transit systems to get its employees to work and its goods to market. Even though New York City has been restored to financial stability, our capital needs are staggering and the cost of local financing for improvements to the physical plant has doubled in four years, due to the increases in interest and inflation rates.

New York City has an extensive infrastructure, with 6,200 miles of paved streets, over 1,300 bridges, a water system that produces 1.5 billion gallons of water per day, over 6,000 miles of sewers, 4,500 buses and 6,700 subway cars that ride on 710 miles of track. This physical plant has deteriorated badly:

- Roads, which have an average life of 35-40 years, are being replaced at a 150 year rate,
- 1 out of 4 bridges require rehabilitation,
- Subway train breakdowns per mile of service are 30 percent higher than last year and 75 percent higher than in 1968. Lateness has increased by 70 percent in this last year alone.

According to New York City's Office of Management and Budget, over the next five years New York City should spend $800 million for an adequate program of bridge repair and road reconstruction. Yet the Reagan Administration has proposed that the Federal Government phase out the Federal-Aid to Urban Systems Program (FAUS), which provides New York City with $39 million per year of street, bridge and transit rehabilitation funds.

The Metropolitan Transit Authority, a state agency, estimates that $14 billion over the next ten years will be required to rehabilitate the subway system. A fast and reliable mass transit system not only conserves energy, reduces pollution and cuts down on traffic congestion, it is critical to the City's daily economic activity. Yet the Reagan Administration has proposed that the federal government withdraw all support for mass transit operations.

In this year alone, if the 12 percent cuts are adopted, we could lose about $8 million in FAUS funding and $52 million in mass transit capital and operating subsidies.

Economic recovery cannot take hold in a declining public infrastructure. The cuts in roads, bridges and transportation will place severe constraints on the capacity for economic growth and recovery. In Manhattan, the cost to employers for five minutes of lateness daily due to mass transit delays is $166 million, on annual basis. The funding cutbacks to these areas must be seen as incompatible with a program of economic recovery.

However, it is the cuts in social services which will have the most immediate and devastating impact on the lives of individuals -- and ultimately on the economic climate as well. The fate of the working-poor is the most ironic, as they will be discouraged from contributing to the expected recovery. Drastic cuts in social services to this group seriously jeopardize their continued participation in the labor market. The direct impacts will be felt in several areas.

- Day Care is essential to the single parent wishing to work and be self-supporting. These services will be severely cut back, with the potential elimination of funding to support almost 100 day care centers serving 10,000 children in New York.
- AFDC and Food Stamp benefits and eligibility changes will have a major impact on the working poor, undermining their limited self sufficiency and increasing the probability that they will become fully dependent on public welfare programs. In AFDC,

deductions from earned income will be reduced, particularly for day care and benefits for students over 18 will be eliminated. Of the 32,000 persons who will become ineligible, 15,000 will be students and 12,000 will be from working poor cases. Of the additional 93,900 recipients who will have their benefits reduced, 37,400 will be from families of the working poor. The loss of food stamp benefits to people not on public assistance will similarly penalize those who work.

Numerous other programs intended to break the cycle of poverty will also be cut back or eliminated. Cuts in education and job training programs will eliminate opportunities for thousands of our citizens and place enormous obstacles in the path of the disadvantaged who wish to develop their potential. These cuts will affect both the young and the elderly:

in the reduction of the equivalent of 3,200 classes which represents 22 percent of the classes serving disadvantaged students funded by Title I of the Elementary and Secondary Education Act,

in the reduction of almost 31,000 CETA adult and youth employment and training, not including offsets of anticipated deferrals,

- in the elimination of funding for the equivalent of 1,000 vocational educational classes in this fiscal year,
- in addition, it should be noted that the 12 percent reduction in general revenue sharing funds of $27 million in 1982 and $35 million in 1983 is currently used to pay the salaries of some 1800 teachers. This revenue loss would, at the very least, require replacement funds for these salaries.

All of these are programs which could train our citizens to participate in sharing the "new" jobs.

The cuts in transportation services will hit large urban centers hard, particularly New York City, where almost 85 percent of commuters use public transportation to enter Manhattan's central business district during the morning rush hour. The deteriorating conditions, reductions in services and increases in fares directly affect the health of all sectors of the City's economy. But for the poor, the increases in transit fares impose a particularly heavy burden on those commuting to work or to school. Studies conducted by the City have found that fare hikes decrease ridership among the poor significantly more than among other sectors of the population.

In short, the economic recovery program jeopardizes, both directly and indirectly, the ability of the working poor to acheive and maintain self-sufficiency. The cuts reduce or eliminate a range of programs intended to provide the increment needed to ensure that work remains a viable option, that it does not pay for a person to go on welfare rather than work. In the past these programs have served as a bridge, facilitating the transition from poverty and dependency to self-sufficiency. The elimination of these programs will create an enormous gulf between these two conditions, condemning those in poverty to remain there.

The poor and the elderly, segments of the population with the greatest need and the least ability to absorb cuts, will also suffer, despite the Reagan Administration's well know verbal commitment to maintaining the safety net for the "truly needy."

Reductions in funding for Medicaid and health care programs will result in losses in hospital services and, perhaps more importantly, in prevention-oriented health care. Programs such as rodent control, lead poisoning prevention, immunization, prenatal care and gonorrhea screening will be severely cut back. As with the elimination of programs for the working poor, the unintended consequences of these "savings" will likely be an increase in future costs.

The change in eligibility requirements for the School Lunch Program will adversely affect the nutritional guarantees which have so dramatically increased the health of our country's school children. New York City estimates that these new requirements will mean a reduction of about one million meals served in New York City this school year. In addition, parents are now required to fill out complex new eligibility forms in order to qualify for the school lunch subsidy. Unless the November 16 deadline for submission of these applications is extended, large numbers of eligible school children will be barred from receiving subsidized lunches this year.

The elderly will face the potential closing of about 50 senior citizens centers which now receive 1,700,000 visits per year. Proposed cuts in the Older Americans Act funding could eliminate almost 600,000 meals served annually to senior citizens.

Massive cuts have also been made in subsidized housing funds. Reductions in these programs will affect rehabilitation, operating subsidies and construction of public housing. Thus the poor and elderly living in public housing can expect their rents to increase even as their buildings deteriorate.

The Administration expects that the effects of these cut-backs will be offset in part by the growth in private sector jobs and a general economic recovery. However, as we pointed out, some crucial elements of a strong and healthy economy are the very programs being cut. Despite the Administration's emphasis on a sound economic recovery, cuts in economic development programs, community development and urban development action grants are counterproductive. These programs not only provide jobs but also leverage additional private and non-federal money which stimulates business and community development. The City estimates that it will lose as much as $75 million in economic development funds and over $40 million in community development and UDAG funds if all of the cuts were adopted.

The remainder of the cutbacks, in accordance with the concept of load-sharing, are to be made up by state and locally generated revenue. Let us look for a moment at the magnitude of this responsibility. Including the proposed 12 percent reductions, the costs to the City in 1982 total $857 million as follows:

- $341 million in expense budget programs such as AFDC, community services, education, health and general revenue sharing;
- $267 million in capital budget/infrastructure maintenance; and
- $279 million in off budget/independent agencies and income transfer payment reductions.

This loss rises to $1.659 billion in 1983 as follows:

- $480 million in expense budget programs such as AFDC, community services, education, health and general revenue sharing;

- $823 million in capital budget/infrastructure maintenance; and
- $356 million in off budget/independent agencies and income transfer payment reductions.

Let us turn now to the effect of the Economic Recovery Program on the City's ability to make up the losses in federal revenue.

Ability of the City to Respond

The success of the federal program is predicated on the notion that reduced taxes will stimulate employment, savings and capital investment, leading to increases in federal,state and local tax revenues to offset these cuts. Yet this is still an untested theory. The fact is that current interest rates make it almost impossible for businesses to expand adequately to generate this new revenue - especially the small businesses which dominate our local economy.

The chances of a strong economic recovery - at least in the short term - are bleak. The Commerce Department has recently reported a 2.7 percent drop in the index of leading economic indicators, the largest monthly decline since last year's recession. A separate government report showed that productivity of American business fell at an annual rate of 1.9 percent in this year's third quarter, following two quarters of gain.

If economic recovery fails to take hold for FY 1982, as appears likely, then governments at all three levels - federal, state, and local - will be hard pressed to make ends meet. The Administration is looking for ways to keep down the federal deficit without jeopardizing tax cuts. Yet it would be a serious mistake simply to shift to the states and localities the burdens now borne by the federal government. Even if it were necessary to balance the federal budget by 1984 - there are more prudent and less painful ways to approach that goal.

States and local governments are currently operating under a double strain - trying to make up for lost federal revenues as well as maintaining locally funded services in a period of sluggish growth. The ability of states and localities to replace the lost federal revenue is further constrained by other obstacles - some of which the federal government has helped to create.

As a result of the recently enacted tax cuts, the City and State of New York may actually collect less rather than more revenue. This is because we in the City and the State are "coupled" to the federal tax schedule -- that is, we use federal taxable income as a starting point in applying our own taxes and we adopt the federal treatment of income, gain, loss and deduction. As a result, we in the City expect to lose about $90 million in Fiscal Year 1982. I might add that a handful of other cities and some 30 other states also use the federal definition of taxable income as the basis for local taxation.

This problem cannot simply be resolved by "uncoupling" from the federal tax schedule. Implementation of an uncoupled tax structure would only invite the emigration of business out of New York City and State, which have among the highest taxes in the country and already suffer from this problem. Therefore it is unlikely that the state will increase its taxes to make up the revenue. Raising state and local taxes is not the answer because it would simply undo the benefits of the federal cuts.

In addition, our ability to borrow money is being hampered by the Administration's tax policies. Tax-exempt municipal bonds are relied upon by the City to assist in short-term cash flow needs and in long-term capital projects. At one point we could offer municipal bonds at lower interest rates and still attract investors with the prospect of tax sheltered income. Now, municipal borrowing costs have become prohibitive for several reasons:

- First, the Administration's personal income tax reductions dilute the advantage of acquiring tax-exempt financing, particularly for high-income individuals who have been the heaviest purchasers of municipal bonds.
- Second, the federally created tax-free All Savers Certificates directly compete with municipal issues and are driving up municipal bond interest rates.
- Third, investors perceive that the federal government is shifting its burden to local governments, leading to doubts as to the security of investments in our cities.
- And finally, high municipal borrowing costs reflect the current high costs of all capital. The federal monetary policy of fiscal restraint has the effect of driving up interest rates at a time when demand is at a peak to undertake long-needed repairs in New York City's subway systems and other infrastructure projects.

In light of the federal cutbacks and the sluggish economy which is depressing City revenues, the City cannot afford to pay higher interest costs. Prohibitive borrowing costs will affect the maintenance schedules of existing infrastructure and delay new building plans. For example, the City's capital needs are $30 billion over the next ten years. The City plans to borrow $1 billion a year to help fund this commitment. Given current interest rates in the public market (e.g., 14 percent), the City's cost to borrow $1 billion in each of the next four years will be almost $400 million more over the next four years than it would have cost under the rates that prevailed in 1975 (8 percent).

As you can see, the Administration's budgetary, tax and monetary policies have us in a squeeze. The last point I wish to make - before giving you my recommendations - is that this squeeze will be felt most heavily in areas of greatest economic distress, the regions of the Northeast and Midwest.

Using Congressional Budget Office projections, there has been no real decrease in federal spending, only the priorities have shifted: the grant cuts in social program expenditures, particularly in the newly enacted block grants, have been more than compensated for by the growth in defense spending. These increases in defense outlays imply a massive redistribution of federal expenditures toward the West and South. And contrary to popular impression that for too long the South and West have been supporting the faltering economies and burgeoning welfare rolls of the Northeast, the fact is that for many years, New York State has paid between 5 - 10 percent more in federal taxes than it has received back in federal expenditures. The western states, in the main, have been the real beneficiaries of federal spending. The additional proposed 12 percent cutback in federal spending will only deepen these existing regional inequities.

This should not be construed as an argument for a rigid balance of payments between the states and the federal government. On the contrary, one of the essential functions of government is to permit a balanced distribution of resources for society as a whole.

This is why it is so ironic that federal assistance is increasingly being diverted away from the older, industrial cities of the Northeast at a time when the disparities in wealth between the regions are most pronounced. Now with oil price decontrols, oil producing states like Alaska, Texas, California and Louisiana will collect increased severance tax revenues estimated at $115 billion between 1980 and 1990. These taxes are exported to other regions in the form of increased energy costs.

Recommendations

There are better ways of balancing the federal budget than subjecting state and local governments to 12 percent across-the-board cuts in federal aid. In addition, proposals to eliminate tax-exempt Industrial Development Bonds will make it even more difficult for businesses in New York City and elsewhere to obtain the capital needed for expansion.

Instead, the best way to generate revenues would be to rescind, in whole or in part, two of the most outrageous tax breaks ever given to the wealthy of this country. The federal government gave the oil companies a break on the windfall profits tax that will cost up to $16 billion over the next five years. That should be rescinded. The federal government reduced the tax rate on unearned income from 70 percent to 50 percent. That alone will cost billions of dollars over the five years. That too should be rescinded.

If either of those tax breaks and others were rolled back, in whole or in part, we would be much closer to balancing the federal budget. And we would be able to spare the poor, the elderly, and the children of this country the agony - the unnecessary agony - that this proposed new round of cuts would bring.

SUMMARY

THE IMPACT OF THE RECONCILIATION ACT AND PRESIDENT REAGAN'S NEW 12% REDUCTION PROPOSALS ON SERVICES IN NEW YORK CITY

President Reagan's proposed new round of budget cuts would, if implemented, reduce Federal aid to the City by $190 million in FY 1982 and $275 million in FY 1983. These reductions will affect City services even more dramatically than those already enacted in the Omnibus Reconciliation Act, which imposed Federal aid losses on New York City of $698 million in FY 1982, increasing to $1.385 billion in FY 1983.

Because the original reductions were proposed sufficiently in advance of the beginning of the City's 1982 fiscal year, we were able with disciplined planning and tough decisions, to compensate for the loss of Federal funds on the highest priority programs:

- The severe effect of the elimination of the CETA Public Service Employment Program was substantially compensated for by converting 6,081 positions to City funding at a cost in FY 1982 of $78 million.

- The City established a $45 million reserve to offset, at least in part, anticipated reductions in the highest priority programs, including day care, senior citizen centers, basic educational services and essential health and mental health programs.

- The use of City funds in FY 1981 to support Federal education programs has made available to the Board of Education in FY 1982 additional Title I funds to substantially offset the Federal cuts in this program for one year.

However, the City does not have the flexibility to accommodate the new round of cuts announced by the President three months into the city's fiscal year. If the 12% reduction in domestic programs is enacted, the effect on City services will be severe. There are no funds available to compensate for these additional and unexpected cuts. Therefore, unless the Administration's proposals are successfully resisted by Congress, the following reductions in City services may ensue:

HUMAN SERVICES PROGRAMS

- Social Services Block Grant

  The Administration's additional proposal would cut $16.6 million, which supports 48 day care centers, 25 senior citizen centers and home care for 188 households in City FY 1982. This cut would be added to the losses already imposed by the Reconciliation

Social Services Block Grant (Cont'd)
Act, which reduced Federal revenues in City FY 1982 by $15.4 million, which funded 44 day care centers, 23 senior centers, home care and other services.

- CETA
  The Administration's additional cuts would eliminate 3,700 training opportunities, 750 private-sector jobs and 5,500 summer youth jobs. This is in addition to the elimination of the Public Service Employment (PSE) program and the loss of 12,000 adult and youth training opportunities and 2,000 summer youth jobs contained in the earlier cuts. The earlier cuts have resulted in a loss in CETA funds of $204 million in FY 1982.

- Education
  The proposed additional cuts would eliminate Impact Aid Part B in 1982 for a total loss of $15 million or the equivalent of 300 teachers. In 1983 these new reductions would increase to $34.1 million significantly reducing programs for low income, vocational and disadvantaged students, and students with limited English proficiency. Budget rescissions already enacted have reduced Federal education aid to New York City by about $34 million in 1982 and $46 million in 1983.

- Entitlement Programs
  The Administration plans to specify additional cuts to AFDC, Food Stamps, and Medicaid later this year. These cuts will be added to the following reductions already imposed by the Reconciliation Act:

  AFDC: Stricter eligibility provisions will terminate AFDC benefits for 12,000 working poor, reduce benefits for 93,900 recipients, and increase City costs by $7.6 million through shifts of 20,000 recipients to Home Relief and cutbacks in Federally reimburseable child care expenses.

  Food Stamps: Changes in the food stamp benefit levels and eligibility standards will make 42,000 persons now receiving food stamps ineligible and reduce benefits for all of the 1.2 million remaining recipients.

  Medical Assistance: The Reconciliation Act reduced Federal reimbursement to the City's Medicaid Program by $14 - $28 million in FY 1982, rising to $45 million in FY 1983. Impacts of this cutback, particularly on the Health and Hospitals Corporation, are unclear at this time. The Corporation may, however, suffer a $14 to $28 million loss in revenues in FY 1982 and 1983 as a result of another provision of the Reconciliation Act which would curtail Medicaid and Medicare payments for hospital patients ready for discharge but awaiting suitable placement for their convalescence.

- Community Services Block Grant
  The Administration would cut $4.5 million in the City's FY 1982 Community Service programs, in addition to the $5.6 million loss imposed by the Reconciliation Act.

- Health and Mental Health Programs
  The Administration's additional proposed cuts would require reductions of $1.4 million in FY 1982 City budget health programs, which would be added to the $2.7 million cut imposed by the Reconciliation Act. Affected programs include mental health centers, venereal disease testing, rodent control and testing children for evidence of lead poisoning. Also affected are programs that are not a part of the City's budget, such as family planning, community health centers and maternal and child health programs.

OTHER PROGRAMS

- General Revenue Sharing
  While the Reconciliation Act did not reduce the General Revenue Sharing program, the President has proposed cuts that will reduce General Revenue Sharing funds to the City by $27 million in 1982, rising to $35 million in 1983. Currently the funds are used to pav teachers' salaries; their loss would reauire replacement funds for the salaries of 1,800 teachers.

- Community Development Block Grant (CDBG)
  If the President's proposed additional cuts are enacted across the board, the City's loss would be $28 million for CDBG and $11 million for UDAG. The Reconciliation Act imposed a reduction of $13 million in FY 1983 for the CDBG program, and $11 million for Urban Development Action Grants, which fund urban development activities.

- Capital Funds for Wastewater Treatment
  Federal capital funds provide 75 percent of the cost for construction and upgrading of wastewater treatment plants. Additional administration cuts do not affect this program since no budget request was sent to Congress for FY 1982. The Administration has indicated that it will send a $2.4 billion budget request for FY 1982 to Congress, which will not be subject to the 12% cuts if program reforms are enacted. At risk is $222 million in FY 1982, rising to $776 million in FY 1983. If Federal funds are not restored, the City may have to bear the full burden of its capital improvement costs.

- Transportation
  While the Reconciliation Act did not include transportation cuts that would affect the City, the President has now proposed reductions that would cut $37 million from mass transit capital assistance to the City and $15 million from mass transit operating assistance, which could delay planned system improvements unless other sources of revenue are found. The President's proposals would also cut, on an annualized basis, $11 million in highway aid needed to help repair the City's infrastructure.

- Housing
  The Administration has proposed cuts that would reduce subsidized housing units by 246. This would be added to the Reconciliation Act cut of 2,500 units.
  The Administration has now proposed an additional cut of $23 million for funds earmarked to operate and modernize subsidized housing. These reductions would be added to a $47 million cut enacted by the Reconciliation Act.
  The Act also requires that public housing tenants increase the percentage of their income paid for rent from 25 to 30 percent over a five-year period. This increase falls most heavily on those who can least afford to pay -- the working poor.

- Economic Development
  The Reconciliation Act will cut New York's Economic Development Administration by $64 million, which will greatly reduce its efforts to create jobs and stimulate business development.

- Low Income Energy Assistance
  Although this program was untouched by the Reconciliation Act, the President has proposed that it be cut nationally by $450 million in 1982 over 1981 levels. This program provides energy assistance to low income households to offset the rising costs of home energy. As it is unclear at this time how program reductions will affect New York City recipients, no dollar impact has been reflected in the City's estimates of the costs of the President's additional proposed cuts.

Details on the major service losses that will result from the passage of the Reconciliation Act and the additional losses that would result from implementation of the proposed additional 12% reduction can be found in the pages that follow. Decisions to allocate the City's $45 million reserve have not yet been made because the Congress has not completed action on the appropriations so the full extent of the reductions that will affect the City is not clear. One thing is clear -- the City does not have the resources to offset the proposed new round of Federal budget cuts.

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RECONCILIATION AND REAGAN'S 12 PERCENT CUTS
SUMMARY OF PRINCIPAL FEDERAL REVENUE LOSSES IN
NEW YORK CITY
($ in Millions)

	Fiscal Years					
	1982			1983		
	Recon.	12 Percent^X	Total	Recon.	12 Percent^X	Total
EXPENSE BUDGET						
AFDC	$ 11.3	$ 0.0	$ 11.3	$ 33.7	$ 0.0	$ 33.7
CETA-Public Service Jobs*	177.7	0.0	177.7	177.7	0.0	177.7
CETA-Youth and Training	25.7	12.1	37.8	34.3	16.1	50.4
Community Development Block Grant	0.0	0.0	0.0	13.0	28.0	41.0
Community Services Block Grant	5.6	4.5	10.1	7.5	6.0	13.5
Education	34.1*	7.0	41.4	46.4**	34.1	80.5
General Revenue Sharing	0.0	27.0	27.0	0.0	35.0	35.0
Health	2.7	1.4	4.1	4.3	3.3	7.6
Social Services	15.4	16.6	32.0	18.6	22.1	40.7
Total Expense Budget Revenue Reductions	$272.5	$68.6	$341.1	$335.5	$144.6	$480.1
CAPITAL BUDGET						
FAUS-Bridges / Highways	$ 0.0	$ 8.3	$ 8.3	$ 0.0	$ 11.0	$ 11.0
Mass Transit-Capital	0.0	37.0	37.0	0.0	37.0	37.0
Wastewater Treatment	222.0	0.0	222.0	775.5	0.0	775.5
Total Capital Budget Revenue Reductions	$222.0	$45.3	$267.3	$775.5	$ 48.0	$823.5
OFF-BUDGET REDUCTIONS						
Reductions Affecting Independent or Quasi-Independent Agencies						
. Health & Hospitals Corp.	$ 14.0	$ 0.0	$ 14.0	$ 28.0	$ 0.0	$ 28.0
. Housing Authority***	57.0	31.0	88.0	57.0	31.0	88.0
. Housing: Section 8	25.1	1.7	26.8	33.0	2.3	35.3
. Mass Transit Operating Aid	0.0	15.0	15.0	0.0	20.0	20.0
. Medicaid	14.0	0.0	14.0	45.0	0.0	45.0
Reductions Affecting Individuals and Businesses						
. Food Stamps****	$ 18.0	$ 0.0	$ 18.0	$ 36.0	$ 0.0	$ 36.0
. UDAG/EDA	75.0	28.6	103.6	75.0	28.6	103.6
Total Off-Budget Reductions	$203.1	$76.3	$279.4	$274.0	$ 81.9	$355.9
TOTAL AID REDUCTIONS	$697.6	$190.2	$887.8	$1385.0	$274.5	$1659.5

X Additional Reagan reductions which do not necessarily represent a 12 percent cut from Reconciliation.
*Based on Rescissions - Spring 1981.
**Reflects a midpoint between House and Senate appropriations proposals.
***Based on H.R. 4034, Housing and Urban Development appropriation which was approved by the House/Senate Conference on 9/9/81 and the full House on 9/15/81. Senate approval is necessary before the bill goes to the President.
****Does not include repeal in the Reconciliation Act of statutory increases.

OMB
10/15/81

SOCIAL SERVICES BLOCK GRANT

The Reconciliation Act converts Title XX of the Social Security Act into a social services block grant and reduces the 1982 funding level by 20% from 1981. In Federal fiscal year 1982, New York State's allocation of the block grant will be $185 million or 24.2% less than it was in 1981. (The additional reduction of 4.2% for New York State is due to a decline in the State's population relative to other states.) In City fiscal year 1982, this represents a loss in Federal funds for social services programs of $15.4 million. In 1983, when the City will experience the full impact of the Federal cuts, the loss in Federal funds will be $18.6 million. These reductions will affect a wide range of social services and will be most severely felt by the City's programs for the elderly and its network of day care services for children. The specific service impacts, if alternative funding were not made available would be:

- In FY 1982 the operation of 44 day care centers is jeopardized. These centers provide full-time and after-school care for approximately 5,000 children of working mothers throughout the City. Many of these mothers may become dependent on public assistance if day care is not available and they cannot continue to work.

- The funding loss will affect the continued operation of 23 senior citizen centers. These centers provide hot meals, companionship and social activities for thousands of elderly persons each year. The cut in funds may mean the elimination of 816,000 visits by the elderly to such centers.

- The provision of home care services to 174 families may be eliminated. These housekeeper and homemaker services include household management, house cleaning, preparation of meals and shopping.

- The delivery of a wide range of community based social services will be affected by the cut. These include information and referral, home management, services to victims of domestic violence and to unmarried parents.

SOCIAL SERVICES BLOCK GRANT (con't)

IMPACT OF ADDITIONAL FEDERAL CUTS

The President has proposed additional budget cuts that represent a 12% reduction from his March budget request. The additional cut would decrease the social services block grant allocation authorized under the Reconciliation Act by 17.8%. For New York City, this would mean a further reduction in Federal funds of $16.6 million. The additional decrease in funds would require the City to make substantial cuts in day care and senior citizen programs as well as in home care and other social services.

- The City's day care program would have to reduce services to an additional 5,500 children by closing 48 centers.
- At least 25 additional senior citizen centers would be at risk of closing, and over 887,000 visits by the elderly to these centers would be eliminated.
- The homemaker and housekeeper services now supporting 188 households would have to be eliminated.
- Additional cuts in social services such as information and referral would further impair the service delivery network.

AGING

The proposed new cuts would eliminate 581,000 meals delivered to the elderly annually and 436,000 in our current fiscal year. The City's impact is offset, almost completely, by the availability of prior year funds in 1982.

MEDICAL ASSISTANCE

Rather than imposing a cap on each State's Medicaid expenditures as originally proposed by the Administration, the Omnibus Reconciliation Act reduces payments to the states by 3% in Federal fiscal year 1982, 4% in 1983 and 4.5% in 1984. However, states with hospital cost-containment programs and effective fraud and abuse controls will receive a total forgiveness of two percentage points of these potential losses in Federal reimbursement. New York State will qualify for the hospital cost containment forgiveness. But, despite its effective monitoring program against fraud by providers and recipients, the State's qualification for relief based on its efforts against fraud and abuse may be in doubt (particularly in federal Fiscal Year 1983) as the result of inappropriate restrictions on such relief in newly issued Federal regulations. As a result, the possible loss of Medicaid dollars to be sustained by providers of medical services in New York City could fall between $14 million and $28 million in FY 1982, rising to $45 million in FY 1983. The State has sought to offset Medicaid losses statewide through the infusion of funds from other third-party insurers of medical services. The final extent of any adverse impact of the Medicaid reduction on providers of medical services in the City, including the City's Health and Hospital Corporation, is, therefore, unclear.

The Health and Hospitals Corporation may, however, suffer a loss of revenues through another provision of the Reconciliation Act which would reduce the reimbursement of costs of care for patients ready for discharge from acute care but awaiting suitable placement for their convalescence. The Corporation and the City are seeking clarification of this provision in Federal regulation to give more favorable treatment to public hospitals with patients who are more difficult to place in nursing homes and to take into account the nursing home shortage in the State. The potential loss of revenues to the Corporation is estimated to be $14 million in FY 1982 and $28 million in FY 1983.

AFDC

Changes in AFDC eligibility standards and benefit levels will reduce Federal funds to New York City public assistance recipients by $11.3 million in FY 1982 and, when fully implemented and effective, by $33.7 million in FY 1983. The major changes pertain to earned income disregards and the eligibility of students ages 18 and over. Collectively, they constitute a disincentive toward both work and education -- two key elements in fostering self-sufficiency. Of the 32,000 persons who will become ineligible, 15,000 will be students and 12,000 will be from working poor cases. Of the additional 93,900 recipients who will have their benefits reduced, 37,400 will be from families of the working poor. In some instances, people who lose Federal AFDC eligibility will receive asstance under Home Relief, a general assistance program funded entirely by the State and City. The increased costs of this program are estimated to exceed any savings the City will realize from changes in AFDC regulations.

- 12,000 persons from working-poor cases will become ineligible due to the imposition of a cap of 150% of each State's standard of need on the gross earned income of recipients and to a limitation on the use of the $30 and 1/3 earned income disregard to four consecutive months.

- 15,000 students ages 18 and over will be eliminated from the AFDC program by a provision eliminating aid to all such recipients who will not graduate before their nineteenth birthday. Initially all of these 15,000 recipients (and in cases where the 18 year old is the only child, 2,000 of their parents) will become recipients of the Home Relief program. After six months, it is estimated that 20% will leave the program for a net increase in the Home Relief caseload of 13,600 recipients.

- 3,000 women pregnant with their first child will lose AFDC eligibility prior to the sixth month of pregnancy. These 3,000 women will be eligible for Home Relief between the 4th and 6th month of their pregnancy. Beginning with the sixth month, these 3,000 pregnant women will again qualify for AFDC benefits. However, their grants will no longer include additional compensation for the needs of the unborn child.

AFDC (con't)

- The benefits of 37,400 persons with minimal earned income at the transition point between welfare dependency and self-sufficency will be reduced by limiting the dollar amounts of allowable deductions from earned income for work related expenses and child care expenses.

- Many AFDC recipients who do not transfer to Home Relief will lose eligibility for Medicaid. This could cause a further increase in the number of medically indigent patients cared for by the Health and Hospitals Corporation requiring an increased subsidy to the Corporation.

FOOD STAMPS

Changes in Food Stamp benefit levels and eligibility standards will reduce Federal dollars flowing to New York City food stamp recipients by $18 million in FY 1982 and by $36 million in FY 1983, when the changes are effective for the entire year. A total of 42,000 persons will become ineligible and all of the remaining 1.2 million food stamp recipients in the City will have their benefits reduced. Ineligibility will result from changes which exclude strikers and boarders, redefine family units, and lower gross income eligibility levels. Benefit reductions will result from limiting earned income deductions and from lags in increases in the Thrifty Food Plan and pro-rating initial month's benefits. Statutory increases in 1982 of $27.0 million in benefits to compensate for inflation have been repealed.

As in the case of the Administration's reductions in the Aid to Families with Dependent Children Program the major impact of these changes will be on the working poor, undermining their limited self-sufficiency and increasing the probability that they will become fully dependent on public welfare programs.

LEGAL SERVICES CORPORATION (LSC)

The Administration continues to propose elimination of funding to the Legal Services Corporation and also proposes to include legal services as an item eligible for funding under the Social Services Block Grant. LSC was not included in the Reconciliation Act. Both the House approved appropriation and the Senate subcommittee agree on a level of $241 million, reducing New York City's share down to $8.6 million in 1982 from $11.6 million in 1981. These funds are not reflected in the City impact analysis (see page 5).

LOW INCOME ENERGY ASSISTANCE

Although this program was untouched by the Reconciliation Act, the President has proposed that it be cut nationally by $450 million in 1982 over 1981 levels. This program provides energy assistance to low income households to offset the rising costs of home energy. As it is unclear at this time how program reductions will affect New York City's recipients, no dollar impact has been reflected in the City's estimates of the costs of the President's additional proposed cuts.

CETA

On September 30, 1981, the Public Service Employment (PSE) program ended, resulting in a loss to the City in FY 1982 of $177.7 million in Federal funds. Additionally, in the Omnibus Reconciliation Act the authorizations of the CETA training titles that remained (Youth Employment, Youth Employment and Training, Summer Youth Employment, Adult Training and others) were reduced by over 23 percent from 1981 levels.

While the City has taken action to alleviate the loss of essential services by converting some 6,100 CETA PSE jobs into City-funded jobs, the elimination of PSE and the reduction of training titles undermine the City's efforts to improve the employability and reduce the welfare dependency of the poor. The Reconciliation Act would result in a $25.7 million reduction in Federal training funds in FY 1982 and $34.3 million in FY 1983 (although neither house of Congress has as yet considered appropriations that are up to the full level authorized under the Reconciliation Act.) If a further 12% reduction as proposed by the Administration is enacted, the City will experience an additional loss of $12.1 million in Federal funds in FY 1982 and $16.1 million in FY 1983. These reductions are expected to have the following impact, not including the effects of inflation, on the numbers of participants in training programs.

- Over 4,000 former public assistance recipients placed into PSE positions are expected to return to public assistance in 1982, while many other employable recipients will continue to be dependent upon welfare as a result of the elimination of PSE.

- Over 12,000 adults and youth in training and employment programs will no longer be able to participate in those programs as a result of cuts contained in the Reconciliation Act. If the Administration's additional 12% reduction is enacted, a further decrease of 3,700 in the number of participants would occur.

- Summer youth programs will be able to support 2,000 fewer participants under the Reconciliation Act and an additional 5,500 participants would no longer be served if the further 12% reduction proposed by the Administration is enacted.

COMMUNITY SERVICES BLOCK GRANT

The Community Services Administration was disbanded and funding for Community Action Programs was consolidated into the Community Services Block Grant by the Omnibus Reconciliation Act. The authorization for community services was reduced by 25 percent over Federal fiscal year 1981 and funds will be allocated, for the first time, to State governments. States may retain up to ten (10) percent of their allocation and must distribute not less than 90 percent to local Community Action Agencies.

When the State assumes the Block Grant, funding for the Community Development Agency, the City's eligible entity for community services money, would be cut by $5.6 million in FY 1982 and $7.5 million in FY 1983, assuming the City's share of the State allocation remains the same. If the additional 12% reduction proposed by the Administration is enacted, the loss of funds would be $4.5 million more in FY 1982 and $6.0 million more in FY 1983. If programs and staff needed to support and monitor these programs are proportionately reduced, the funding that supports almost 100 delegate agencies serving over 90,000 participants in various programs would be lost. An additional 12 percent reduction would further cut funding that supports about 85 delegate agencies and serves 85,000 program participants.

HEALTH AND MENTAL HEALTH PROGRAMS

The budget reductions contained in the Omnibus Reconciliation Act affect New York City's public health system in several major areas - community mental health centers, alcoholism treatment programs, various screening and diagnostic services, out-patient clinics, and rodent control programs. The total loss of federal dollars in these areas will equal $2,700,000 in Fiscal Year 1982 and $4,300,000 in Fiscal Year 1983. The Administration's proposed additional cuts in health care would result in a further loss of Federal dollars of $1,400,000 in Fiscal Year 1982 and $3,300,000 in Fiscal Year 1983. The major service impact of these cuts, if not offset by additional City expenditures, would be as follows:

- In the Community Mental Health Centers 17,000 visits would have to be eliminated in FY 1982 and 38,000 in FY 1983. This means that some mental health services provided to children, the elderly and other adults on an out-patient basis would be eliminated or reduced, increasing the potential need for even more costly in-patient service. The additional Administration cuts would increase these service losses by 2,000 visits in FY 1982 and 14,500 visits in FY 1983.

- Alcoholism treatment programs in the City (not funded through the City's budget) will lose $750,000 in Federal funds in FY 1982 and $1 million in FY 1983, losses that will increase by approximately $200,000 in each year if the Administration's additional cuts are enacted.

- Public and preventive health care screening programs operated by the City would lose approximately $300,000 in Federal funds in FY 1982, increasing to $500,000 in FY 1983, with further losses of $400,000 and $1,329,000 in these years if the President's additional cuts become law. The most critical losses would occur in the City's lead poisoning detection program and in its venereal disease control program. In FY 1982 the Omnibus Reconciliation Act reductions would deprive 11,100 children of diagnostic blood tests,

HEALTH AND MENTAL HEALTH, CONT'D

without which treatment to prevent lifelong disability from lead poisoning could not commence. In FY 1983 the number of children deprived of screening would increase to 22,000. The Administration's additional proposals would cut off 13,000 more children from these tests, over both years. City efforts to detect and treat venereal disease would also be damaged. The Reconciliation Act provisions would reduce testing for venereal disease by 21,000 cases in FY 1982 and 41,000 cases in FY 1983. With enactment of the Administration's further cuts, cases tested would drop by another 15,000 in FY 1982 and 30,000 in FY 1983. Patient visits to receive treatment would be cut by 7,000 in FY 1982 and 30,000 in FY 1983.

-A decrease in funding to preventive health services will hurt the City's efforts to control rodent infestation. The City's budget for this program, which includes extermination and refuse clean-up, would be reduced by $150,000 and $200,000 in Federal funds in 1982 and 1983 and by a further $250,000 and $340,000 in those years if the additional federal cuts are implemented.

Reconciliation did not include an extension of Section 328 of the Public Health Service Act. This would eliminate federal funds to three New York City community health centers now receiving Section 328 grants. The proposed cuts in Section 330 Community Health Centers may result in closing up to two hundred centers nationwide and puts some New York City centers at risk.

A tuberculosis categorical program newly created by the Reconciliation Act has received no Congressional appropriation. This will not be a cut in an existing program, but a lost opportunity at a time when tuberculosis is on the increase.

Federal funds for public health service hospitals have been eliminated. Although the Reconciliation Act allowed for the transfer of these hospitals to private operation, no plan has as yet been accepted by the Administration to transfer operation of the 407 bed Staten Island Public Health Service Hospital.

BOARD OF EDUCATION

The Board of Education will lose between $31.3 - $36.8 million in FY 1982. This represents a loss of between 9-11% of the Federal funds anticipated for the Bd. of Education in the City's financial plan. Because Federal aid to education is "forward funded", (with the exception of Impact Aid and Child Nutrition), City FY 1982 reductions represent Federal FY 1981 rescission levels. If President Reagan's proposal to eliminate certain categories of impact aid (which is "current funded") is adopted, the Board of Education will lose an additional $7.1 - $12.6 million in FY 1982. In FY 1983, the Board of Education will lose $80.5 million, or 23% of the Federal grants assumed in the City's FY 1983 financial plan. Reductions in City FY 1983 are based on the adoption of President Reagan's proposed funding levels for Federal FY 1983.

Under President Reagan's current budget package, programs for low income and disadvantaged students, handicapped students, vocational education students, and students with limited English proficiency will have to be cut back significantly. More than 30 programs will be consolidated into a block grant in FY 1983 at greatly reduced funding. The Board of Education will lose $53.3 million, or 27% of current Federal aid associated with block grant programs. In addition, the block grant requires an equal per capita expenditure on children in private schools, further reducing funds for public programs.

Implementation of the block grant in City FY 1983 would fundamentally alter the individual nature of current Federal programs. Each state will have to develop its own formulas for allocating block grant funds. However, to analyze the potential funding and service impact on New York City, President Reagan's reductions were assumed in proportion to FY 1981 rescission levels. By FY 1983 Title I which provides remedial education for low income students, and Emergency School Aid which provides desegregation aid, will suffer more than 87% or $46.9 million of the block grant reduction. The Board of Education will also lose $15.0 million in Impact Aid which is intended to compensate for lost local revenue due to Federal properties.

Specific programs will be affected as follows. Service reductions are stated in terms of program equivalents.

- Title I of the Elementary and Secondary Education Act will be cut by $15.8 million in FY 1982, the equivalent of approximately 1400, or 10% of all Title I remedial classes. To serve the same number of Title I students without reducing program levels, the pupil to teacher ratio would have to increase substantially. Assuming a proportional share of the block grant reductions in FY 1983, the equivalent of an additional 1800 classes could be lost bringing a total reduction to an estimated $36.1 million or 22% of the current Federal levels.

- Emergency School Aid (ESAA) which provides desegregation grants to schools will be reduced by $4.7 million in FY 1982, or more than 40% below current funding. In FY 1983, based on a pro-rata share of the block grant the City will lose an additional $6.1 million for a total reduction of $10.8 million.

- Title IVB (Instructional Materials and School Library Resources) and Title IVC (Improvement in Local Educational Practice) will be reduced by $1.7 million in FY 1982. During this year, innovative projects for school improvement, purchases of library resources, instructional materials and equipment will be reduced more than 21% below FY 1981 levels. By FY 1983 the City will lose an additional $2.2 million, for a total reduction of $3.9 million or 49% of existing levels.

- Impact Aid, intended to compensate New York City for lost tax revenue from Federal properties, will be cut between $2.4 to $7.9 million in FY 1982 based on current House and Senate proposals. This action could require the elimination of from 100 to 330 teachers. However, the President proposes the complete elimination of Impact Aid in categories benefiting New York City. This proposal, if adopted, will result in a potential loss of $15 million or 100% of current funding in both FY 1982 and FY 1983 and require the loss of approximately 625 teaching positions.

- Vocational Education will be reduced by $4.7 million or a 24% reduction in FY 1982. This reduction is approximately equivalent to the loss of 1000 classes. By FY 1983, vocational education will lose the equivalent of an additional $3.1 million or 700 additional classes, for a total program reduction of $7.8 million or 40%.

- Federal Aid for Bilingual Education will be reduced by $6.3 million in FY 1982 or 33% of current Federal aid for bilingual education. This could require the elimination of the equivalent of approximately 800 classes. By FY 1983 an additional $3.5 million in Federal Aid or the equivalent of 450 additional classes will be lost. This represents a reduction of more than 50% of all bilingual programs by FY 1983.

TRANSPORTATION

The Reconciliation Act did not include reductions to the transportation programs providing funding to the City's mass transit and highways systems. However, the additional 12% cuts now being proposed by the President would impact directly on both mass transit and highway assistance.

Implementation would reduce capital funds available to the City by as much as $37 million which will either delay the Transit Authority's program to rebuild its infrastructure and replace inefficient buses and subway cars or require a fare increase. In mass transit operating assistance, the President's proposal would eliminate $15 million in assistance to New York City.

Federal aid to highways will be reduced by $11 million in FY 1983 if the proposed budget cuts are implemented, affecting highway, bridge and other infrastructure construction and improvements.

Interstate transfer grants were increased to $1 billion under the Reconciliation Act, divided between $600 million for mass transit projects and $400 million for highway grants. The President's cuts would reduce this to $704 million. Under the distribution formula proposed in H.R. 4209, the City would lose $8 million, $5.6 million in mass transit and $2.4 million in highway grants. These funds could be used to augment the transit and highway capital program.

WASTEWATER TREATMENT

Federal funds provide approximately 75% of the cost of construction for new wastewater treatment plants and the upgrading of existing plants to meet required Federal standards. A major portion of the current program is being advanced according to a timetable mandated by the Federal Courts. The City Capital Commitment Plan reflects $222 million in Federal funds for 1982 and $1.4 billion in Federal funds for 1983-85. With no new Federal funding for this program approved for 1982 or future years, the City under the mandate of a Federal court and the requirements of Federal law may have to bear the full burden of this $1.6 billion program unless regulatory reforms are enacted. Regulatory reforms are included in pending legislation at a substantially reduced level of funding.

GENERAL REVENUE SHARING

The Reconciliation Act did not reduce the General Revenue Sharing program to localities. The President has proposed a 12% reduction for a national savings of $550 million. The City's loss will be $27 million in 1982 and $35 million in 1983. Currently the funds are used to pay for teachers' salaries and their loss would require replacement funds for the salaries of 1,800 teachers.

HOUSING, COMMUNITY DEVELOPMENT AND ECONOMIC DEVELOPMENT

Subsidized Housing

In the recently submitted Housing Assistance Plan, the City identified a need to provide rehabilitation and rental assistance to approximately 860,000 households over the next three years. The proposed Reagan reductions would result in a 32 percent reduction from the FY 1981 level of 8,080 newly assisted households under the Section 8 program. The reduction would allow only 5,434 families in FY 1982 to join the Section 8 program, which is one of the only government supported efforts to provide safe and decent housing for low and moderate income families, (income guidelines would, for example, make a family of four earning approximately $19,000 ineligible for Section 8). In addition, new program regulations dictate that over a five year period most currently assisted families will have to increase their contribution to rents from 25 percent to 30 percent of their income. The reduction of such rent subsidies for low income families decreases the amount they have available for other necessities of life.

Housing Authority

The proposed reductions in federal operating subsidies for the City's Public Housing Authority will have an immediate and consequential effect on the services provided to tenants. The impact will be shared by the 55,000 elderly, the working families living in the impacted projects whose average family income is approximately $12,000 and the approximate 44,000 families on public assistance. To offset the reductions of approximately 30 percent in the Federal operating subsidies, the Housing Authority may be required to:

- eliminate all community, senior citizen, and day care centers servicing approximately 25,000 - 30,000 people
- eliminate all tenant service oriented programs
- increase from approximately 3 to 5 years the cycle on which apartments are painted
- eliminate the replacement cycles for apartment furnishings such as stoves and refrigerators
- substantially reduce all maintenance programs which will accelerate the deterioration of the existing physical plant and reduce the Authority's ability to respond to heat and hot water complaints and to elevator breakdowns
- eliminate all planned operating improvements originally anticipated to conserve energy and reduce operating costs

Subsidized Housing (Con't)

- eliminate the hiring of all seasonal caretakers
- significantly reduce administrative personnel responsible for financial auditing, rent collections, employee training programs and community relations.

Community Development Block Grant and Urban Development Action Grants

Formula changes in the Community Development Program will reduce the receipt of funds in 1983 by $13 million. These funds, which basically support housing related programs, will constitute a 5.3 percent reduction from 1981 levels. The President's new proposal calls for a cut of $500 million from the combined total of $4.166 billion for Community Development Block Grants and Urban Development Action Grants in the Reconciliation Act. If the cuts were applied across the board in each program, the City's additional loss would be $29 million for Community Development Block Grants and $4 million for Urban Development Action Grants.

Economic Development

The effect of the Reconciliation Act reduction on economic development, combining both the HUD and Department of Commerce programs, will cost New York City an estimated $75 million in FY 1982 in grants that are awarded on a competitive basis. These programs support economic development efforts, jobs programs and efforts to rebuild the City's infrastructure.

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Representative RICHMOND. Thank you, Mr. Mayor. Under the rule, we'll each have 10 minutes.

Mr. Mayor, there are two things that bother me, two nationwide problems. We are sitting on this Joint Economic Committee and having hearings—as you know, we have hearings almost every day now under our great chairman, Henry Reuss, who's devoting all his time to developing the Joint Economic Committee. I've learned an awful lot and maybe you can help me out with two problems that bother me more than anything else.

No. 1, is the problem—and your problem probably is among the worst in the United States—the crumbling infrastructure of your city, which is obviously no fault of yours. It's more my fault than yours because I was a member of Bob Wagner's cabinet years and years ago when we got great pleasure in cutting red ribbons and opening up swimming pools and schools and libraries and there was no thought of preventive maintenance.

So my first question to you is, how in the world are we ever going to take this incredible city of ours, this efficient city, the city with the fastest, oldest, most efficient subway service in the world—how are you going to keep that subway system going under Reaganomics?

The other question I have is, what are we going to do to get the administration, in which you have excellent contacts, as well as Bill Green—what are we going to do to get the administration to understand that this Nation will never be a fully integrated, healthy Nation until we start making plans of what we're going to do with the 40 million people in the Nation, many of whom live in our city—20 million who live below poverty and 20 million who live at poverty?

Those are the two biggest problems that you're probably faced with. The other problems, sure, you have night and day, but I know with your competence you can handle them. But what are we going to do to put this city back in shape, first of all to keep it from falling apart, and second, what are we going to do about those young teenagers who dropped out of school in the first year of high school and are totally unemployable? Now obviously, they've got to get in trouble. Jails aren't going to keep them from getting in trouble. The only thing that's going to keep them from getting in trouble is a massive program to get them participating in the economic mainstream. Those are my two questions.

Mayor KOCH. Fine. As it related to our crumbling infrastructure, we are addressing it to the best of our ability. We propose spending about $30 billion over the next 10 years, and some people say, is that enough? Well, it's never enough. I could give you additional programs that could spend $40 billion. But we believe that it is the maximum that we can raise. About half of that comes from local funds, general obligation bonds that will be floated, and the balance will come from the State and from the Federal moneys that are provided all cities.

We are not asking for anything special. And also, included among that, will be user fee charges; for example, the water authority which is all set forth in our plan that's been filed with the financial control board and other user fee charges.

I was interested in seeing reports in the papers and also watching television news on the weekend, and they are saying, "My God, this city is going to be tying up the Borough of Manhattan because they are going to be fixing the roads," like it's a terrible thing we're dcing. You're damned if you do and damned if you don't.

Hopefully, when we fix up the roads, as we will, we will do it in an intelligent way so as to impact adversely as little as possible, but there will be inconvenience and it is a 10 year program, but we do go forward; and I must say I'm quite proud of the way the city of New York, which had no capital budget when I came in, or very little—nothing comparable to what we currently are spending—last year our total commitments were $1.3 billion in our capital budget. About $890 million of that was city and the balance was State and Federal. We expected to do even better, but the State and the Federal cutback in a number of areas, particularly in the water and sewage areas, made it impossible to spend the $2 billion that we expected to spend, but we were able to spend it as we had it.

I must say to you that when I first came in, the city having no ability to spend, had no ability to spend because we didn't have any more. The muscles of this area had atrophied and it took us 1 year to put it all together, and then we were able to go forward and to spend in a very timely way all of the moneys committed for capital expenditures in our 4 year program. We are very proud of our capital program. I mention that because of what Bill Green mentioned earlier about what Mr. Fisher had said about an inability to spend. They had an inability and have an inability to spend because they haven't been spending, but I'm hopeful that Dick Ravitch and others there—and we can address more about the MTA when we get to your questioning, Bill—I'm hopeful that they will put together the same kind of capital construction team that we put together in the city which we are very proud of.

Now as it relates to the people who are unemployed and who are not part of the society in terms of participating in a full way, you have used the figure of 40 million; 20 million below the poverty line and 20 million at the poverty line. I accept your figures.

First, the city cannot provide the jobs. When I say "provide the jobs," I mean on the city payroll. That's ridiculous for anybody to expect. I know you don't. The Federal Government can have plans and programs to create jobs with Government dollars—CETA jobs and other jobs, summer jobs—and the craziest thing of all is they have cut back on the summer jobs. Can you imagine cutting back on 7-week summer jobs that youngsters really should be given in larger numbers? We had 120,000 youngsters—and I say youngsters, they are not so young, 14 to 20—20 is not a youngster, but that's the group that was involved. We had over 120,000 such people wanting jobs, and my recollection is that the Federal allocation was less than 50,000 summer jobs. We went out and got the private sector to come in with some, but nevertheless, tens of thousands of people out there were wanting these summer jobs and we didn't have them to give.

But where the city can provide help to people, because you referred to some of these people as unemployable, is giving a better education. I'm very proud of what we have done in that area, and I will stop at this point on that question. For the first time in 12 years, the children in the city—black, Hispanic, Asian, white—are reading at above national norms. For 11 years before, they failed. Now, if you can't read, if you can't write, if you can't speak English in an appropriate way, if you can't do mathematic skills, then you can't get a job in this city because we are now a service industry town. We still have, fortunately, manufacturing jobs, but those are decreasing, due to energy costs and other things, and the 600,000 jobs that we lost in the 8-year period from 1969 to 1977 were basically in the manufacturing area, but the new jobs are in the banking area for clerks and others who can do that kind of job, in the hotel business, in the service industries. We are giving people in school better education now. We have the gate policy, which I think you're familiar with. You no longer can be promoted in the city of New York in the fourth to seventh grades if you can't read.

Representative RICHMOND. Mr. Mayor, I think that's more a Federal problem than a city problem. What would you think of some major Federal program—I think we know that unemployable people could function better in a small business than in a large business.

Mayor KOCH. Sure.

Representative RICHMOND. I think we also know that large businesses don't want to hire them. They don't want the tax credits. They can't be bothered. Their organizations are too large.

What would you think of some type of Federal program where we gave the small businessperson something like a $6,000 tax credit for each unemployable young person he or she hired and trained for a year's period?

Mayor KOCH. I'm not prepared obviously to respond to a particular program. You would have to give us——

Representative RICHMOND. What about New York City? Do you have any plans for getting private industry together to hire young people? We've just got to do something about getting people off the street.

Mayor KOCH. Let me tell you what New York City's program is as it relates to jobs because I constantly see—and it's quite reasonable that you should ask—the editorials saying why doesn't the mayor get more people jobs in the city of New York? I wish I could. All I can do is create a business climate that will expand business so that they will hire people.

Representative RICHMOND. What about you and your wonderful deputy mayor setting up some type of private organization to encourage loca businesses to hire and train unemployed people?

Mayor KOCH. In the summer job program——

Representative RICHMOND. It can't be done with large business. It has to be small businesses.

Mayor KOCH. In the summer job program, the private sector came up with 14,000 summer jobs. That's 14,000 more than the year before—when you shake your head——

Representative RICHMOND. Agreed.

Mayor KOCH. And with an enormous effort on their part. It is not easy. I want to say that in the private sector, the private sector does not do things on the basis of charity.

Representative RICHMOND. That's why I want to give them a tax credit.

Mayor KOCH. I understand that and you have to be careful about it, and I'm not in any way denegrating your proposal because I don't know what it will be, but it has to be very carefully structured, comparable to what we had after World War II where you paid part of the bill but there was a legal commitment to take that person and keep that person on the payroll at the end of the period, because you don't want to have the business people just ripping us off. They are capable of it, you know.

Representative RICHMOND. Thank you. Representative Ferraro.

Representative FERRARO. Thank you, Congressman.

I just want to follow up on that. That's a targeted jobs credit which is currently available in our Internal Revenue Code and which does allow $3,000 for credit to a private employer and $1,500 the second year for certain categories of unemployables, and I tried to get displaced homemakers included in that as a seventh category and it's just too expensive. We're talking about cutting revenues that come into the city and this is another tax credit we couldn't allow. It's reducing revenues again to the Government.

Mr. Mayor, I'd like to just pick up on your comments on what it could cost to rebuild New York City over the next 10 years. Business Week magazine did a marvelous article on the cost of what's happening to the cities because of the Reagan administration or Reaganomics.

Mayor KOCH. They did.

Representative FERRARO. They place the figure of $40 billion on it, which you went into before. You said it would take $30 billion over the next 10 years. You said it would be raised, I believe, through bonds, user fees, and Federal and State moneys, as well as contributions by the city itself.

Let's take each one of those. How have the sale of municipal bonds, if at all, been affected by the sale of all-savers certificates?

Mayor KOCH. Well, we have sold for the first time in 6 years $175 million in general obligation bonds, which is something we are very proud of, and we have an investment grade rating that Standard & Poor gave to us.

We believe that there will be resistance to municipal bonds throughout the country, not just ours, as a result of the all-savers certificates and the high interest rates paid elsewhere so that the nontaxable aspects of municipal bonds will become less attractive to people, particularly again as a result of reducing the tax rate from 70 percent down to 50 percent for unearned income.

All of those things bear upon the receptivity of nontaxable municipal bonds. What the future holds, I'm not in a position at this point to intelligently comment upon.

Representative FERRARO. Again, the all-savers certificates just went into effect about a month ago, so you would not feel any effect at the moment.

Mayor KOCH. But people believe it will have a deleterious impact upon those who would otherwise be available to buy general obligation, nontaxable municipal bonds.

Representative FERRARO. Could you specify what you mean by user fees?

Mayor KOCH. User fees would be basically in the water area. Today, there are user fees. In other words, people today pay for water. It is not free. It's the cheapest thing available, but it is not free. My recollection is that it's $701 for 1 million gallons. That's what it is, which is—I want to tell you it's a lot of water for very little money. And as a result of the water shortage, we have been very careful in terms of imposing penalties on those who used to empty their water towers for air-conditioning on Monday because the water heated up over the weekend and instead of using electricity they would just empty out those huge barrels on the roofs and bring in fresh water at $701 per million gallons. We now have stopped that and impose fines of $25,000 is my recollection. They have to be separately metered. That's all new and we are doing that.

But what we would envision—and I have requested it and it's being worked on but it requires legislation, is a city authority, but provided under State legislation, which would take over the cost of the sewers—not just the water. It can't just be a money-making operation. It also has to pay for things. And part of the things it would be paying for would be the cost of the sewers.

I think that there are people in the city of New York who are unaware that there are places in New York City today in both Staten Island and Queens where there are no sewers and they use cesspools. You wouldn't think so, but they do.

Representative FERRARO. But those user fees are most applicable to commerical users?

Mayor KOCH. No.

Representative FERRARO. Are homeowners included in that?

Mayor KOCH. Yes; they would have to be.

Representative FERRARO. Would those user fees remain at the same level or be increased?

Mayor KOCH. I am not able to tell you that. Obiviously, we are never going to make water so expensive that people can't drink it.

Representative FERRARO. Or take baths, I hope. One other question.

Mayor KOCH. We are always going to reasonable.

Representative FERRARO. Where the moneys are coming from—you said the third category of revenues for the payment of that $30 billion over the next 10 years would be from Federal and state moneys as well as city contributions. Are you anticipating that the Federal moneys will remain at the same level as they were last month? Are anticipating that they will have a 12-percent additional cut? What are you anticipating?

Mayor KOCH. $30 billion has not taken into consideration the additional cut of 12 percent and in my prepared statement we point out that that 12 percent would mean about $1 billion in FAUS funding and $52 million in mass transit capital. So that has not yet been taken into consideration in our $30 billion figure.

Representative FERRARO. Then, to recap, on the amount of moneys that would be used for that maintenance of the infrastructure over the next 10 years, there's a possibility that the revenues from bonds could be affected by what we are doing with the all-savers certificates. There's a real possibility, as well, if there's a 12-percent cut, that you would have to look elsewhere to make up those moneys.

Mayor KOCH. Absolutely correct.

Representative FERRARO. I have just one final question. When the Reagan administration sold its program of cuts in State aid, they said that by increasing the flexibility to the State and municipal governments that they would, even if they cut 25 percent off the top, it would be OK because you would save that in in administrative costs; in actual real dollars, it wouldn't be a loss to the municipalities and States. Do you agree with that?

Mayor KOCH. No, I don't. I believe it is helpful to have block grants which is what we are talking about in these areas. I don't believe the administrative savings come anywhere near it and in fact it's my understanding that in the gearing-up to do whatever has to be done in a whole host of programs, we spend more than the original program because we have to put in whole new operating mechanisms and hire new people to do it. So it may very well be there may be a savings down the road, but there is no initial savings. There is an enormous loss.

Representative FERRARO. So the 25 percent as a real cut is dollars is——

Mayor KOCH. Hocum.

Representative FERRARO. Thank you, Representative Richmond.

Representative RICHMOND. Thank you, Congressman Green.

Representative GREEN. Let me return to the issue I raised in my opening statement and whether you would be willing to comment on the mass transit system. Again for the record, let me make it clear that the MTA is a State agency and the Governor appoints the majority of the people.

Mayor KOCH. You're very kind in pointing that out, but it doesn't help me, because people say, "The mayor is the mayor and the mayor has to make sure everything gets done." I wish I had the power to hire and fire. There have been suggestions that the transit authority be given back to the city of New York.

Everybody should understand that when the State took it over, they put in a provision there, that if we ever were to take advantage of the clause in the lease which does expire shortly, that there would be a reduction of, I think it's about a half percent—which runs into millions of dollars—in the amount of taxes we could raise on real estate. In other words, they put a penalty provision in there so as to prevent us from exercising our option under the law. It was very cutely done. I wasn't around then when it was done, but that's one aspect of it.

A second question gets to the substantive question as to whether or not it is feasible from a contribution point of view to expect that the State would in fact turn it over to us. I would have no objection to having its turned over in terms of control, as long as the money heretofore provided by the State, which has to be increased, were to continue. But I have found that government generally says that if we can't control—we're talking about State and Federal—then we don't want to put our money in. That's what has regrettably happened.

So that's the major problem from my point of view, always to assure the State contributions to our transit system, and we have already established, and the State accepted it, that it is a State responsibility to provide dollars because the economy of the State is predicated in whole or in substantial whole on the economy of the city of New York, and in excess of 60 percent of the unearned income that people have is earned, so to speak, in the city of New York, statewide. So they have a major stake in the fiscal health of the city of New York.

Now I'm not happy with the transit authority or the chairman or the president. They don't like me to say these things publicly. But I think that they are very able people. I don't know anybody who could do a better job, but that doesn't mean that I'm happy with what they are doing.

And the single most terrible thing that they have allowed to happen—and I've said it before and I have no hesitation about saying it now, and you have alluded to it—is how in the world can the management allow its workers to work 3 or 4 hours a day and then put down their tools, having performed what they refer to as a work quota, which was obviously set in an insufficient way? In fact, there shouldn't be a work quota. You should require that people work responsibly and that they do—they're getting a full day's pay and they're not putting in a full day's work, and that's outrageous.

Now, I know that happens in the private sector, and in the mayoral agencies, but it's not tolerated. There is a difference, you see. If somebody tells me that a commissioner is allowing people not to work knowingly, that guy or woman would not be a commissioner. They would be out on their ear—ear, yes—out on their ear.

Now the fact is that in the MTA they know about it and they let it go on. That is what is intolerable and unacceptable to me. And I have said and I will repeat it, I intend to take a more active role within the constraints that exist, and, if necessary, to seek additional powers from the State legislature. I don't know if that's required or in what form or whether it can be done by a better working relationship with the chairman and with the president, but I will have no hesitancy in praising them, and I praised Dick Ravitch when he was the one who brilliantly, I believe, came up with the idea of giving the public authorities the tax reduction that the private sector already had and you were able, Bill Green, to get it implemented. But he came up with that concept.

Representative GREEN. He certainly did.

Mayor KOCH. And he's done other things. And John Simpson has done very good things. The only question is delegating enough and then holding people responsible, and I'll close on that note, if I may, by saying this to you: when Norman Steissel came into the Sanitation Department, a lot of people weren't working. You may remember all those newspaper reports where they'd follow the trucks and the drivers would be going in to have coffee breaks six times a day and they weren't picking up the garbage. You don't hear about it anymore. I'm sure it's happening somewhere. You can't prevent people from abusing us, but when we find it out, we punish them and we make an effort to find it out, and we have instituted in the Sanitation Department and elsewhere an inspector general operation that doesn't deal solely with fraud but with incompetence, and with goofing off, which is not fraud in the criminal sense. And today, each month, I get a report from Norman Steissel, and it's available to the public and the reporters if they want it, listing the people who have been fined. First, we fine you, we discipline you, we suspend you, and we even fire you if you are abusing your sacred trust as an employee of the city of New York.

I don't think they do that in the Transit Authority or at the MTA, and they should do it.

Representative GREEN. My time has expired. Thank you.

Representative RICHMOND. Thank you, Mr. Mayor. It's a pleasure having you. As usual, you have answers for every question.

Mrs. Gerard, I would hope that we might consider this small business employment program. This would certainly come under your agency.

Mrs. GERARD. Yes.

Representative RICHMOND. But really, there's nothing more important. What's the use of building more prisons when for so much less money we could employ these people who otherwise would become criminal?

Mrs. GERARD. I think you're raising some very real questions. There still have to be some jobs there and every time you say you want to give credit and you talk about small business you have to have to have an environment in which small business is growing.

Representative RICHMOND. Yet we know for a fact that many many small business people, due to the minimum wage, have cut back their employees. If they were to get a tax credit, chances are they might be a little more interested in hiring a few additional people and training them.

Mrs. GERARD. I would love to talk with you about it, but I think you also ought to look at the point that small business is far less profitable than large business and unless it was a refundable tax credit, many couldn't use it, and who's going to pay for it? So I think we have an idea that we've got to work on.

Representative FERRARO. If I could just ask one question. We had anticipated small businesses would take advantage of the tax credit that was given to them by the Federal Government and they would increase their productivity and increase the volume of their business and all the rest of that stuff. It seems to me they haven't been doing it.

How much of an effect have the high interest rates had upon small business' effort to move in that direction?

Mrs. GERARD. Well, certainly, I think it's pretty well documented that, in a period of high interest rates, any small business will be hurt most. They have the working capital needs that rely on banks to constantly replenish their inventories, whereas a larger business has several options in how it finances itself in terms of public offers and use of banks. There's no question that small business does tend to be hurt more and we find that in our own very limited programs for financing and sort of leveraging the small amount of public moneys that we have, and, again, when you talk about tax credits, when we use the CD money in our own capital corporation, we find the demand for that kind of money is greater in this period simply because they are turning to us when previously they turned to the banks. But our resources are extremely limited. We are talking about a tiny pool of money.

Representative RICHMOND. All I know, Mrs. Gerard, is crime is about the most costly operation in the city and so much of it could be obviated if we could employ many of these would-be criminals who aren't basically criminals at all; they're people without hope, background, education, without job experience.

Mrs. GERARD. I agree with you.

Representative RICHMOND. And I think if we could do something through the private sector—and it's being done in many other cities—why don't you look and see what's being done in other cities? Perhaps we could find a good model.

Mrs. GERARD. I think we certainly have to pick up on that summer job program that was done and see how that could be turned around to a year-round program.

Representative RICHMOND. Or giving them part-time work so they will stay in high school.

Mrs. GERARD. One of the things they wanted to do with that partnership program, they wanted to see how they could identify those kids who were really making it in the summer job and make sure there was a permanent job for them, and I believe some of the companies did commit to keeping the people permanently who had been hired during the summer. So I think we've got to work on it.

Representative RICHMOND. I think a good way might even be a part-time employment where the students came in after school and made enough money so that at least we would be sure they would graduate from high school.

Representative Green had a questicn.

Representative GREEN. I'd like to pick your brain on the subject of enterprise zones. It appears from discussions with HUD officials that the administration is trying to shape an enterprise zone proposal. Do you think there is something in the idea, and what level of incentives do you think would be necessary so that it really would affect business decisions to locate in South Bronx as opposed to South Carolina? Can it be done through this concept?

Mrs. GERARD. I think, Representative Green, like any of these, we should have learned enough not to assume any of them is going to be the answer to all of our problems; and if enterprise zones work they are going to be one additional tool that I think we have to give a chance to. But from my observation of why businesses will be in the South Bronx or Brooklyn or any of the areas that are distressed, I'm concerned that we'll put emphasis only on what is the tax incentive that you will give. I think from my short time of looking at this, the level of services that are provided within these areas is probably one of the most important reasons why a business would or would not be there.

So when we start looking to what the local contribution should be, my own sense is that the most important thing we could do is to provide a safe environment, one that's secure, one where the streets are clean and so on, so business would want to be there. But I don't think you can hold out the kind of thing that, gee, we've got a new tool and it's going to do everything. It's something that I think we've got to try to work with limited expectations.

Representative RICHMOND. Thank you, Deputy Mayor Gerard. It's been a pleasure to see you this morning.

Our next witness is the president of the city council, Carol Bellamy. Carol, it's a pleasure to have you with us. Certaintly, if there are any problems in the city, you know about them.

STATEMENT OF CAROL BELLAMY, PRESIDENT, NEW YORK CITY COUNCIL, ACCOMPANIED BY GERALD FINCH, STAFF ASSISTANT

Ms. BELLAMY. I have just a couple of comments about the discussion that's taken place because I'd hate you to believe that some activity wasn't going on. I think Deputy Mayor Gerard spoke about the economic development effort and I think her convening of the task force and pulling together the employment people in this city and some of the economic development people in this city they're trying to deal with the problems you're talking about. The mayor mentioned 14,000 jobs last summer, not jobs to be sneezed at by any means, in this economy.

It's important to point out that the budget this past year contained additional dollars for vocational education and vocational education is undergoing some restructuring in our educational system and an increased priority. There is, for example, the TOP's program which places youngsters in connection with the vocational education program in jobs to try and make that connection. I think there's greater room for some co-op education and job development in the city that ought to be going on in some discussions with the transit system and the Board of Education.

So I don't want you to think that there is not something that's happening here. However, that was not part of my statement. Let me turn to my prepared statement which I will try and summarize, having submitted it.

Representative RICHMOND. Your entire prepared statement will appear in the printed record.

Ms. BELLAMY. I'd like to say in general I support the President's broad economic goals. I hardly think that you couldn't. We are all for a strong economy. I question his policies for achieving them. In particular, I question the compatibility of his expansionary tax policies and his contributory spending and monetary policies. I sincerely hope that this peculiar potpourri of tax cuts, spending cuts, and monetary restraint will, in fact, stimulate growth and lower inflation. I fear, however, that it will do just the opposite.

As things now stand—and the mayor has presented testimony to you in great detail in his prepared statement—New York City will lose over $2 billion in Federal aid in fiscal years 1982 and 1983. This figure includes a loss of $608 million from our expense budget. And by the way, Congresswoman Ferraro, you raised a number of issues about the financing and the rebuilding of our infrastructure, and the cost of money is one that has to be taken into consideration as well. This figure also includes $997.5 million from our capital budget and $477.1 million in off-budget aid, something that we can forget but ought not to be forgotten. As the mayor has indicated and others will indicate, these reductions have a devastating effect on our city's infrastructure, services, and residents.

The effect of the Federal cuts on our capital program is a prime example of the inconsistencies of the Reagan program. We have lost $222 million in Federal aid from this year's capital budget and stand to lose another $775 million in the coming fiscal year. These moneys were originally earmarked for the construction of our wastewater treatment facilities, which we are currently under Federal mandate to complete. Now that we have lost our funds to comply with this mandate, what are we to do, given the other kinds of infrastructure problems we have?

Even more painful than this loss of capital aid from a human perspective are the Federal cuts for human services and, again, I think the mayor has presented in his testimony at great length the impact. I would point out that we were able to fund $193 million of the $698 million in cuts resulting from the Omnibus Reconciliation Act. We will attempt to do what we can, but we've got to continue to hold the line with a recognition of the reality of our financial resources.

Unfortunately, both the city's and State's revenue options have been severely limited by another of the President's cuts; the one on taxes. Because New York City's tax system is coupled to that of the Federal Government, the Federal tax cuts will reduce our local business tax receipts by $85 million. In addition, New York State, which is also coupled to the Federal tax code, will lose some $30 to $50 million in this fiscal year, $150 million in fiscal year 1983, and $225 million in fiscal year 1984.

The city, then, is obviously caught in a bind. On the one hand, we can pass along the Federal spending cuts, thus accepting the President's regressive social priorities; or we can raise taxes to offset these spending cuts, thus risking a renewed hemorrhaging of business out of the city. Once again, I am struck by the inconsistency of the President's program. I share a concern about the strength of the economy and, indeed, even though we have been cutting and cutting for years, we in New York City would be willing to do our share, but we do believe we have been asked to do far, far more than our fair share.

I am uncomfortable with the implicit logic of the President's economic recovery program. Supply-side economics notwithstanding, there is an obvious and abiding inconsistency between the effect of tax cuts, on the one hand, and the effect of spending cuts and monetary restraint on the other. Whether the administration's inconsistency is the product of indecision or ignorance, I do not know; I do know that it is already causing horrendous distortions in our economy.

One prime example of these distortions is the municipal bond market, where the combination of tax cuts and monetary restraint has sent interest rates soaring. If we see some lowering of those rates just in the next year, I join with those who would predict that is a very temporary lowering. As you know, the recent cut in income and capital gains tax rates has reduced investor interest in tax-exempt bonds. We already have begun losing the insurance companies. Now we are losing the banks. And that leaves the small individual investor who has other choices where the yields are greater or, indeed, for those of us in places that had some difficulties in the past, other greater, more usable secure tax-exempt securities are on the market.

At the same time, all-savers certificates, expanded IRA and Keogh retirement plans, and accelerated depreciation schedules have increased the avilability of tax shelters. These changes, combined with a restrictive monetary policy, have narrowed the spread between taxable and tax-exempt bond rates and have forced municipal rates to record-high levels.

You asked about our security. We have only barely gotten back to the market, but it's very important, our return to the market, and if you look at our return as contrasted with some others, we ought to be proud of what we have done. One needs only to take a look at the offering about a month ago of AAA securities out of the State of Washington coming in at 15 percent. So it's not just the problems that New York City has had in the past. It is the enormous pressure on the municipal bond market. As a result, many localities have had to scale back their borrowing and defer maintenance of their infrastructure, and we are already sitting on top of the Mount Helens, if you will, of the problems of New York City of our collapsing infrastructure, and now that we begin to have some more, I'm not as sanguine as the mayor that the capital budget is in such great shape, but we find ourselves having to confront the possibility of the inability to finance and therefore the continued deferral of very necessary infrastructure repair and maintenance.

The administration's military spending plans are also inconsistent with its plan for economic recovery. Although the President has, to his credit, insisted on deep cuts in Federal spending, he has also asked for and received a breathtaking increase in the military budget. If we're going to put social spending under review to determine what we're getting for our dollars, we ought to do the same with military spending. It is not a policy decision. It is a decision with geographical implication as well as economic implication, taking the new spending away from this part of the country. The result, after adding tax cuts, interest rates, and recession to this equation, is likely to be a $60 to $90 billion Federal deficit–and we wrote this on Friday and if we were talking after this weekend we would emphasize even to a greater degree this deficit problem, and a massive diversion of capital from the civilian to the military economy. In effect, the President is squandering the Nation's resources on an essentially unproductive, and thus inflationary, sector of the economy.

The other shortcoming of the Reagan recovery program—its lack of compassion—is obvious from its combination of tax cuts for the wealthy and spending cuts for the poor. Of course, the supply-siders have fashioned an elaborate theoretical rationale for these policies: tax cuts, they say, increase investment, output, employment, and productivity. This, they argues, helps everyone, not just the rich. Indeed, Arthur Laffer, the Marie Antionette of Reaganomics, contends that the best way to help the poor is to cut taxes on the rich let them eat tax cuts.

In truth, Mr. Laffer's well-known curve is entirely freehanded in origin, and is best regarded as a quantified ideology. Unfortunately, it has provided a veneer of respectability to a program that would otherwise be patently absurd. Let's not fool ourselves: what the poor need is not tax cuts; what the poor need is a humane program for economic recovery.

Let me conclude on a more positive note by suggesting some changes in President Reagan program.

First, there should be no further cuts in Federal spending for civilian purposes. As it is, the Nation's cities and States are scrambling to make ends meet. An additional 12 percent cut in spending, as proposed by the President, would only further undermine local governments' fiscal stability and lower their credit ratings. Local government makes up about 12 percent of the Federal budget. Local government cuts took 30 percent in the first round of the total cuts and the second round, again, is highly focused on local government.

Second, I believe there has to be significant cuts in military spending. If the President is really serious about balancing the budget—and he does seem to be waivering now—he must do more than chip away $10 million here and $50 million there from the Pentagon's budget. He must cut military spending, and must must cut it substantially. As Willie Sutton would say, "that's where the money is."

Third, the cut in the oil windfall profits tax should be rescinded and the second- and third-year installments of the 25-percent tax cut should be contingent on the state of our economy. And rather than imposing new taxes to reduce the deficit, the Federal Government should first eliminate wasteful and unnecessary tax writeoffs, such as the interest on consumer installment debt, and place caps on other writeoffs, such as the interest on mortgages.

Fourth, and finally, the Federal Government must provide additional capital aid to State and local governments. One option is to give State and local governments the option to issue taxable bonds, and to provide them a 40-percent interest subsidy in exchange. I think at least we ought to be considering the subsidy plus taxable security. I understand the concern of local government that this means that the Federal Government would then intervene in an area in which they have not, so I do not see this as the only solution, but I do believe, given the present condition of the municipal bond market, that a subsidy based taxable security has to be at least considered. Another option is to extend the preferential treatment of lease-back tax shelters for private investors to a broader range of municipal capital investments. We have seen I think the beginning along the lines of the Metromedia in relationship with the MTA. I don't suggest we jump headlong in the pool entirely, but I think we ought to consider some future expansion of the area.

In the end, what I am saying is that we are all in this together and that we must all sacrifice if we are to achieve economic recovery. We New Yorkers are no strangers to adversity or austerity. We have demonstrated that retrenchment can lead to recovery—but only if it is based on a coherent set of priorities and informed by a genuine sense of compassion.

I hope my comments have been helpful, and I thank you for the the opportunity to testify.

[The prepared statement of Ms. Bellamy follows:]

Prepared Statement of Carol Bellamy

Thank you for the opportunity to comment on President Reagan's economic recovery program.

Let me begin by saying that I support the President's broad economic goals, but question his policies for achieving them. In particular, I question the compatibility of his expansionary tax policy and his contractionary spending and monetary policies. I sincerely hope that this peculiar potpourri of tax cuts, spending cuts, and monetary restraint will, in fact, stimulate growth and lower inflation; I fear, however, that it will do just the opposite.

From New York City's perspective, Mr. Reagan's economic program seems not only misconceived, but unfair. He and his congressional supporters have imposed harsh new burdens on the City, particularly its poor, while increasing military spending and cutting taxes on the wealthy. Having just recovered from virtual bankruptcy, we find this a particularly bitter pill to swallow.

As things now stand, New York City will lose over $2 billion in federal aid in Fiscal Year 1982 and 1983. This figure includes a loss of $608 million from our expense budget; $997.5 million from our capital budget; and $477.1 million in off-budget aid. As Mayor Koch has already indicated, these cuts will have a devastating effect on our City's infrastructure, services, and residents.

THE EFFECT OF THE FEDERAL CUTS ON OUR CAPITAL PROGRAM IS A PRIME EXAMPLE OF THE INCONSISTENCIES OF THE REAGAN PROGRAM. WE HAVE LOST $222 MILLION IN FEDERAL AID FROM THIS YEAR'S CAPITAL BUDGET AND STAND TO LOSE ANOTHER $775 MILLION IN THE COMING FISCAL YEAR. THESE MONIES WERE ORIGINALLY EARMARKED FOR THE CONSTRUCTION OF OUR WASTEWATER TREATMENT FACILITIES, WHICH WE ARE CURRENTLY UNDER FEDERAL MANDATE TO COMPLETE. NOW THAT WE HAVE LOST OUR FUNDS TO COMPLY WITH THIS MANDATE, WHAT ARE WE TO DO? THIS IS FEDERALISM RUN AMOK, AND IT IS THE PRESIDENT -- ONE THE LEADING CRITIC OF BIG GOVERNMENT -- WHO IS RESPONSIBLE.

EVEN MORE PAINFUL THAN THIS LOSS OF THIS CAPITAL AID ARE THE FEDERAL CUTS FOR HUMAN SERVICES. FOR FISCAL YEAR 1982, WE HAVE ONLY BEEN ABLE TO FUND $193 MILLION OF THE $698 MILLION IN CUTS RESULTING FROM THE OMNIBUS RECONCILIATION ACT. WE WILL THUS HAVE TO CURTAIL A BROAD RANGE OF SERVICES FOR THE NEEDY -- INCLUDING DAY CARE, SENIOR CITIZENS' CENTERS, AFDC, FOODSTAMPS, MEDICAID, AND CETA -- UNLESS WE CAN FIND NEW SOURCES OF REVENUE.

UNFORTUNATELY, BOTH THE CITY'S AND STATE'S REVENUE OPTIONS HAVE BEEN SEVERELY LIMITED BY ANOTHER OF THE PRESIDENT'S CUTS --THE ONE ON TAXES.

BECAUSE NEW YORK CITY'S TAX SYSTEM IS COUPLED TO THAT OF THE FEDERAL GOVERNMENT, THE FEDERAL TAX CUTS WILL REDUCE OUR LOCAL BUSINESS TAX RECEIPTS BY $85 MILLION. IN ADDITION, NEW YORK STATE, WHICH IS ALSO COUPLED TO THE FEDERAL TAX CODE, WILL LOSE SOME $30 MILLION TO $50 MILLION IN THIS FISCAL YEAR, $150 MILLION IN FISCAL YEAR 1983, AND $225 MILLION IN FISCAL YEAR 1984.

THE CITY, THEN, IS OBVIOUSLY CAUGHT IN A BIND. ON THE ONE HAND, WE CAN PASS ALONG THE FEDERAL SPENDING CUTS, THUS ACCEPTING THE PRESIDENT'S REGRESSIVE SOCIAL PRIORITIES; OR WE CAN RAISE TAXES TO OFFSET THESE SPENDING CUTS, THUS RISKING AN EXODUS OF BUSINESS. ONCE AGAIN, I AM STRUCK BY THE INCONSISTENCY OF THE PRESIDENT'S PROGRAM. WHICH ARE WE TO TAKE MORE SERIOUSLY: HIS RHETORICAL COMMITMENT TO STATE AND LOCAL AUTONOMY , OR THE RESTRICTIONS HE HAS IMPOSED ON OUR BUDGET?

IF MY COMPLAINTS ABOUT OUR BUDGET PROBLEMS SOUND PAROCHIAL OR SELFISH, LET ME HASTEN TO ADD THAT I SUPPORT CUTS IN FEDERAL SPENDING -- EVEN IF THEY FALL ON NEW YORK CITY. WHAT TROUBLES ME ABOUT THE REAGAN PROGRAM IS NOT THAT IT REQUIRES SACRIFICE, BUT THAT IT IS INCONSISTENT AND MEAN-SPIRITED. IT IS A PROGRAM UTTERLY LACKING IN COHERENCE OR COMPASSION.

I HAVE ALREADY INDICATED THAT I AM UNCOMFORTABLE WITH THE IMPLICT LOGIC OF THE PRESIDENT'S ECONOMIC RECOVERY PROGRAM. SUPPLY-SIDE ECONOMICS NOTWITHSTANDING, THERE IS AN OBVIOUS AND ABIDING INCONSISTENCY BETWEEN THE EFFECT OF TAX CUTS, ON THE ONE HAND, AND THE EFFECT OF SPENDING CUTS AND MONETARY RESTRAINT, ON THE OTHER. WHETHER THE ADMINISTRATION'S INCONSISTENCY IS THE PRODUCT OF INDECISION OR IGNORANCE I DO NOT KNOW; I DO KNOW THAT IT IS ALREADY CAUSING HORRENDOUS DISTORTIONS IN OUR ECONOMY.

ONE PRIME EXAMPLE OF THESE DISTORTIONS IS THE MUNICIPAL BOND MARKET, WHERE THE COMBINATION OF TAX CUTS AND MONETARY RESTRAINT HAS SENT INTEREST RATES SOARING. AS YOU KNOW, THE RECENT CUT IN INCOME AND CAPITAL GAINS TAX RATES HAS REDUCED INVESTOR INTEREST IN TAX-EXEMPT BONDS. AT THE SAME TIME, ALL SAVERS' CERTIFICATES, EXPANDED IRA AND KEOUGH RETIREMENT PLANS, AND ACCELERATED DEPRECIATION SCHEDULES HAVE INCREASED THE AVAILABILITY OF TAX SHELTERS. THESE CHANGES, COMBINED WITH A RESTRICTIVE MONETARY POLICY, HAVE NARROWED THE SPREAD BETWEEN TAXABLE AND TAX-EXEMPT BOND RATES AND HAVE FORCED MUNICIPAL RATES TO RECORD-HIGH LEVELS. AS A RESULT, MANY LOCALITIES HAVE HAD TO SCALE BACK THEIR BORROWING AND DEFER MAINTENANCE OF THEIR INFRASTRUCTURE. PRESIDENT REAGAN HAS YET TO EXPLAIN HOW HIS ECONOMIC PROGRAM WILL PERMIT CITIES TO FINANCE THEIR CAPITAL PROGRAMS; AND HE HAS YET TO EXPLAIN HOW ECONOMIC RECOVERY IS TO PROCEED IF THE NATION'S ROADS, SUBWAYS, AND BRIDGES ARE IN RUINS.

THE ADMINISTRATION'S MILITARY SPENDING PLANS ARE ALSO INCONSISTENT WITH ITS PLAN FOR ECONOMIC RECOVERY. ALTHOUGH THE PRESIDENT HAS, TO HIS CREDIT, INSISTED ON DEEP CUTS IN FEDERAL SPENDING, HE HAS ALSO ASKED FOR AND RECEIVED A BREATHTAKING INCREASE IN THE MILITARY BUDGET. THE RESULT, AFTER ADDING TAX CUTS, INTEREST RATES, AND RECESSION TO THIS EQUATION, IS LIKELY TO BE A $60 TO $90 BILLION FEDERAL DEFICIT AND A MASSIVE DIVERSION OF CAPITAL FROM THE CIVILIAN TO THE MILITARY ECONOMY. IN EFFECT, THE PRESIDENT IS SQUANDERING THE NATION'S RESOURCES ON AN ESSENTIALLY UNPRODUCTIVE, AND THUS INFLATIONARY, SECTOR OF THE ECONOMY.

THE OTHER SHORTCOMING OF THE REAGAN RECOVERY PROGRAM -- ITS LACK OF COMPASSION -- IS OBVIOUS FROM ITS COMBINATION OF TAX CUTS FOR THE WEALTHY AND SPENDING CUTS FOR THE POOR. OF COURSE, THE SUPPLY-SIDERS HAVE FASHIONED AN ELABORATE THEORETICAL RATIONALE FOR THESE POLICIES: TAX CUTS, THEY SAY, INCREASE INVESTMENT, OUTPUT, EMPLOYMENT, AND PRODUCTIVITY. THIS, THEY ARGUE, HELPS EVERYONE, NOT JUST THE RICH. INDEED, ARTHUR LAFFER, THE MARIE ANTOINETTE OF REAGANOMICS, CONTENDS THAT THE BEST WAY TO HELP THE POOR IS TO CUT TAXES ON THE RICH; LET THEM EAT TAX CUTS!

IN TRUTH, MR. LAFFER'S WELL-KNOWN CURVE IS ENTIRELY FREE-HAND IN ORIGIN, AND IS BEST REGARDED AS A QUANTIFIED IDEOLOGY.

UNFORTUNATELY, IT HAS PROVIDED A VENEER OF RESPECTABILITY TO A PROGRAM THAT WOULD OTHERWISE BE PATENTLY ABSURD. LET'S NOT FOOL OURSELVES: WHAT THE POOR NEED IS NOT TAX CUTS; WHAT THE POOR NEED IS A HUMANE PROGRAM FOR ECONOMIC RECOVERY.

LET ME CONCLUDE ON A MORE POSITIVE NOTE BY SUGGESTING SOME CHANGES IN PRESIDENT REAGAN'S PROGRAM.

FIRST, THERE SHOULD BE NO FURTHER CUTS IN FEDERAL SPENDING FOR CIVILIAN PURPOSES. AS IT IS, THE NATION'S CITIES AND STATES ARE SCRAMBLING TO MAKE ENDS MEET. AN ADDITIONAL 12 PERCENT CUT IN SPENDING, AS PROPOSED BY THE PRESIDENT, WOULD ONLY FURTHER UNDERMINE THEIR FISCAL STABILITY AND LOWER THEIR CREDIT RATINGS.

SECOND, THERE MUST BE SIGNIFICANT CUTS IN MILITARY SPENDING. IF THE PRESIDENT IS REALLY SERIOUS ABOUT BALANCING THE BUDGET -- AND HE DOES SEEM TO BE WAVERING NOW -- HE MUST DO MORE THAN CHIP AWAY $10 MILLION HERE AND $50 MILLION THERE FROM THE PENTAGON'S BUDGET. HE MUST CUT MILITARY SPENDING, AND HE MUST CUT IT SUBSTANTIALLY; AS WILLIE SUTTON WOULD SAY, THAT'S WHERE THE MONEY IS.

THIRD, THE CUT IN THE OIL WINDFALL PROFITS TAX SHOULD BE RESCINDED AND THE SECOND- AND THIRD-YEAR INSTALLMENTS OF THE 25 PERCENT TAX CUT SHOULD BE CONTINGENT ON THE STATE OF OUR ECONOMY.

AND RATHER THAN IMPOSING NEW TAXES TO REDUCE THE DEFICIT, THE FEDERAL GOVERNMENT SHOULD FIRST ELIMINATE WASTEFUL AND UNNECESSARY TAX WRITE-OFFS, SUCH AS THE INTEREST ON CONSUMER INSTALLMENT DEBT, AND PLACE CAPS ON OTHER WRITE-OFFS, SUCH AS THE INTEREST ON MORTGAGES.

FOURTH, AND FINALLY, THE FEDERAL GOVERNMENT MUST PROVIDE ADDITIONAL CAPITAL AID TO STATE AND LOCAL GOVERNMENTS. ONE OPTION IS TO GIVE STATE AND LOCAL GOVERNMENTS THE OPTION TO ISSUE TAXABLE BONDS, AND TO PROVIDE THEM A 40 PERCENT INTEREST SUBSIDY IN EXCHANGE. ANOTHER OPTION IS TO EXTEND THE PREFERENTIAL TREATMENT OF LEASE-BACK TAX SHELTERS FOR PRIVATE INVESTORS TO A BROADER RANGE OF MUNICIPAL CAPITAL INVESTMENTS.

IN THE END, WHAT I AM SAYING IS THAT WE ARE ALL IN THIS TOGETHER, AND THAT WE MUST ALL SACRIFICE IF WE ARE TO ACHIEVE ECONOMIC RECOVERY. WE NEW YORKERS ARE NO STRANGERS TO ADVERSITY OR AUSTERITY. WE HAVE DEMONSTRATED THAT RETRENCHMENT CAN LEAD TO RECOVERY -- BUT ONLY IF IT IS BASED ON A COHERENT SET OF PRIORITIES AND INFORMED BY A GENUINE SENSE OF COMPASSION.

I HOPE MY COMMENTS HAVE BEEN HELPFUL, AND I THANK YOU FOR THE OPPORTUNITY TO TESTIFY.

Representative RICHMOND. Thank you, Madam President. Your comments about the necessary changes in our tax bill are music to my ears. Congressman Reuss and I have worked up a "Share the Burden" budget which would actually save $42 billion a year in Federal taxes, principally by user taxes and principally by reducing consumer credit, deductibility, windfall tax arrangements, and all the rest; and, unfortunately, though, it's almost impossible to get it through this Congress. So we are faced with what we have. Apparently the average Member of Congress felt that the American people wanted a tax cut. You and I know they didn't want a tax cut. What they really wanted was a reduction in inflation. But they've got it. Now I think it would be very, very difficult to rescind that and I don't know where we're going to raise the additional money necessary to reduce our deficit now. If we don't reduce our deficit, you know what's going to happen; we're going to be printing more Treasury bonds, higher inflation, and higher interest rates.

Now under that terrible, terrible proposal, which I think is going to be the case, how will you, as one of the most active members of the MTA Board, get our transit system functioning again, working again, so that as we read in the New York Times this weekend that Manhattan was going to experience a 25-percent increase of population in the 1980's, first, what one wanted to know is how people are going to get there and get home.

Ms. BELLAMY. Slowly.

Representative RICHMOND. They're not going to get there slowly. If we want to continue being the greatest city in the world, what are we going to do?

Ms. BELLAMY. Let me comment on your question, but let me first say that I do not believe that we in the public sector are not educable. I believe that we are and I'm not prepared at this point to subscribe to the theory that the tax measure as it has been adopted cannot be amended.

I believe if one takes a look at the impact on the Federal deficit of the tax package—and as I learned in law school, there are tax cuts and there are tax cuts—even for those who wanted the tax cuts, one has to take a look at that was ultimately adopted, and I believe that that requires really quite dramatic amending.

So I will try and respond to your question, but I'm not prepared at this point to accept the fact that there's no reason to see some change in that tax cut. The impact on the Federal deficit in the out-years, 1983, 1984 and 1985 is dramatic, in light of the other spending going on, and I would hope that we will see some changes.

As you know, the State legislature earlier this year authorized a 5-year capital reconstruction program for the MTA. That involves the railroads, subways, and buses. That did not involve all the money, but it did authorize the MTA to move ahead. The MTA has submitted a 5-year blueprint. It is a flawed document, in my view, and one in need of much improvement, although I would hope that at least it would receive at least its initial approval so that that reconstruction program could commence.

It is based on financing in a number of ways, some of which is Federal and State. It does not assume an increase in Federal financing, although at this point there may be a decrease in some cases that had not been anticipated, and I think one of the flaws in the document is to understand better what happens if some of the money isn't forthcoming. It anticipates money from the State and local government. It anticipates borrowing. That is what the MTA has been authorized to do. However, given interest rates today, one has to make a judgment as to whether that would be appropriate at this point in time, and I agree with this. The MTA has decided not to go into the market and the mayor pointed out there was a creative change brought about to allow for this leverage lease financing to take place. I think that is important.

The State legislature just recently authorized the MTA to negotiate directly with potential contractors to build new cars and that is hopefully to bring down the costs in some cases, and that may involve in the course of that discussing some internal financing which, again, one would hope would keep down the interest cost. So that is the overall program.

Besides the question of how you finance it, the question is how you manage it; and I'm not talking about the day-to-day management operations. I'm talking about managing the capital reconstruction program. To this point in time I believe there is not adequate—I don't want to use the words "Construction Czar"—but I would like to see somebody with that kind of responsibility to oversee that program. One single person alone won't be able to do it, but there has to be a management component in there as well as the financing, both of which are still open issues.

The other side is the operating side because that does go to it, and that needs dramatic changes in next year's contract to be negotiated next year which speaks particularly to the overtime issue of work rules that the mayor alluded to, although it's not as though the city does not have similar type of work rules; we just call them different things.

Those are two major thrusts, both of which I don't believe are in hand right now.

Representative RICHMOND. Congressman Green.

Representative GREEN. Let me clarify the waste disposal situation because it poses some dilemma for me. As you know, the administration would favor the program at the $2.4 billion level and Congresswoman Ferraro is involved very heavily in that. I happen to be the ranking Republican on the Appropriation Subcommittee. The change that the President proposed in some respects is very good for New York. That is, the basic position of the administration is that we should not be subsidizing growth in the Sun Belt part of the country and that therefore the formula for dividing up the money should be based on the 1980 census data without any provision for future growth. Obviously, that's good for us. Obviously, it's a politically difficult position to work through Congress and the administration has refused to send up a request for the $2.4 billion until that process in negotiating the authorizing legislation is accomplished.

That bill is now in committee, but it's created something of a dilemma for us on the Appropriation Subcommittee as we have gone past the start of the fiscal year and there's no appropriation request there. It is my hope that a satisfactory conference report will be coming out that will have the formula change that will help us and that we can then proceed with the appropriations.

But I would be curious as to how near the end of the road are the North River and the other Brooklyn plants.

Ms. BELLAMY. The Redhook treatment plant?

Representative GREEN. Yes, at this point in terms of their financing.

Ms. BELLAMY. I turned to my right here to see whether anybody from the OMB was still here, but I gather they've left. I do not have that information offhard.

Representative RICHMOND. Thank you, Congressman Green. Congresswoman Ferraro.

Representative FERRARO. I want to thank you for your testimony. I was interested in your comments on the Laffer curve. You do know as well that it's been considered the trickle-down theory; that if you give a tax cut to Lawrence Rockefeller after a certain period of time it trickles down and trickles down until it reaches David Rockefeller. So I just wanted to make sure we had an accurate view of what is going on in this administration.

I just need a clarification, if you will, on the loss of revenue to New York City of $85 million. Was that for 1 year or a 3-year period of time you gave for the State?

Ms. BELLAMY. I'm not sure which figure you mean.

Representative FERRARO. You gave an $85 million loss because of the tie-in with Federal revenues.

Ms. BELLAMY. That's this year.

Representative FERRARO. Just for 1982?

Ms. BELLAMY. Yes.

Representative FERRARO. OK. My question has to do a bit with the transit policies of the Reagan administration. You have been really rather explicit as far as the economic policies in a general way, and particularly as far as what it's going to cost New York City. Do you have an opinion as to the—maybe the word might be sensitivity of this administration to the urban problems as it refers to transit and their policies?

Ms. BELLAMY. I said before that I don't think we in New York, even thought we have had to tighten dramatically and with some pain on people, could stand and say there should be no reductions, but I do think there needs to be a degree of equity—that's on a percentage—some equity in what is going on, and I tried to point out that percentage of the Federal Government that goes to local government—that's not only New York City—and how heavy a burden the local government piece is taking in the reductions in this country. So also in transit. I think it is pennywise and pound foolish. Again, there's room, undoubtedly, for some squeezing and room for reviewing perhaps some of the section 8 grant money that's come into some areas that may not have been adequately used in transit, but I do believe the transit policy is pennywise and pound foolish.

New York, for example, becomes the most energy conscious State next to Alaska, given the oil they are pumping in, because of its transit system, in as bad shape as it is and it is in terrible shape. Increasingly across this country—and it isn't just New York, Boston, and Chicago—localities are turning toward a surface system. They are not all building subways, but to buses to provide public transit for any number of reasons. We have an increasingly elderly population in this country, a population that isn't able to get around except through transit.

So I think the transit policies, both on the operation side and on the capital side, are quite devastating. There is still proposed to be some capital dollars, but the proposal is to phase out entirely the operating side. I believe this throws a burden on local government that cannot entirely be absorbed by the user. I do think the user has a responsibility to assume some of that burden and we in New York actually have always assumed a slightly higher percentage than most other users in the country, so it's not just that Government should bail out the transit systems; but the users are actually providing a goodly portion.

In answer to your question, I do not think there is sensitivity to what public transit does for the economy generally of this country today, because the approach is not just to tighten where there may have been some misspending, but rather, when you take a look at the phasing out of operating expenses, to literally shift the burden entirely; and I believe this is a burden that local government does not have the capacity to fund.

Representative FERRARO. Thank you very much.

Representative RICHMOND. Thank you.

Ms. BELLAMY. Thank you. I didn't have an opportunity to introduce Mr. Gerald Finch, who directs fiscal matters for my office, and I just wanted to introduce him to you.

Representative RICHMOND. Mr. Finch, it's a pleasure to have you and thanks so much for coming. As always, you have added a great deal to our hearing.

Our next witness is Stanley Brezenoff, president of the New York City Health and Hospitals Corp. As you know, we are all interested in knowing how the Reagan budget, the Reagan tax cut, and the Reagan administration has affected New York City. You obviously can speak for one of the major entities in New York City; namely, the Health & Hospitals Corp.

STATEMENT OF STANLEY BREZENOFF, PRESIDENT, NEW YORK CITY HEALTH AND HOSPITALS CORP., NEW YORK, N.Y.

Mr. BREZENOFF. Thank you very much. Good morning, Representative Richmond, Representative Green, and Representative Ferraro.

I am Stanley Brezenoff, president of the New York City Health and Hospitals Corp. I have submitted a prepared statement which you can read at your leisure in the record. Rather than read through it, in the interest of time, I'd like to highlight a few items.

I take it for granted that you're more than familiar with what the Health and Hospitals Corp. is, its size and its mission, and the fact that our patients are among the neediest and that we treat many whose limited funds and blighted living conditions have precluded even the most basic health care precautions.

For many New Yorkers, our facilities function in lieu of the family doctor and 55 percent of the city's hospital-related out-patient visits are ours. We depend almost exclusively on the public sector for our financial resources; over half of our revenues derive from medicaid and medicare. So the initiatives contemplated by the national administration for the Federal budget have consequences of great magnitude—I'm afraid devastating consequences for the Health and Hospitals Corp. I think the fundamental flaw in the overall approach, at least as it affects the Health and Hospitals Corp. and most other health care institutions that serve the poor in the country, is the underlying premise that the Federal cuts being contemplated represent real savings in health care costs.

They are not real savings; they are Federal savings at the expense of others. They are, in fact, cost shifting, two different kinds of cost shifting. The first, perhaps the most serious and eonerous, is the cost shift to the patients themselves, which will cause many people to forego basic health care. I'm talking about the working poor. I'm talking about those who are on medicare and medicaid. It would be the individual who pays the price under either a block grant approach, which puts the States in the position of making horrendous choices about eligibility and service coverage, or under something like the medicare voucher, where there may be an onerous deductible or the care may not be comprehensive. The end result is the same: Individuals will go without needed health care.

The second kind of cost shifting involves transfer of what were formerly Federal costs to States and localities. To the degree that the vulunerable poor do use health services they cannot afford themselves and the Federal Government refuses to subsidize, the total burden will fall on us. New York City already spends tremendous sums of local money, better than $1 billion a year, on health care. Much of it goes to the Health and Hospitals Corp., either through the local share of medicaid or through the direct tax levy subsidy. We in the Health and Hospitals Corp. have made tremendous progress over the last several years in increasing our revenue from third party payers and in trying to keep the city subsidy to a minimum. What's contemplated by the Federal administration would have terrible consequences for us and for the city of New York.

The last point that I would make, and then I welcome your questions, is that there seems to be a view that States and localities are wasteful users of health care dollars, that somehow, if some magical button is pressed, if expenditures are simply capped, then efficiencies will materialize. That's not the case.

What we're talking about are real cuts affecting real people. It is true that our systems leave something to be desired in the way they operate. I would be the last to say that the Health and Hospitals Corp. is perfectly managed. But the answer is to help us to move toward efficiency, not to employ punitive approaches that could have disastrous consequences for patients in our hospitals. Thank you.

[The prepared statement of Mr. Brezenoff follows:]

Prepared Statement of Stanley Brezenoff

I am Stanley Brezenoff, President of the New York City Health and Hospitals Corporation, which oversees the largest municipal hospital system in the world. We provide medical care through 12 acute care hospitals, four long-term care facilities, four Neighborhood Family Care Centers, and numerous satellite clinics. In addition, we operate the citywide Emergency Medical Service, which answers approximately 600,000 calls a year.

It is the Corporation's mission to guarantee quality health care for every City resident, no matter how poor. In fact, our patients are among the neediest. We treat many whose limited funds and blighted living conditions have precluded even the most basic health care precautions. Whether they are newly arrived immigrants, whether they are without regular means of support or have little or no health insurance, our patients come to us because we turn no one away. Nor do we restrict the range of services or quality of care because of a patient's resources. For many, our facilities function in lieu of the family doctor, and 55 percent of the City's hospital-related outpatient visits are ours.

As you would expect, the Corporation depends almost exclusively on the public sector for its financial resources. Medicaid and Medicare account for about 85 percent of our revenues, and most of the remainder comes from City tax-levy support, which covers, among other things, the entire cost of care for the medically indigent. This year the direct City subsidy to the Health and Hospitals Corporation amounted to $342 million. When the local share of Medicaid is included, its total contribution to the Corporation was some $530 million.

Overall, the City of New York pays 27 percent of the health care costs for the nearly 1.25 million people who receive Medicaid. Last year, this total Medicaid outlay reached $800 million. When expenditures for the Department of Health and Mental Health are added in, the City in 1981 spent over a billion dollars in local funds -- or 12 percent of its total budget -- on health services.

To focus only on health care costs in the federal budget, in the belief that cities and states are the profligate spenders of health care dollars, would be a tragic mistake. It must be understood that local and state health costs are directly tied to federal expenditures. To spend federal Medicaid dollars, states and some localities, including New York City, have to put up a match of their own. Since most non-federal budgets are already severely strained, they have no incentive to be profligate spenders of anyone's health care dollars, including those provided by the federal government. And, in fact, New York State and New York City have made great efforts to contain health care costs -- but in a rational, coherent way, rather than through arbitrary, across-the-board slashes, with all of the harmful consequences they entail.

The latter approach is predicated on the notion that by imposing a cap on Medicaid expenditures, or a ceiling on the growth of such expenditures, somehow the cost of providing health care will automatically be contained. In fact, these are mirror tricks, because it is not the cost of health care itself that will be reduced; the only reduction will be in the cost to the federal government.

It is relevant to note here that the Administration's cuts in AFDC and other categorical social welfare programs -- which others are testifying on in greater detail today -- will also have a tremendous spillover effect on public hospital systems because eligibility for those programs is tied to eligibility for Medicaid. So not only do the changes discriminate against the working poor and exert a disincentive to seek employment, but they throw an entire population back on the resources of states and localities that fund 100 percent of the costs of care for the medically indigent. There is a real difference between cost containment and cost shifting, and much of what is being proposed will only transfer the burden to cities, states, and private citizens.

Moreover, health care costs are driven upward by more than just inflation. New technology, research, capital investments, an aging population, ancillary and social services, medical education, development of medical specializations all contribute to increases in health costs. Failure to provide federal funds will not make these and other cost-related factors disappear. And capping federal expenditures without addressing the reasons for escalating costs is in reality blackmailing the states. By withholding enough funds long enough, the federal government will eventually force the states to deny basic health care services to millions of the nation's poor. This is cruel and misguided public policy.

States may have to make truly horrendous choices in order to absorb federal cuts. It is unlikely, even impossible, that they will be able to replace the lost funds themselves. Incredibly, reductions in federal spending will ultimately mean fewer medical services covered or stringent limitations on Medicaid eligibility. It is hard to imagine how we could allow ourselves to have to choose between ambulatory care services and coverage of physical, occupational, or other types of therapy, or to place new restrictions on home health care as opposed to eliminating dental services and pharmaceutical coverage. The range of awful options is extensive, but ultimately tragic and shameful.

Even worse is the possibility that states would elect to restrict Medicaid eligibility. At risk would be coverage for individuals now classified as medically indigent and eligible for Medicaid, despite the fact that they receive no other form of public assistance. In addition, the state may deny coverage to 18 to 21 year olds or deny benefits to pregnant women during early stages of pregnancy. Again, it will be the public hospitals and other locally funded health care facilities which will be forced to make up the difference -- or try to.

I would like to turn now to some of the specific federal initiatives that concern us. First, in passing the Reconciliation Act, Congress decided to reduce the federal contribution of each state's Medicaid program by three percent but to allow lesser reductions to states that have contained costs in the past. The Department of Health and Human Services appears to have chosen a punitive method of applying Reconciliation Act reductions by imposing the full three percent reduction on states, like New York, that are clearly eligible for lesser cuts. We know this full reduction is temporary, but even a short term withholding of vital federal assistance will have a serious impact on New York's limited state budget.

Fortunately, last week a proposal to limit federal Medicaid payments to 95 percent of the funds each state is entitled to was withdrawn. New

York City would have lost approximately $70 million on top of the reductions already made three weeks ago by the Reconciliation Act.

But now we understand that an effort is underway to use the Second Budget Resolution to reduce federal Medicaid expenditures by one-quarter of a percent for every one percent of growth above the nine percent growth ceiling contained in the Reconciliation Act. In addition, there is talk of broadening the definition of a state's cost containment effort set forth in the Reconciliation Act to include the state's prospective cost containment program. If this should become law, a state such as New York, which had already instituted a nationally-recognized cost containment program but cannot avoid growth in Medicaid costs nonetheless, will be penalized -- while states that made no such efforts in the past may be rewarded. Both these measures would be arbitrary and unjust.

Another proposal that has generated a great deal of interest is the Medicare voucher, designed to save money by promoting competition among health care providers through reliance on insurance. Here again, the reality is that even if cost savings materialize for the federal budget, they will come at the expense of foregone health care for the elderly or increased burdens on state and local governments.

Such shortsighted proposals can only lead to a two-tier health care system in this country. For the wealthy and well-insured there will be comprehensive health care featuring the most modern equipment and the latest advances in medicine. For the poor, there will be a separate network that will never have enough resources to match the quality of care provided to those more fortunate.

Moreover, the poor will have limited access to the care that is available.

With continued reductions in funding of community health centers, maternal and child health care programs, nutritional assistance through the WIC program, alcohol and drug abuse programs, and community mental health centers, innovative hospital-based programs will be terminated, and more and more community health centers will be forced to close down.

The Health and Hospitals Corporation will continue to provide the best care possible, and we will never alter our policy to serve the medically indigent. However, as federal and state resources become scarcer, it will be increasingly difficult for us to provide high quality care for the growing numbers who will depend on us or to meet the challenges posed by inflation and advances in medical technology. With only the obviously limited funds available from local tax levy as a buffer, HHC will fall behind other hospitals, forced to provide inferior care.

Finally, the Committee should be assured that this State and City welcome rational approaches to containing health care costs. We in the City are already committed to developing new cost-saving methods. For example, we support the waiver of the "freedom-of-choice" option in the State's Medicaid plan, which we believe would benefit both the Health and Hospitals Corporation and its patients. Using the local HIP program as a model that has already produced appreciable savings to the City, we are also looking to expanded use of health maintenance organizations. Our demonstration program at Metropolitan Hospital, for instance, offers a real opportunity to test a large scale HMO for Medicaid recipients and the medically indigent. We believe pre-payment for comprehensive health services has the potential for savings without diminishing the quality of care, even though the initial investment does not necessarily provide a quick return. And, while HHC is extremely concerned that some proposals in Congress to reduce public costs by promoting competition in health care may be used as a backdoor way to shift even more costs to states and localities, we do support in principle the kind of thinking that addresses many of the problems intrinsic to the current system. Indeed, HHC and the City of New York welcome any opportunity to work with the Congress and the Administration in developing rational and equitable cost-saving innovations.

Thank you very much.

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Representative RICHMOND. Thank you, Mr. Brezenoff. Congresswoman Ferraro.

Representative FERRARO. I was just taken a bit by the cost shifting and when you said that a good deal of the revenues that have come to our hospitals, come from medicare.

Mr. BREZENOFF. Medicaid and medicare.

Representative FERRARO. But medicare as well. I assume what you're talking about when you say individuals will go without, we have our elderly who are applying for medicare coverage, and if the deductible is raised, as has been done, or the length of stay periods are changed, what will happen to those people? Have you seen any change because of the cuts that have been in effect since October 1? Have there been any changes so far?

Mr. BREZENOFF. Well, it is too early to calculate what the impact is, but it's almost a question of logic and arithmetic. To the degree that the elderly are strained in meeting this increased deductible, knowing many of the elderly are used to depending on their own resources, they will find it difficult and probably will do without. But to the degree they do not and to the degree that they are unable to pay that deductible, the Health and Hospitals Corp. and the city of New York have a very firm policy: We treat people without regard to their ability to pay. We won't turn away anyone. So to the degree that the elderly cannot pay, we will pay, and we will pay it through the tax levy subsidy that comes directly from the city of New York, which is now close to $350 million a year.

Representative FERRARO. Do you have any anticipation or any sort of projection of what cost that might be over the next year or 2 or 3 years?

Mr. BREZENOFF. Well, it's difficult to say. But, for example, if the 5 percent cap that was talked about until recently—if that were implemented, that could mean $70 million to the city of New York.

Representative FERRARO. Annually?

Mr. BREZENOFF. Annually.

Representative FERRARO. All right. Thank you very much.

Representative RICHMOND. Congressman Green.

Representative GREEN. I'd like to turn to the containment issue. There's certainly an impression in the Congress—and maybe this applies more to the voluntary and private sector than your part of the health establishment in New York—there's certainly an impression in the Congress that the system is out of control as far as costs are concerned; that because of third party payers the patients are not seen as bearing the cost and, therefore, they don't bargain with the system to hold down costs and the system, particularly with the growth in malpractice actions and recoveries, is essentially practicing defensive medicine where a whole panoply of tests is given even though 99 out of 100 times most of these are irrelevant.

What can we do about it? I agree with you, obviously, that just putting a cap on doesn't solve the problem. But what would solve it?

Mr. BREZENOFF. Like you and like the panel, the city of New York and the Health and Hospitals Corp. support genuine cost containment efforts. We support, for example, increased flexibility in the current freedom of choice provisions. We believe that through creative prepaid group practice approaches that involve some limitations on freedom of choice—and I would point out that users of private insurance plans like HIP—are in fact locked in for a year of time—we could have some impact on medicaid and medicare expenditures. In fact, the city of New York has had a welfare HIP program for several years with significant cost savings.

Second, we believe that the State of New York, which has had an admirable cost containment program which the city has participated in, has been successful in limiting cost increases in health care. The areas where fast growth persists are mainly those involving use of sophisticated new technology that improves patient care.

I think there are several policy options that can be implemented or at least explored and the Health and Hospitals Corp. would be eager to do so in conjunction with the Federal and State authorities. We have as much of a dollar incentive as they, to at least contain the increase in costs.

Representative GREEN. Could you spell out those options a little bit more?

Mr. BREZENOFF. I think the freedom of choice, one, is very important. Second, there is the metropolitan hospital demonstration project right now, in which we are enrolling both the medically indigent and medicaid patients. We believe that this model, which involves enrollment and case management, and which emphasizes primary care, offers significant possibilities for reducing unnecessary hospital utilization. The key to reducing hospital costs, we believe, is preventive care, primary care.

A third point I would make is that medicaid spending is skewed not toward the welfare poor but in fact toward the very ill, toward the elderly and the institutionalized. We believe that this is a trend that will increase with the aging of the population and here, too, we need to look at creative approaches that will postpone or prevent institutionalization. New York City has one of the largest medicaid-financed home-care programs in the country. I think that models like that offer much more potential for genuine savings than caps and ceilings.

Representative GREEN. Thank you. Representative Richmond.

Representative RICHMOND. Thank you, Congressman Green.

Mr. Brezenoff, let's discuss Woodhull.

Mr. BREZENOFF. I thought you were my friend.

Representative RICHMOND. I am your friend. That's why I want to discuss Woodhull. We all know we have a $250 million investment there in Bushwick. We all know it's costing us $22 million a year to keep it closed. We all know the possible medicaid reimbursement fee if we open it is astonishing and astounding.

On the other hand, you, as president of the Health and Hospitals Corp.—I know you never would have built a hospital like this. This hospital should have been built in Pasadena, Calif., as you know.

Mr. BREZENOFF. Or Palm Springs, anyway.

Representative RICHMOND. It was taken from a model of a very, very rich California community and the damned fool that took it had no idea of where he was putting the hospital. The hospital, as you know, would go beautifully in a California setting, but certainly not in Bushwick, the reason being that the rooms are too small, the corridors are too wide, the security—I don't have to tell you.

What are we going to do about it? We have this albatross around our necks, on the one hand, and, on the other hand, it is a very beautiful hospital which I'm sure could be effective, which we need because none of our public hospitals in Brooklyn are in code compliance.

I think people realize that Kings County is not in code compliance. Cumberland Hospital is not in code compliance and Greenpoint Hospital is going to some day just fall down around people's heads. So our public hopsitals are not in code compliance.

We've got a monument sitting there in Bushwick which is closed, which could be in code compliance if we opened it, but then we have the medicaid fee which would be out of sight. Now as you know, we're going to set a date here to try to meet——

Mr. Brezenoff. I didn't know.

Representative Richmond. We're trying to set up a summit conference of interested people and I, being the Congressman from the area, am a very much interested person. But what can the Federal Government do for you? What do you expect anybody to do for you to ever open that hospital?

Mr. Brezenoff. First, your description is quite accurate. I think it's useful to reflect two different ways on Woodhull, on the hospital specifically and what we ought to do about it. I will come back to that in a minute, but I think we also need to reflect on how decisions get made in the construction of new health care facilities. It goes back to the question of how to contain costs.

We cannot mindlessly construct health care facilities, building new costs into the system. As was the case in so many other areas, there was not sufficient thought, either in Woodhull or across the country in the proliferation of certain kinds of health care facilities.

That was perhaps understandable in days of plenty. It's not excusable in days of scarcity. And the lesson there is that we need to apply very rigorous analysis and make tough decisions in determining how we spend our health care capital dollars because they do, in fact, find their way into the rates paid by Government programs and private insurance companies. Neither of those two payors can stand continued pressures of that kind.

On Woodhull specifically, your description is completely accurate. I'd like to stress that it's our intention to open Woodhull. We recognize the costs implicit in that effort, but let me explain something about the other hospitals.

You're quite right about Greenpoint. It's in very bad shape and would require many millions of dollars, capital dollars, to bring it anywhere near compliance. Cumberland, similarly, less money but still quite a bit. And Kings County, many, many dollars. So not opening Woodhull not only would waste an enormous resource when the other facilities we have are less than optimal, but would mean we would have to lay out huge capital expenditures on those other three public hospitals. We coundn't let them continue as they are.

We will be trying some different models in the opening of Woodhull, private practice being one of them. This should have some impact on the deficit that Woodhull might create for the city.

The most important lesson, though, from Woodhull is not to do it again, not here, not anywhere.

Representative RICHMOND. Stanley, we've learned that lesson. Now what do we do with this albatross?

Mr. BREZENOFF. We're going to open it. We're going to open it as efficiently and expeditiously as we can, and we're doing it with a recognition that it's already costing a significant amount of money and it's also an opportunity for us to provide much higher quality care than we can now offer our patients in those other obsolescent facilities, Greenpoint and Cumberland.

Representative RICHMOND. We're trying to set up a meeting with Commissioner Axelrod and you and perhaps other interested people—I think Jack Bigel is working on it—for either November 20 or sometime soon.

Mr. BREZENOFF. Sure.

Representative RICHMOND. Certainly, we have to get down to business. We can't just leave it sit there. As you know, the hospital can't be converted to anything else.

Mr. BREZENOFF. Not to my knowledge.

Representative RICHMOND. In other words, the other idea was to put the other three hospitals in compliance and convert this to a nursing type of facility or aged-health related facility or long-term care facility.

Mr. BREZENOFF. It would present the same kind of problems.

Representative RICHMOND. And you have the high medicaid reimbursement cost because of the capital costs. I sympathize with your problems.

Congresswoman Ferraro.

Representative FERRARO. No further questions. Thank you very much.

Representative RICHMOND. What do you foresee happening now? You know, the administration's plan is to further cut medicaid, medicare, Federal assistance to all public health programs, which is the exact opposite of what else is going on in the world. Every other westernized country is building up its health insurance programs because they realize that it's cost effective. Our administration is apparently building it down. Now how are you going to survive?

Mr. BREZENOFF. With great difficulty, and I believe at the penalty of having people go without health care, even though the city of New York will not turn anyone away from its hopsitals. It will put additional strain on our local budget. Our subsidy, as I mentioned, is already $350 million.

Representative RICHMOND. What do you get from nonregistered aliens?

Mr. BREZENOFF. Nonregistered aliens?

Representative RICHMOND. Yes.

Mr. BREZENOFF. We have no count of what nonregistered aliens represent in our population. The only way that we have any fix on them at all is the fact that there's no way we can make them eligible for any third party coverage.

Representative RICHMOND. But they come in for service?

Mr. BREZENOFF. Absolutely.

Representative RICHMOND. Don't you think it's the Federal Government's obligation, since they let them in without registration—

don't you think it's their obligation to at least take care of their health costs?

Mr. BREZENOFF. That's what's known as a home run pitch. The answer is an unequivocal yes, it is their responsibility, just as I believe that poverty is a national problem and all the consequences of poverty, including the uncovered working poor, including the uncovered aliens, including the home care population—all of them come about as a consequence of national policies. The problems they represent can only be dealt with through national policies and to cut costs at the Federal level and shift those costs to State and local levels is a clear abdication of that responsibility.

Representative RICHMOND. How long would it take you to give us the number of what it costs the city of New York each year to take care of the health needs of unregistered aliens?

Mr. BREZENOFF. I can get you a ballpark figure, but it would be a soft figure because we do not want to discourage people from coming for health care.

Representative RICHMOND. I understand. We're humane people.

Mr. BREZENOFF. And we do not imply to them when they come in that as they're being examined by a doctor, they may also be examined by an immigration official.

Representative RICHMOND. On the other hand, I would think most Members of Congress—Congressman Green, do we all say that perhaps the health care needs of nonregistered aliens should be met by the Federal Government since we New Yorkers didn't bring them here in the first place?

Representative GREEN. Most of us would like to say we wouldn't like to have illegal aliens here.

Representative RICHMOND. If we have them and they get sick, who should pay the bill?

Representative GREEN. The Federal Government.

Representative RICHMOND. Then we have unanimity.

Mr. BREZENOFF. Do we have a quorum? Could we get a bill through?

Representative RICHMOND. Representative Green is the ranking Republican member on the Appropriations Committee.

Representative GREEN. It's a subcommittee. There's a difference.

Representative RICHMOND. That's important enough. Now could you get us that number?

Mr. BREZENOFF. I'll get you the number.

Representative RICHMOND. And let us have it at the Joint Economic Committee and see what we can do with it. This is clearly an expense that should be borne by the Federal Government.

I'll never forget one of the things Bella Abzug did while she was in Congress, that was to force the Federal Government to pay for the security of the United Nations officials here in New York City. Remember that bill? I think we picked up $8 or $10 million, but it's only right. This is another one that's only right. Nonregistered aliens who come in illegally—and goodness knows, we have many, many hundreds of thousands in this city—nobody knows how many hundreds of thousands—should have their health cares met by the Federal Government.

Mr. BREZENOFF. Absolutely.

Representative RICHMOND. If you could give us that number at the Joint Economic Committee, perhaps we could do something with it.

Representative FERRARO. Wait a minute. Do you ask if people are legal or illegal?

I think instead of cutting down the number of Federal employees at the border, we should increase that to keep these people out.

Representative RICHMOND. In the meanwhile, I think somebody has to pay for them.

Representative FERRARO. Absolutely. What's fair is fair. But the Federal Government is not authorizing those people to come in.

Representative RICHMOND. Once they come in, it's the obligation of the Federal Government, but not the obligation of the city; right?

Mr. BREZENOFF. The city is not empowered to establish our own border patrol.

Representative RICHMOND. Thank you very much for coming.

It's a pleasure to have with us the comptroller of the State of New York, Mr. Edward Regan. We have Regans and Reagans in the administration.

Mr. REGAN. I don't know how well the other Regan and Reagan have been treated so far here today.

Representative RICHMOND. Pretty well. We're bipartisan. We're glad to have you with us, Mr. Comptroller.

STATEMENT OF EDWARD V. REGAN, COMPTROLLER, STATE OF NEW YORK

Mr. REGAN. Thank you very much. I appreciate the opportunity to be here with you. Do you want me to start any comments I have right now?

Representative RICHMOND. Your entire prepared statement will be made a part of the record and you can comment as you wish and we will each ask questions.

Mr. REGAN. Fine.

As a preliminary matter, let me tell you that I opened a Woodhull-type hospital in Buffalo and it is still being run by the Government up there, now the Erie County government. It's one of the very modern, freezing hospitals, intersticing and the like. I tried to sell it. My only comment, I guess, as a general observation, is that governments really are ill-suited for running that kind of high technologically oriented institution, whether it be a hosptial or what-not; that our normal procedures, whether it be from civil service restrictions and lack of flexibility, which are all good, democratic safeguards in government, which have no problem with generally, just didn't seem to apply well to such a highly complex, fast-changing technologically oriented institution.

That's a comment for what it's worth, but it's sitting right there. If anybody wants to see how it works, it's there, one of the most modern hosptials in the country, being run by a government.

Second, we do have a report—it's about a year old now—on the illegal aliens—the undocumented aliens, the cost of medical care for them, and we will call you—we will update our figure and give you one figure. We'll get together with the commissioner and agree and give you a figure.

Representative RICHMOND. We would be very grateful.

Mr. REGAN. I think in answer to your question, Representative Richmond, when people come in, of course, they start asking questions, as they properly should, about medicaid eligibility, and at that point there is some ability, without putting somebody through the third degree, to find out just what their status is.

Now to the Reagan cuts, to the Federal cuts and its impact on the city's budget. We have here and I have submitted it to you a detailed report by Sidney Schwartz, the special comptroller for New York City. It's a very good one, very detailed, analyzing just the very question that you're conducting hearings on because that's part of Mr. Schwartz' job, to do that, and coincidentally, the conclusion of our report and your hearing happen to coincide. Mayor Koch and his staff have this report. They have had ample opportunity to comment on it. They have commented on it and their comments are all adjusted for and accommodated in here. We know of no essential disagreement with what we have said in this report from the mayor's staff.

The essential conclusion is that there is no impact of the Federal cuts on New York City's budget in 1982, 1983, 1984, and 1985. To be technically correct, I ought to say on New York City's financial plan, because that's what we have in front of us that translates into budgets as we move down the years.

Now that is for a lot of reasons and with some qualifications, and I'll explain those.

First of all, the cuts vis-a-vis the financial plan are relatively modest compared to a $14 or $15 billion budget operation and they can be accommodated in the financial plan and, in fact, Mayor Koch has accommodated for them. He has taken the very prudent and wise course of action to adjust for all of those cuts as he sees them and those are all detailed there. So there is no—if you want to look at New York City's financial plan for 1982 through 1985, on one hand, the Federal cuts, both the cuts in aid or the cuts in taxes which will reduce the revenue, both, and you look at both, there is no impact on the financial plan because: (*a*) they were modest; and (*b*) the mayor did exactly the right thing in accommodating for them.

Now there are several qualifications which are major and I'm sure you will think so. First of all, of course, those are cuts. They are not additions. We are aware of that. So that obviously the whole thrust is on the down side, not on the up side.

Second, the money that the mayor took to accommodate those those cuts, of course, could have been used to increase services, close the gaps that still exist—almost $1 billion as we look at 1983—close the gaps or do whatever with it. So the fact that he took money and accommodated for the budget cuts is a wise action, but obviously it's money that could have been spent someplace else.

The amounts, by the way, approximately are a total of $135 million in 1982, rising to a total of $339 million in 1985. So it's a decline. It's money that could have been used to close the gap for increased services or the like.

Also not included in any of the statements I have just gave is the cut in the capital side of the program and it would appear that the city will get approximately only 25 percent of what they anticipated in capital grants for sewer plant construction. They had anticipated $1.6 billion and they are going to apparently get only 25 percent of that based on the numbers that we now see.

Now this report does not measure the second round of cuts, the 12 percent, because they just are not in front of us and we don't—Mr. Schwartz' office or our office—we don't get into the speculative sort of thing. We wait until something happens and then we try to give a very objective measure ot it.

All that aside, I gather that there's very little chance of those cuts, as they now stand—those projected cuts—passing. So I think the fact that we didn't measure them will not distort this report.

Obviously, another thing we don't do, at least in terms of fiscal reports, is to measure the impact on people and poor people, and obviously there is that, and I acknowledge that, although it's not the subject of this report; and the third thing we haven't done is to measure the impact on the city's economy that will undoubtedly come about as a result of the tax cuts.

Our analysis indicates that there will be an extra billion dollars in the hands of New York City businesses and consumers in fiscal year 1982, rising to $4 billion in fiscal year 1985, as a result of those tax cuts and presumably some—a lot of that money will find its way into extra spending or extra investment which should increase both the city's economic base, and finally, of course, tax revenues. We didn't measure that either.

In conclusion, then, if you just look at the financial plan that's in front of us, 1982 through 1985—and that's our job to monitor it—there is no impact from the cuts because they were modest, were able to be accommodated and, in fact, the mayor did the wise thing and accommodated for them.

[The prepared statement of Mr. Regan, together with an attachment, follows:]

PREPARED STATEMENT OF EDWARD V. REGAN

New York City has already given consideration in its budgetary planning to many of the anticipated reductions in Federal aid and the impact of revenue losses due to recently enacted Federal tax reductions. Therefore, these actions should not have a further significant effect on the City's Financial Plan for fiscal years 1982 through 1985.

However, this analysis assumes that the City will not attempt to compensate for those Federal aid program cutbacks which reduce aid to individuals in areas where the City traditionally has not been involved.

Today, the Special Deputy State Comptroller for the City of New York, Sidney Schwartz, completed a comprehensive, detailed, 67-page study of the impact of the Omnibus Reconciliation Act and the Economic Recovery Tax Act on all aspects of the City's Financial Plan. (The analysis does not evaluate the September 24 proposal for an across-the-board spending cut of 12 percent in non-entitlement programs as this proposal seems to have little chance of receiving Congressional approval.)

Mr. Schwartz's analysis shows that the budget revisions enacted by Congress could have resulted in Federal aid losses, as compared to the Financial Plan, of $86 million in fiscal 1982 rising to $122 million by fiscal 1985. However, there is no net impact as a result of such losses on the City's fiscal 1982 Financial Plan, and the impact in the other years is relatively small--$11 million in fiscal 1983 and $16 million in fiscal 1984.

This analysis includes the assumption that the City will fund fully any program which received even partial City funding before the Federal cutbacks. This lack of significant impact is due to the following:

First, in addition to the $100 million budgetary reserve required by law, reserves were established in the Financial Plan to compensate partly for Federal reductions in aid to Medicaid, social service and education programs.

Second, the City has augmented the amount of Federal education aid that will be available in future years by substituting its own funds during fiscal 1981 and thereby rolling over available Federal funds for future use.

Third, City representatives indicated that reductions in Federal aid for CETA job training and Community Development programs will probably not be replaced with City funds. Programs such as these traditionally have not been funded by the City.

On the other hand, the Financial Plan impact of the Federal tax reductions --largely corporate-- is not quite as clear. Mr. Schwartz's office has estimated that these changes may reduce City tax revenues by amounts ranging from $49 million in fiscal 1982 to $217 million in fiscal 1985. Over the Financial Plan period, these tax reductions could mean a total loss of $500 million in tax revenues. It is not clear how these potentially lower revenues were reflected in the City's plan, since the City's tax estimation methodology does not separately identify the impact of the Federal reductions. However, it appears that most of these losses have been anticipated in the City's Financial Plan since the City revenue estimates used econometric models which, in large part, included the estimated effects of these tax revisions.

The Federal reductions anticipated in the City's plan were modest, relative to the size of the City's budget, and within the capacity of the City to offset. It is intrinsic to the budget-making process that amounts of aid from other levels of government -- amounts that vary annually rather than remaining fixed -- must be estimated and planned for.

Of course, these anticipatory actions on the part of the City do reduce the City's ability to close budget gaps in the affected years by approximately the same amount as the City used to offset the Federal reductions.

With respect to the City Capital Plan, the Congress intends to authorize $2.4 billion in Federal aid for water pollution control projects for the entire nation in the 1982 Federal fiscal year pending revisions to the governing regulations to be completed in December. Our review indicates, however, that this level of Federal aid, if maintained for three subsequent years, would satisfy only 25 percent of the $1.6 billion in Federal funding anticipated by the City during fiscal 1982 through 1985 to advance construction of water pollution control facilities under a court-ordered timetable.

The Comptroller's report deals with the direct impact of the tax and spending proposals on the City's Financial Plan and does not address the impact the proposed Federal aid reductions will have on a substantial number of the City's residents, particularly low-income individuals. Nor does it deal with the favorable impact on the City's economy that will result from the additional spending power to be generated by the personal income tax cuts. New York City residents will have additional disposable income of $1 billion in fiscal 1982, rising to $4 billion in fiscal 1985, to pump into the economy of New York.

OFFICE OF THE NEW YORK STATE COMPTROLLER

OFFICE OF THE SPECIAL DEPUTY COMPTROLLER

FOR THE CITY OF NEW YORK

IMPACT OF THE NEW FEDERAL BUDGET AND TAX REDUCTIONS ON THE NEW YORK CITY FINANCIAL PLAN

Report Submitted to the
Financial Control Board
and the
Municipal Assistance Corporation

November 9, 1981
Report 41-82

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IMPACT OF THE NEW FEDERAL BUDGET AND TAX REDUCTIONS ON THE NEW YORK CITY FINANCIAL PLAN

SUMMARY FOR THE FINANCIAL CONTROL BOARD AND THE MUNICIPAL ASSISTANCE CORPORATION
(Report 41-82, November 9, 1981)

In August 1981, the Federal government enacted a significant tax reduction program, entitled the Economic Recovery Tax Act of 1981. Substantial cutbacks in Federal spending were also passed by the Congress in July 1981 as embodied in the Omnibus Reconciliation Act of 1981. This report assesses the impact of the changes in Federal aid programs and tax revisions on the City's Financial Plan for fiscal years 1982 through 1985. The President's September 1981 request for further spending reductions is not evaluated in this report because its enactment is uncertain. This review deals solely with the fiscal impact of the Federal actions on the City's Financial Plan and does not attempt to assess the economic and social implications of these actions on City residents and taxpayers.

The Omnibus Reconciliation Act will reduce or eliminate many Federal local assistance programs. Furthermore, due to similarities between the Federal income tax structure and certain taxes imposed by the City, several tax reduction measures included in the Economic Recovery Tax Act of 1981 will automatically flow through the City tax system and reduce its tax revenues.

Our review indicates that New York City has given consideration in its budgetary planning to many of the anticipated Federal budget reductions, and therefore they should not have a further significant effect on the City's Financial Plan for fiscal years 1982 through 1985. This is true even if the City will continue to fund the services and programs to which it is currently contributing. There would be additional costs to the City, however, if, at its discretion, it chose to fund programs from its own resources to which it traditionally has not contributed.

The Federal budget revisions should result in a shortfall in Federal aid, as compared to the Plan, of $86 million in fiscal 1982 rising to $122 million by fiscal 1985 (Table I). However, there is no net impact as a result of such losses on the City's fiscal 1982 Financial Plan and the impact in the other years is relatively small ($11 million for fiscal 1983, and $16 million a year for fiscal 1984 and 1985) due to the following:

- In addition to the $100 million budgetary reserve required by law, reserves were established in the Financial Plan to partly compensate for Federal reductions in aid to Medicaid, social service and education programs.
- The City has augmented the amount of Federal education aid that will be available in future years by substituting its own funds during fiscal 1981 and thereby rolling over available Federal funds for future use.

Table I

Estimated Impact of Omnibus Reconciliation Act on City Financial Plan: Fiscal Years 1982-1985*
(in millions)

	Fiscal 1982	Fiscal 1983	Fiscal 1984
Federal Aid Reductions:			
Education	$(37)	$ (34)	$ (30)
Medicaid	(5)	(19)	(28)
Social Services	(17)	(23)	(21)
Community Development (CD)	-	(13)	(13)
CETA Job Training	(27)	(30)	(30)
Total City Revenue Loss	$ (86)	$(119)	$(122)
Items Which Offset Budget Impact:			
City Reserve	$45	$ 55	$ 55
Rollover of Prior Year Education Aid	20	10	8
Pass-through of CD and CETA Aid Loss	27	43	43
Total Adjustments	$ 92	$ 108	$ 106
Net Impact on Financial Plan (Loss)/Gain	$ 6	$ (11)	$ (16)

* Except where noted, the fiscal 1985 impact is not shown separately since the fiscal 1984 estimates apply to fiscal 1985 as well.

. City representatives indicated that reductions in Federal aid for CETA job training and Community Development programs will probably not be replaced with City funds. Programs such as these traditionally have not been funded by the City. For these programs the City budget essentially acts as a conduit for Federal funds flowing through to private training concerns and community groups.

On the other hand, the financial plan impact of the Federal tax reductions is not as clear. We estimate that these changes may reduce City tax revenues by amounts ranging from $49 million in fiscal 1982 to $217 million in fiscal 1985 - aggregating about $500 million during the Financial Plan period (Table II). It is not clear how these potentially lower revenues were reflected in the City's plan, since the City's tax estimation methodology does not separately identify the impact of the Federal reductions. However, it appears that most of these losses have been anticipated in the City's plan because the City revenue estimates used econometric models which, in large part, included the estimated effect of these tax revisions.

* * * *

Our review indicated that Federal aid would be reduced from Plan levels in the following programs.

Education aid will be reduced by $30 to $37 million annually. The 10 percent reduction in aid to the City's Title I (disadvantaged children) programs accounts for about half the estimated loss in the education area (about $19 million out of the $37 million in fiscal 1982), with the remaining loss mainly in vocational education and school integration programs.

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Table II

Estimated Annual Loss in City Tax Revenues Resulting
From The Economic Recovery Tax Act of 1981
Fiscal 1982-1985
(in millions)

Tax	Fiscal Year 1982	Fiscal Year 1983	Fiscal Year 1984	Fiscal Year 1985
General Corporation	$ 40	$ 68	$ 112	$ 173
Personal Income	5	19	21	26
Unincorporated Business	4	8	12	18
Total	$ 49	$ 95	$ 145	$ 217

Note: The City's tax estimation methodology does not permit the separate identification of the impact of the federal tax act of 1981. It appears, however, that most of these lower revenues have been anticipated in the City's plan estimates.

Social service programs will lose $17 million in fiscal 1982 and more in future years, largely as a result of a 25 percent reduction in the Federal funding of services such as day care, senior citizens centers and child welfare programs (Title XX). Our estimate assumes that additional Federal funds will be made available by the State through a transfer of Federal allocations from other social service programs, allowed under the Act in the "block grant" system.

Medicaid funding will also be reduced. The amount localities in the Medicaid program are reimbursed by the Federal government is to decline ranging from 3 percent in the 1982 Federal year to 4 1/2 percent in 1984. Our estimate of lower revenue from this source was modified to reflect indications by State officials that the State will likely share the loss in Federal Medicaid funding with localities. The reduction in Medicaid aid to the City may also be offset to a degree as various options to contain or reduce overall program costs are being considered by the State. In fact, State officials indicate that recent changes to the Medicaid reimbursement rate structure for nursing homes and private hospitals could save the City roughly $10 million a year when fully effective in fiscal 1983.

Federal funding for CETA job training programs will also be trimmed. The Plan already reflects the elimination of Federal funding of municipal employees working under the CETA programs and provides some $78 million to transfer over half of these positions to the City payroll. The Plan also includes additional City funds for welfare in the event former CETA employees not rehired by the City are unable to find other employment and enter the welfare rolls.

However, the Federal cutbacks in CETA job training programs were not anticipated in the Plan. Federal budgetary authorization to fund CETA job training programs expires on September 30, 1982 and the Act provides for continued funding in Federal year 1983. The funding level provided in the Act for Federal 1982 is 25 percent less than such assistance for Federal 1981. As noted previously, such reduced aid (equal to $27 million) would not likely be replaced with City funds.

To summarize, although the provisions in the Reconciliation Act could result in substantial losses in Federal aid to the City, the City has already reflected the impact of these losses in its four year Financial Plan, and the City's gap estimates past fiscal 1982 have already been increased based on these cuts. However, the impact of the proposed Federal aid reductions will be felt by a substantial number of the City's residents, particularly low income individuals. It does not appear that the City plans to offset the potential impact of these reductions on its residents. Nor would it seem that the City could afford to do so unless it can achieve offsetting budgetary adjustments such as reductions in other costs, revenue enhancements or some combination of the two.

The Economic Recovery Tax Act should result in reduced City tax revenues as discussed in the following paragraphs.

General business taxes will be reduced by about $400 million over the four year plan period due to the accelerated depreciation provisions contained in the new Federal statute. Unincorporated business taxes during the four year period will also be reduced by some $40 million due to these depreciation provisions. Personal income taxes will be reduced by some $70 million over the plan period due to higher depreciation allowances as well as losses resulting from introduction of tax-free savings certificates and expanded use of tax-deferred retirement savings accounts.

Our conclusion, therefore, is that the tax reductions enacted by Congress should result in significant loss of City tax revenue. Due to the City's tax estimation methodology, it is unclear as to the exact amount provided in the Plan in anticipation of the Federal tax revisions. However, it appears that most of these losses have been anticipated in the plan because the City revenue estimates used econometric models which, in large part, included the estimated effect of these tax revisions. Moreover, the tax changes should, by reducing personal and business taxes, benefit many City residents and businesses.

Capital Plan

With respect to the City Capital Plan, the Congress intends to authorize $2.4 billion in Federal aid for water pollution control projects for the entire nation in the 1982 Federal fiscal year pending revisions to the governing regulations to be completed in December. Our review indicates, however, that this level of Federal aid, if maintained for three subsequent years, would only satisfy 25 percent of the $1.6 billion in Federal funding anticipated by the City during fiscal 1982 through 1985 to advance construction of water pollution control facilities under a court-ordered timetable. Further construction of water pollution projects may require a diversion of signifiant City funds from other capital projects unless this Federal mandate is relaxed in the near future.

Covered Organizations

The Transit Authority Financial Plan assumes that the President's proposal to phase-out mass transit operating subsidies by the 1985 Federal year would become law. Congress, however, only addressed the 1982 appropriation in the Reconciliation Act and deferred action on the future status of this program. It is unclear what course of action Congress will eventually take on this matter.

The Reconciliation Act would penalize hospitals with excess bed capacity and limit reimbursement for hospital out-patient physicians' services. And, it allows States to increase reimbursement rates to hospitals serving a high proportion of low income patients. City officials estimate that the penalty for excess bed capacity could come to $28 million for the Health and Hospitals Corporation when fully effective in fiscal 1983. However, our review indicates that, pending promulgation of Federal guidelines which may reduce or eliminate the exposure of public hospitals, any estimate of impact would be premature.

Our review also indicates that declines in the City University System (CUNY) student enrollment could result from the eligibility restrictions in student loan and grant programs enacted by Congress. A decline in student population without similar reductions in the scope of CUNY operations may necessitate an increase in City funding of community colleges. However, the assumption of senior college funding by the State will shield the City from exposure in this area.

Discussion of Results of Review

Drafts of this report were presented to City and State officials with a request for comments. Such comments as were received were considered in the preparation of the fiscal report.

Table of Contents

I. INTRODUCTION

A. Background

In February 1981 the President proposed an Economic Recovery Program designed to reduce the scope of Federal Budget activities. In April 1981 this office reported on that Program, noting that, if enacted, New York City would have to offset a potential decline in Federal aid estimated at $129 million for fiscal 1982.[1] That report considered the projections of Federal aid contained in the fiscal 1981 through 1984 Financial Plan of the City and its Covered Organizations approved by the Financial Control Board in February, 1981.

On July 2, 1981, the Control Board approved a new four-year Financial Plan covering fiscal years 1982 through 1985, which recognized certain reductions in Federal aid proposed by the President that had not yet been enacted by Congress:

- For fiscal 1982, $78 million of City funds was provided to offset the possible elimination of Federal funding of municipal employees working under the Comprehensive Employment and Training Act (CETA). Similar measures were taken by the City in fiscal 1980 and 1981 to counteract previous reductions in Federal assistance to this program.
- A reserve of $45 million in fiscal 1982 and $55 million annually thereafter was provided to offset possible Federal aid reductions in other programs. This reserve is in addition to the annual general budgetary reserve of $100 million required by the Financial Emergency Act.
- The Transit Authority Financial Plan reflected the assumption that the President's proposal to phase-out mass transit operating assistance by October 1984 would be approved.

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1 Report No. 2-82 dated April 16, 1981

Subsequent to the July 2, 1981 Control Board action, the Federal government enacted a significant tax reduction program, as well as substantial cutbacks in Federal spending similar to, but not precisely, what the President had requested.

Amendments to the Internal Revenue Code entitled the Economic Recovery Tax Act of 1981 were made containing the following significant elements:

- Personal income tax relief chiefly through a phased reduction in tax rates over a three-year period;
- Business incentives largely through faster write-off of depreciable assets and expanded use of investment tax credits; and
- Savings incentives mainly by excluding from taxable income the interest earned on certain savings certificates and expanding the use of individual retirement accounts.

Spending reductions covering Federal fiscal 1982 were enacted reducing outlays by approximately $35 billion from the amount projected by the previous Administration.[1] The law affects the budgets of state and local governments and those receiving Federal assistance either directly or through these governments by:

- Restricting eligibility and reducing funding for welfare programs such as public assistance, medicaid, and food stamps as well as school nutrition and college loan programs;

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1 On June 5, 1981 the Congress passed the Supplemental Appropriations and Rescission Act of 1981 which reduced appropriation levels in the 1981 Federal budget by some $14 billion. With respect to City programs, the Act provided for the early dissolution of funding for CETA municipal employees and reduced education aid.

- Consolidating 57 programs into nine block grants and reduced funding for social service programs; and

- Eliminating Federal funding for the CETA program affecting municipal employers and their employees as well as privately employed trainees.

At the same time, the Act provides states with greater administrative flexibility and control over certain programs with the goal of reducing state costs.

The basic elements of the President's proposed program to reduce the Federal budget were enacted. However, it is reported that the approved spending ceilings for Federal fiscal 1982 fell short of the cutbacks proposed by the Administration by about $10 billion. Further, a study by the Congressional Budget Office indicated that slower than anticipated economic growth with higher than expected interest rates on Federal debt could add $20 to $30 billion to the projected 1982 Federal deficit. That Office indicated that the President's aim to balance the Federal budget by 1984 would therefore be jeopardized.

Faced with the prospect of higher than planned deficits, the Federal Administration on September 24, 1981 informed Congress of the need to further reduce by $13 billion, the Federal fiscal 1982 spending targets specified in the Reconciliation Act. These additional cuts were requested to be included in appropriation bills for the 1982 Federal year adopted by Congress. Such proposals included the following new elements:

- An across-the-board spending cut of 12 percent in non-entitlement programs (excluding the Defense Department).

- Reduction of $2 billion in the defense budget.

- Reductions in benefit programs including Medicare, food stamps and subsidized housing.

- Reductions in Federal loan guarantees, notably student loans.

At the time this report was prepared Congress had not yet enacted the 1982 Federal budget reportedly due to disagreement with the Administration as to the scale and targets of the President's latest budget request. There is reported to be general Congressional sentiment that the President avoided proposing larger reductions in defense spending by proposing additional substantial cutbacks in social service programs. An alternative savings program proposed by some Senate Republicans would significantly lessen the impact on assistance to localities.

3. Purpose and Scope

The purpose of this review is to assess the impact of the changes in Federal aid programs and income tax revisions on the City's Financial Plan for fiscal years 1982 through 1985.[1] The President's September 24, 1981 budget reduction request is not evaluated in this report because of its apparent highly uncertain enactment. This review deals solely with the fiscal impact of the Federal actions on the City's Financial Plan and does not attempt to assess their social implications on its inhabitants.

During the course of work we contacted many governmental agencies and private organizations so as to obtain as much background and information as possible. These organizations are listed on the following page.

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1 Except where noted the fiscal 1985 impact is not discussed separately since the fiscal 1984 estimates apply to fiscal 1985 as well.

Federal
- Department of Health and Human Services
- Department of Labor
- Department of Transportation
- Department of the Treasury
- Office of Management and Budget
- Congressional Budget Office
- Joint Congressional Committee on Taxation
- Joint Congressional Economic Committee
- House Ways and Means Committee
- Urban Mass Transportation Administration
- Senate Finance Committee
- Department of Agriculture
- Department of Housing and Urban Development
- House Budget Committee
- Department of Education
- Office of Revenue Sharing
- House Committee on Education and Labor

State
- Office of the Governor
- Division of the Budget
- Department of Social Services
- Department of Taxation and Finance
- Metropolitan Transportation Authority
- Office of Health Systems Management
- Department of Education
- Department of Environmental Protection
- Office of Federal Affairs

City
- Office of the Mayor
- Office of Management and Budget
- Human Resources Administration
- Department of Finance
- Department of Transportation
- Office of Economic Development

Covered Organizations
- Transit Authority
- Housing Authority
- Board of Education
- City University of New York

Private Organizations
- Economic Research Division of Chemical Bank
- Wharton Econometrics Forecasting Associates
- Chase Econometrics Associates
- Real Estate Board of New York
- Data Resources Incorporated

C. Federal Budget Process

The following is a summation of the Federal Budget Process based on the description provided in the Budget of the United States Government Fiscal Year 1982 which was submitted by President Carter on January 15, 1981.

The President transmits his budget to Congress early in each calendar year, and in a year in which a new President takes office (such as this year) the new President will make changes to that budget. This year President Reagan submitted his changes to Congress on February 18. At this time Congressional review of the budget begins.[1]

Under the procedures established by the Congressional Budget Act of 1974, the Congress considers budget totals before completing action on individual appropriations. The Act requires that each standing committee of the Congress report on its budget estimate to the House and Senate Budget Committees by March 15, and that the Congressional Budget Office submit a fiscal policy report to both Budget committees by April 1. Congress then adopts the first concurrent budget resolution as a guide in its subsequent consideration of

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1 To fully understand this discussion, it may be helpful to define certain Federal budget terminology:

- Appropriations are spending ceilings enacted for each program by Congress for a particular budget year.
- Authorizations by Congress give agencies permission to carry out a particular program and sometimes include limits on the amount that can be appropriated for the program. Authorizations can run for several years or indefinitely. In some cases programs are granted permanent budget authority and funds become available without the need for annual appropriations.
- Outlays are cash disbursements and, as for capital projects, extend beyond the year such outlays are authorized or appropriated.

appropriation and revenue measures. The first budget resolution which is supposed to be adopted by May 15, sets targets for total receipts and for budget authority and outlays, in total and by functional category.

After the first budget resolution is passed, the appropriate Congressional committees prepare program spending limits. Any differences between the two Houses are reconciled by committees made up of Members from each House. Such reconciliations are then submitted in an Omnibus Reconciliation Act for Congressional action.

Upon adaptation the Act forms the basis for the second concurrent resolution which limits total budget authority and outlays. This resolution is usually adopted by September 15 of each year.

Congressional consideration of requests for appropriations occurs first in the House of Representatives. The Appropriations Committee, through its subcommittees recommends the action to be taken by the House of Representatives.

When the appropriations bills are approved by the House, they are forwarded to the Senate, where a similar review process is followed. In case of disagreement between the two Houses of the Congress, a conference committee (consisting of Members of both bodies) meets to resolve the differences. The conference committee report is returned to both Houses for approval. When the appropriation bill is enacted it is transmitted to the President in the form of an enrolled bill for his approval or veto.

If action on appropriations is not completed by the beginning of the fiscal year (starting October 1), the Congress enacts a "continuing resolution" to provide authority to continue governmental operations usually until regular appropriations are enacted.

A continuing resolution was passed September 30, 1981 for the fiscal year beginning October 1. This resolution expires November 20, at which time either a budget will be completed by Congress and signed by the President, or a second continuing resolution will be needed. It is possible to operate under a series of continuing resolutions for an entire fiscal year.

II. IMPACT OF THE NEW FEDERAL BUDGET AND TAX REDUCTIONS ON THE NEW YORK CITY FINANCIAL PLAN

A. Impact on City Operating Budget

1. Tax Revenues - Overview

Consistent with the Administration's proposals, the Economic Recovery Tax Act of 1981 provides Federal income tax benefits to individuals and businesses. Certain elements of the Act will affect future State and local tax revenues and these are discussed in the body of our report.

Business Tax Relief - provides for faster depreciation write-offs of capital assets placed into service after December 31, 1980, largely by replacing the current system based on useful life of assets with shorter 3, 5, 10 and 15 year categories. The Act also includes the expanded use of investment tax credits, a phased-in reduction of corporate tax rates for small businesses, and liberalizes depreciation deductions on leased assets.

Individual Income Taxes - provides for a reduction in tax rates over three years starting October 1, 1981. The overall effect will be 23 percent cumulative reduction in calendar 1984 when the new rates are fully in effect.[1] The Act also provides relief for working married couples, an increase in the child care credit and an increase in the maximum exclusion of profit from the sale of a principal residence by persons over age 55 years. Foreign income exclusions have been liberalized and simplified.

Savings Incentives - allows a one-time exclusion from taxable income up to $1,000 for individuals ($2,000 joint) of interest earned on certain savings certificates. The Act also increases the permissable maximum annual contribution for tax deferred individual retirement accounts and permits the use of such accounts by persons belonging to a pension plan who were previously excluded from this benefit, up to an annual amount of $2,000 per person.

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1 The 25 percent rate reduction specified in the Act is an absolute number which, after adjustment for a declining tax base, represents an effective rate of 23 percent in 1984.

The Act also provides for estate, gift and oil taxation relief, none of which are directly related to the income tax structure of the State or City.

The Federal tax revisions will primarily impact on the City's general corporation, personal income, unincorporated, and financial corporation taxes. The following sections discuss these areas:

a. Personal Income Tax

Financial Plan Status: The Financial Plan includes personal income tax revenues of $1,110 million, $1,202 million, and $1,332 million, and $1,473 million in 1982-1985. These projections are based primarily on the assumption that taxable personal income will grow by 10.6 percent, 9.6 percent, 9.1 percent and 9.3 percent, respectively. The City did not provide for potential revenue losses resulting from the various Federal revisions to the personal income tax laws.

Financial Plan Impact: Our review indicates that the Federal revisions relating to the personal income tax will have only a limited direct impact on the City's tax revenues. Based on data prepared by the Congressional Joint Committee on Taxation, it appears that approximately 97 percent of the estimated loss in Federal revenues is attributable to the 25 percent Federal tax rate reduction and the marriage penalty deduction. The marriage penalty deduction partially offsets the greater combined Federal tax liability that two individuals were subject to under prior law if they are married rather than single. However, no loss in City revenues will result from these tax provisions since they will not enter the computation for determining City personal income tax liability.

Our analysis indicates that the potential loss in City personal income tax revenues from the remaining personal income tax provisions enacted by Congress could approximate $5 million, $19 million, $21 million and $26 million in fiscal years 1982-1985, respectively. Approximately half of such losses is attributable to the increase in depreciation deductions which, in addition to affecting corporate income taxes, would raise the level of such deductions taken by unincorporated businesses (sole proprietorships and partnerships) on the personal income tax return. Tax reductions relating to the expanded use of tax-deferred income deposited in retirement savings account and tax-exempt savings certificates ("all-savers") largely account for the remainder of the potential City loss in personal income tax revenues.

These estimates were based on the loss in Federal revenues projected by the Joint Congressional Committee on Taxation for each provision of the Act which would flow through locally in computing the tax liability on the City's personal income tax return. In deriving our estimates, the percentage Federal revenue loss for each provision affecting the City was applied against projected City personal income tax revenues.

b. General Corporation Tax

Financial Plan Status: Revenues from the City's general corporation tax are projected in the Financial Plan at $610 million, $645 million, $688 million and $715 million for fiscal years 1982-1985, respectively. The City's plan is based on an econometric model which includes forecasts of U.S. corporate profits made by several of the major economic forecasting services in anticipation of the Administration's proposal to liberalize business depreciation allowances for Federal income tax purposes. The model, however, cannot quantify the estimated revenue losses to the City resulting from the proposed depreciation revisions.

Financial Plan Impact: The faster write-off of depreciable assets enacted by Congress directly affects City corporate income tax revenues since Federal depreciation tables are used by corporations in determining income for City tax purposes. However, the newly legislated increases in the investment tax credit would not affect this City revenue, since the credit does not enter into the computation of City corporate income tax liabilities.

Our analysis indicates that approximately $40 million, $68 million, $112 million and $173 million in City corporate tax revenues may be lost in fiscal years 1982-1985, respectively as a result of the higher tax deductions that could be generated under the revised depreciation regulations.

As noted, while giving effect to Federal depreciation proposals in its econometric model, the model produces only one result based on a variety of economic factors and does not segregate the revenue loss associated with the higher depreciation deductions. Thus, absent a basis for comparison to the City plan, our estimate reflects an absolute decline in City tax revenues resulting from the President's proposal.

Though it would have been clearly preferable, a lack of corporate income tax data on the State or City level showing depreciation deductions by industry prevented us from analyzing the impact of the depreciation from a regional perspective. Accordingly, our analysis relies on estimates of the losses in Federal tax revenues derived by the Congressional Joint Committee on Taxation and the U.S. Treasury in conjunction with the entire tax package passed by Congress. We projected these estimates by applying the percentage revenue loss in corporation taxes on a Federal level against estimates derived by this office of City general corporation tax revenues that could have been realized without the higher depreciation allowances. Where data was available, we refined the Federal revenue loss estimates to exclude industries not located in the City (agriculture, mining) or not subject to the City corporation tax (financial institutions, public utilities, transportation). However, separate data was not available for other major industries outside the City, notably the automobile industry.

It should be noted that the potential loss in City corporate tax revenues due to the revised depreciation rules may be less than we estimated due to the different nature of the City's economic structure. Heavy manufacturing industries largely located outside the City stand to gain a higher percentage increase in allowable depreciation deductions than the service industry which plays a large role in the City economy. As the table on the next page indicates, the time period used for depreciation write-offs on long-lived capital assets generally used in manufacturing is significantly reduced with lesser benefits given for assets with shorter useful lives generally used in service industries.

Comparison of Assets' Useful Lives Under Prior Law
With Recovery Periods Under Current Law

Depreciable Assets Used in the Following Selected Activities	Prior Law Average Amortization Period (In Years)	Current Law Amortization Period (In Years)	Percent Decrease
Manufacture of Primary Ferrous Metals	18	5	72%
Petroleum Refining	16	5	69
Manufacture of Tobacco and Tobacco Products	15	5	66
Manufacture of Motor Vehicles	12	5	58
Printing, Publishing, and Allied Industries	11	5	55
Wholesale and Retail Trade	10	5	50
Personal and Professional Services	10	5	50
Recreation	10	5	50
General Business Activities:			
(1) Office Furniture, Fixtures, Equipment	10	5	50
(2) Information Systems	6	5	17
(3) Data Handling Equipment, except Computers	6	5	17
Contract Construction	5	5	0

Sources: United States Department of Treasury, Revenue Procedure 77-10: Administrative, Procedural, and Miscellaneous, Reprinted from Internal Revenue Bulletin No. 12, dated March 21, 1977.

Conference Report on H.R. 4242, Congressional Record, Vol. 127, No. 120, August 3, 1981.

However, at the same time, the City may not benefit from the economic activity expected to be engendered from the higher depreciation deductions to the same degree as other cities strongly dependent on manufacturing in their economies.

We note that the economic assumptions underlying the Federal revenue loss estimates reflect the Administration's goal for an economic recovery during 1982 and 1983. However, many economists and corporate executives are reportedly of the opinion that the Administration's assumptions may prove unrealistic. Prevailing high interest rates and general doubts as to the prospects for long-term economic stability could also delay capital investment. This would reduce the depreciation losses below those projected. Furthermore, a rise in national corporate profits, relied on by the Administration to partly offset the loss in Federal tax revenues from higher depreciation deductions, may be slower than anticipated.

c. Unincorporated Business Tax:

Financial Plan Status: Revenues from the unincorporated business tax are estimated in the Financial Plan at $131 million, $150 million, $168 million, and $195 million for fiscal years 1982-1985. These estimates, based on an econometric model using forecasted levels of New York City taxable income and employment, U.S. pre-tax corporate profits and the proportion of unincorporated business tax revenues paid by stockbrokers, reflect the revenue losses resulting from the implementation of the new liberalized depreciation system.

Financial Plan Impact: As discussed in the personal income tax section, the depreciation of property used in business or held for the production of income is a deduction from unincorporated business income for Federal personal income tax purposes. New York City adopts reported Federal unincorporated business income, with some modifications as the tax base for the unincorporated business tax. Therefore, increased depreciation deductions stemming from the liberalized depreciation system will directly affect the City's unincorporated business tax, as well as the personal income tax. Based upon our analysis, we estimate City unincorporated business income tax losses of $4 million, $8 million, $12 million, and $18 million for fiscal years 1982-1985. City officials believe our estimate is in the magnitude of the approximate loss built into the Plan. Therefore, we believe that the adoption of the new depreciation system will have no Financial Plan impact on unincorporated business tax revenues.

d. Financial Corporation Tax

Financial Plan Status: Financial Corporation taxes are levied by the City against the net income of commercial banks and on the basis of either net income or interest credited to depositors' accounts in the case of savings banks. Revenues from the financial corporation tax are projected in the Plan at $219 million, $209 million and $193 million during fiscal years 1982, 1983 and 1984, respectively. The Plan incorporates the City's program to reduce the tax rate on commercial banks over three years from 13.8 percent in fiscal 1982 to 9 percent by fiscal 1984. The Plan estimates do not provide for potential losses or gains in such revenues resulting from provisions of the Economic Recovery Tax Act.

Financial Plan Impact: Due to the prevailing high interest rates, substantial deposits have been transferred from many commercial and savings banks into investments with higher yields and offering more liquidity. Many savings banks are also reporting significant losses from operations largely due to the wide disparity between the high rates paid on current deposits and bank income from a large portfolio of fixed rate mortgages contracted at substantially lower interest rates. The following features of the Economic Recovery Tax Act were intended to increase bank deposits and improve bank profitability:

- Allows banks to provide tax-free savings certificates ("all-savers") but with an interest rate that is 30 percent lower than current short-term market yields. This provision of the Act is intended to increase bank earnings through the investment of new deposits at higher rates than paid on such certificates and expires December 31, 1982.

- The Act's provisions related to tax-deferred retirement savings accounts were intended to increase bank deposits by increasing the maximum annual deposits into such accounts by persons presently eligible. The Congress also expanded the use of such accounts to include persons who already belong to a qualified pension plan in their place of employment. In a separate action, the Federal government recently eliminated the interest rate ceilings placed on such accounts. This latest action could result in erasing any benefits to banks anticipated in the Act by discarding the rate ceiling on such accounts.

- Revisions to the leasing provisions of the Federal income tax law could increase tax benefits to commercial banks by increasing allowable depreciation deductions. In certain instances, depreciation deductions claimed by commercial banks on equipment leased to other companies, were previously disallowed by the Internal Revenue Service (IRS). Such transactions were considered by the IRS as a form of bank financing with the asset belonging to the company making the lease payments. The revised tax law greatly relaxes the criteria for claiming depreciation deductions in asset-lease transactions and could, according to State officials, expand commercial bank activity in this area.

All of the above provisions in the income tax law could affect the level of City financial corporation tax revenues, via changes to bank earnings. However, we could not quantify the potential impact of such provisions on City financial corporation tax revenues, as relevant data presently available from the Federal government is not sufficient for analytical purposes.

2. Federal Grants

a. Board of Education

Federal Budget Update: In addition to setting spending ceilings for the 1982 Federal budget, the Congress voted to rescind funding for various education programs appropriated in the 1981 budget on the average by about 11 percent.[1] The new funding levels for Federal 1981 are, however, only 5.5 percent below previous year aid levels, as indicated in the table below for programs operating in the City:

Nationwide Federal Aid to Education Programs
Federal Years 1980 and 1981
(in millions)

Program	Federal 1980	Federal 1981	Reduction/(Increase)
Title I	$3,216	$3,104	$112
Vocational Education	784	686	98
Handicapped Aid	875	916	(41)
Bilingual Education	167	158	9
ESAA[2]	249	149	100
Other Programs	294	261	33
Total	$5,585	$5,274	$311
Percentage Reduction			5.5%

1 Federal funding for education programs budgeted in a given City fiscal year is, with the exception of impact aid and child nutritional assistance, appropriated in the previous Federal year. For example, Title I funds budgeted in City fiscal year 1982 are appropriated in the Federal 1981 budget.

2 ESAA (Emergency School Aid Act) provides grants to States and localities for the implementation of school integration programs.

The spending ceilings included in the Reconciliation Act for the 1982 Federal year generally exceed Federal 1981 levels for the above programs. In the case of Title I aid, the single largest elementary and secondary education program, funding was increased by 12 percent from the previous year. Federal officials have indicated, however, that final Federal 1982 appropriations to be considered by Congress will most likely not exceed 1981 Federal funding levels.

The Act also includes the following changes affecting Federal aid to the City's Board of Education:

- A three-year phase-out of impact aid for those students whose parents do not reside as well as work on Federal property.
- Eligibility restrictions for subsidized school lunches, and reduced allowances for partially subsidized lunches and commodity and nutritional assistance. The meal subsidy for free lunches was increased by 18 percent for Federal 1981 and is to be adjusted annually thereafter according to changes in the Consumer Price Index.

The Act also consolidates many smaller education programs including the ESAA and Libraries (Title IV-B) programs operating in the City.

Financial Plan Status: The City assumed that the $371 million in Federal aid to the Board of Education budgeted for City fiscal 1982 would continue during City fiscal 1983 and 1984.

Financial Plan Impact: City officials have indicated that unspent Federal education funds allocated to the City in fiscal 1981 will be available to partly offset potential losses in Federal aid in the Title I and vocational education program. Our review indicates that such additional funds should reduce the ultimate loss in aid to the City to $17 million, $24 million, and $22 million in fiscal 1982 through 1984, respectively. The basis of our review follows:

We estimate the loss in Federal education aid, before inclusion of prior-year aid transfers, at $37 million, $34 million and $30 million for fiscal 1982 through 1984, respectively. The following table presents the results of our analysis:

Estimated Loss in Federal Aid
Education Programs
Fiscal Years 1982-1984
(in millions)
loss/(gain)

Program	1982	1983	1984
Title I	$16	$16	$16
Vocational Education	6	6	6
Impact Aid	5	10	15
ESAA-Libraries	8	8	8
Child Nutrition	2	(7)	(15)
All other		1	
Total Aid Loss	$37	$34	$30

As shown in the above table, aid losses in the Title I program represent on the average about half the aid loss in each year. Remaining losses are chiefly through the phase-out of impact aid and funding reductions in the vocational and ESAA programs. Aid losses in the child nutritional assistance programs from the stricter eligibility requirements are expected by the City to result in a small loss in fiscal 1982. The new regulations make relatively minor changes to the eligibility criteria of students' free lunches, comprising 92 percent of the City's student lunch population. However, inflation adjustments to the school lunch subsidy should partially offset Federal aid losses in fiscal 1983 and 1984.

Anticipating Federal cutbacks in Title I funding, the City paid approximately $33 million in fiscal 1981 Title I operating costs with other City funds, thereby saving Title I aid for use in later fiscal years. City officials indicate, that $15 million of available prior-year Title I funds will be used in fiscal 1982, $10 million in fiscal 1983, and $8 million in fiscal 1984. An additional $5 million in fiscal 1981 vocational education aid will be used to make up funding shortfalls in this program during fiscal 1982.

Federal officials indicate that about $8 million of the estimated loss in Title I aid is due to the reduction in Federal 1981 funding levels. The remaining loss, however, is a result of a decline in the proportion of the national funding allocated to the City. In the Title I education program, Federal apportionments to localities are determined, in part, by the number of children receiving Federal welfare assistance above the Federal poverty line. However, inflation adjustments to the poverty line and the fact that welfare grants have been held constant in New York State since 1974 continue to reduce the State's eligible student population and this factor accounts for the remaining loss in aid to the City in this program in each year of the Plan period.

b. Public Assistance

(1) Welfare

Federal Budget Update: Most of the Administration's proposals to restrict elgibility and reduce benefits in the Federal Aid to Families with Dependent Children welfare program (AFDC) were adopted by the Congress. The Reconciliation Act includes the following major revisions:

- Excludes families with gross income above 150 percent of a state's standard of need for obtaining welfare benefits.
- Restricts the amounts that can be deducted from a family's earned income in determining grant levels. The current practice of deducting total work-related and day care expenses from income would be limited to $75 per month for work expenses and $160 per month for each child in day care. And, the present provision of allowing recipients to keep $30 and one-third of income would be limited to only the first four consecutive months of receiving benefits. This four month limitation would start running on the date the State starts operating under the new regulations. These revisions will have the effect of reducing benefit levels and, in some cases, terminating a family's eligibility.
- Excludes children over the age of 18 from receiving benefits. But, states can elect to provide benefits to children completing their secondary education up to the age of 19.

Financial Plan Status: The Plan projects the annual City share of AFDC costs at $251 million, $255 million, and $261 million for fiscal 1982, 1983, and 1984, respectively.[1] The projected annual increases result from the

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1 The Federal government contributes 50.88 percent of AFDC expenditures, with the balance shared equally by the State and City.

assumption of a slightly higher caseload in fiscal 1982 and periodic upward adjustments in the welfare grant to recognize expected rent increases.

Financial Plan Impact: We were advised that implementation of the new AFDC criteria will require State legislation. And, because of considerable administrative difficulties involved in implementing the revised law, the State, pursuant to the Reconciliation Act, has requested the Federal government to postpone the date of compliance with the new legislation. Under these circumstances State officials indicate that most of the new criteria are not likely to become effective before January, 1982, and some provisions will not take effect until April, 1982.

Our review indicates that the changes in Federal AFDC regulations should reduce the City's share of AFDC program costs. However, any such savings to the City could be offset by higher costs for other existing welfare-related programs.

According to City officials, the new regulations should reduce the City's share of costs for the AFDC program by up to some $5 million in fiscal 1982 and about $15 million annually thereafter. Approximately 9,000 of the City's current AFDC cases are expected to become ineligible as a result of the new guidelines and some 31,000 cases would face some reduction in welfare benefits.

These officials point to the following factors which could act to offset estimated savings and result in additional City funded welfare costs:

- Additional City contributions of approximately $4 million in fiscal 1982 and $8 million thereafter annually will be required to subsidize day care expenses no longer covered through AFDC because of the $160 per month limit for each child.[1] Day care services are mandated for certain AFDC cases. In other cases, the City believes that not subsidizing day care services will only lead to creating a disincentive to work and ultimately increase welfare expenses.

- Individuals over the age of 18 excluded from the AFDC program could, under present State law, apply for benefits under the State's Home Relief welfare program.[2] The City estimates that approximately 20,000 people will be affected by the new age rule. This could result in additional City costs under Home Relief of $9 million in fiscal 1982, and $15 million annually thereafter. However, the City's estimates regarding potential transfers to the Home Relief program and the corresponding increase in costs appear to represent a worst-case scenario and could be considerably less. The State legislature recently enacted legislation which provides Home Relief eligibility for some but not all persons excluded from the AFDC program.

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1 The cost of day care in New York City in many cases exceeds $300 per month for each child.

2 Home Relief expenditures are shared equally between the State and the localities.

(2) Food Stamps

Federal Budget Update: The Federal Administration had proposed a far broader cutback than the one enacted. The adopted Reconciliation Act specifically exempted the elderly and disabled as well as those receiving treatment for alcohol and drug related problems from losing eligibility. However, the adopted eligibility standards are more restrictive than before as they:

- Exclude families whose annual income is less than 130 percent of the official poverty level from receiving benefits, thus reducing the income level for eligibility for a family of four from about $14,000 to some $11,000 a year;
- Pro-rate food stamps issued for the first month a family is eligible instead of issuing a full allotment for the month;
- Adjust cost-of-living food stamp benefits every 15 months rather than every 12 months as before; and
- Freeze the current allowable amount of earned income deductions used to determine food stamp benefit levels until June 1983. These deductions were previously adjusted annually to reflect increases in shelter and other living costs.

Financial Plan Impact: The food stamp program had been totally supported by Federal funds and City officials indicate that Federal funding reductions in this area will not be assumed by the City. The City estimates that food stamp benefits for its residents will be reduced by $18 million in fiscal 1982,[1]

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1 This reduction represents only a half-year effect of operating under the new guidelines. State officials responsible for supervising the local administration of the Food Stamp Program advise that it may take until January 1982 before the State can implement the new regulations due to their complexity, and the old regulations will remain in effect until that time.

and $36 million annually thereafter as a result of the revised standards imposed by the Federal Act. The new standards are expected to result in 27,000 City families losing eligibility and all of the remaining 440,000 City families which receive food stamp benefits having their benefits reduced.

c. Social Services

(1) Title XX Program

Federal Budget Update: Federal funding for programs under Title XX[1] of the Social Security Act for the 1982 Federal year was reduced by 20 percent from the 1981 level. The Congress provided for only slight increases over this 1982 level for Federal 1983 through 1986. The present requirement that each State match one-third of its Federal Title XX allocation with its own funds was eliminated by the Congress.

Unlike the President's proposal, the Congress voted to continue child welfare services, foster care and adoption assistance programs as individual programs under previously established funding levels. For the programs consolidated under the Title XX Block Grant, the Congress eliminated the present requirements: (1) that a specific portion of Title XX funds be used for welfare recipients; and (2) that certain services be limited to families with incomes below 115 percent of a state's median income.

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1 Federal funding under Title XX of the Social Security Act helps meet the needs of low-income residents who are not eligible for categorically-funded programs, such as Aid to Families with Dependent Children and Medicaid. Title XX monies are used to provide such services as: day care; senior citizen centers; protective services for abused children; family planning; and home management. Most of these services are provided by non-profit agencies.

Financial Plan Status: The City anticipated that the $145 million in Title XX funds received during its fiscal year 1981 would continue during the Plan period. This amount represents a 75 percent Federal share of a projected $193 million in annual program costs, with the balance shared equally between the State and City. According to the City's Human Resources Administration, total Title XX program costs in fiscal 1982 will be spread among various programs as follows:

	Title XX Fiscal 1982 (in millions)
Day Care	$ 128
Senior Citizens Centers	34
Child Welfare	19
Home Care	5
Other Services	7
Total	$ 193

The total cost of providing such services has, in recent fiscal years, exceeded $193 million. For fiscal 1982, total program costs are expected to reach $260 million, or $67 million more than provided under the Federal Title XX aid program. This difference could be partially offset by shifting costs for certain eligible recipients to other Federal and State programs; however, the reimbursement rates for these programs are lower than those provided under the Title XX program.[1] The City's plan assumes an overall 3 percent annual growth rate in the cost of these programs.

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1 Outlays in excess of available Title XX funding are first claimed by the City under the ADC-FC program (50% F, 25% S, 25% C) which has a ceiling and then under the child welfare program (50%S, 50%C) which also has a ceiling. All costs remaining after reaching the funding limitations for these programs must be borne entirely by the City.

Financial Plan Impact: The Federal government recently released the State allocations of Title XX funds for Federal 1982 based on the 20 percent decline in spending authority set by the Congress for this program. Since funding is based on population, New York State's share of the national allocation is shown as declining by 24 percent which, according to State officials, reflects the decline in the State's population relative to the rest of the nation as indicated in the 1980 Federal Census.

Our review indicates that a decline in Title XX aid of such magnitude, will require $15 million, $21 million and $19 million in additional City funds in fiscal 1982, 1983 and 1984, respectively, to maintain the current level of services. This estimate was calculated assuming that the City's share of the State aid allocation would approximate the ratio experienced in fiscal 1981 and that $11 million of the Federal Energy Assistance block grant will be allocated to Title XX programs.

In addition, in an effort to offset the State's exposure to Federal aid reductions, the State Legislature may consider a cap on State spending for certain social service programs. State officials indicate that such action, as yet not fully outlined, could result in additional City costs of up to $5 million each year.

State officials indicate, however, that the following factors could serve to reduce the City's exposure:

- An additional $25 million in Federal funds may become available statewide. This requires Federal approval of the State's request to allow the use of unspent Federal allocations of prior years' welfare-related social service programs.

Additional recurring savings could be achieved by reducing the scope of services or tightening eligibility tests for the non-mandated services offered under Title XX. Optional (non-welfare) services represent approximately 50 percent of the City's program costs in this area. Such actions to reduce services and eligibility for these elective programs can be implemented by localities and do not require State approval. However, reductions in optional services could encounter public resistance.

(2) Health, Community Service and Energy Block Grants

Federal Budget Update: A large portion of the Administration's proposal was adopted. Some twenty health related programs were consolidated into the following four block grants:

- Alcohol, Drug Abuse and Mental Health;
- Preventive Health;
- Maternal and Child Care; and
- Primary Care

Overall funding for these aid programs was reduced by about 25 percent from the Federal 1981 level. However, funding for venereal disease, immunization services, and low income energy assistance was kept at Federal 1981 levels. The President's proposal to abolish the Community Services Agency and consolidate these services into a block grant at funding levels reduced by 25 percent was adopted. The Act also allows States to shift up to 10 percent of the funds provided from the health and energy block grants to the Title XX programs or vice versa. (See section c).

Financial Plan Status: The City's budget for fiscal 1982 allocates some $7 million in Federal assistance to contractors operating community mental health centers, and $24 million for the City-operated Community Services Program. Other health programs are, in the main, administered by the City's Health Department and funded directly by Federal grants that are not contained in the City's budget. The City chose not to include Federal aid for energy assistance in the Financial Plan due to uncertainty over continuation of this program at the time the Plan was prepared.

Financial Plan Impact: Our review indicates that, if the mental health outpatient services provided by the Community Mental Health Centers are maintained at planned levels, City contributions of up to $2 million a year would be required to offset the loss in Federal assistance. City officials indicate that due to the essential nature of the services provided, the reduction in Federal aid is likely to be absorbed by the City. City officials also told us that the City would probably not increase funding to compensate for Federal reductions in the Community Services Block Grant.

The City now anticipates receiving funding for Low-Income Energy Assistance at roughly the 1981 level. However, even if this allocation is less, City officials indicate it will not have a budgetary impact since the City does not intend to compensate for any loss of Federal funds in this block grant with City funds.

d. Medicaid

Federal Budget Update: The Congress voted to reduce the amount of Federal reimbursement to which states are otherwise entitled under the Medicaid program by 3 percent, 4 percent and 4.5 percent during Federal years 1982, 1983, and 1984, respectively.[1] The first reduction of Federal reimbursement starts in October 1981. However, Congress provided for a one percent exemption from such reductions for each of the following criteria that a state is able to meet:

(a) - operating a qualified hospital cost containment program;

(b) - an unemployment rate in excess of 150 percent of the national average; and

(c) - fraud and abuse auditing programs generating recoveries of at least one percent of the total Federal Medicaid reimbursement.

Under the revised Medicaid law, a refund would also be given equal to the amount that the Federal share of a state's Medicaid expenses show a rate of growth lower than the rates specified in the law. But in no case can the refund be greater than the amount by which Federal reimbursement was reduced.[2]

Consistent with the President's proposal, the Act affords states the opportunity to reduce the overall cost of the Medicaid program by providing them with greater administrative flexibility.

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1 Under the present law, the percentage of Federal reimbursement that a State receives for Medicaid expenses ranges from 50 percent to 75 percent dependent on a state's per-capita income level.

2 The Act specifies a 9 percent growth rate for Federal 1982, and based the growth rate targets for 1983 and 1984 on the medical component of the Consumer Price Index.

Financial Plan Status: The City's share of Medicaid expenses is projected in the Financial Plan at $840 million, $919 million, and $1,009 million during City fiscal years 1982, 1983 and 1984, respectively.[1] Roughly, a 10 percent annual growth rate in the City's share of Medicaid costs is implied in the Plan.

The City's goal of achieving balanced budgets during the Plan period relies heavily on the Governor's proposal that the State gradually assume the local share of Medicaid costs. Under this proposal, the City estimates it could save $78 million, $268 million and $596 million in fiscal years 1982, 1983 and 1984, respectively. However, the Governor's proposal was not adopted and it remains uncertain whether the State would be willing to assume additional Medicaid liability at a time when it must deal with other Federal aid cutbacks.

Financial Plan Impact: The City's potential exposure to additional costs under the Medicaid regulations will depend largely on the State's ability to meet the criteria for exemptions set forth in the law. There is general consensus among government officials contacted by this office that the State would be eligible in Federal 1982 under criteria (a) and (c). But, because of stricter standards in later years, the State would qualify for only (a) in Federal 1983 and 1984. Furthermore, these officials do not expect the State to contain the growth in the Medicaid program below the specified growth rates and thus would be ineligible for such additional refunds.[2]

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1 The Federal government reimburses New York State at a rate of 50.88 percent with the State and localities sharing the remaining costs equally.

2 The State Medicaid growth rate percentage exceeds that of the City by from 3 to 5 percent annually, largely due to Medicaid costs related to mental health and retardation programs provided exclusively by the State.

Accordingly, based upon the criteria likely to be met by the State, our review indicates that approximately $5 million, $19 million, and $28 million in additional City funds would be needed in City fiscal 1982, 1983 and 1984, respectively, to offset the impact of Federal Medicaid reductions.[1] Our estimate also assumes, based on our discussions with State and City officials, that the loss in Federal Medicaid reimbursement would most likely be shared equally between the State and its localities.

To offset the reductions in Federal reimbursement, the State is presently considering a wide range of programmatic changes to contain or reduce the overall cost of the program. Some examples of these possible changes are discussed below:

- <u>Reduce reimbursement rates to providers</u> - State officials indicate that savings can be achieved in containing Medicaid costs under this alternative when applied to nursing homes and private hospitals. In fact, recent changes by the State to the rate structure for such institutions are estimated to result in roughly $10 million in savings to the City when fully effective in fiscal 1983.

- <u>Restrict recipients to particular providers</u> - This option would be aimed at reducing unnecessary or excessive utilization of physician and pharmaceutical services. The State would be able to expand the use of this control system, which is now limited to known abusers of these services, to include more Medicaid recipients, and not just those who have abused these services.

- <u>Competitive bidding</u> - Selection of eligible providers of laboratory services and medical equipment would be centralized under State control based on competing bids. Presently, such services are obtained at widely varying prices.

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1 Represents the City's share of Medicaid expenses for both public and private providers.

- <u>Health Maintenance Organizations (HMO)</u> - The Congress removed many of the obstacles which precluded localities from establishing such institutions both in the public and private sectors. In general, HMO's have been found to be more cost-efficient than private doctors or hospital outpatient clinics.

- <u>Eliminating optional services</u> - The State could eliminate certain optional services currently provided to Medicaid recipients who do not qualify for the Federal welfare programs[1]. However, a similar proposal by the Governor was defeated by the State Legislature in the 1981 session.

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1 This would affect Home Relief recipients and Medicaid-only enrollees. The Home Relief Program provides State and City funded welfare grants and automatic Medicaid eligibility to individuals and families in need who are not eligible for any Federal assistance programs. Medicaid-only enrollees are not eligible for cash grants under the Federally sponsored AFDC or SSI programs but are eligible for Medicaid coverage because of high medical expenses.

e. Comprehensive Employment and Training Act (CETA)

Federal Budget Update: The President's proposal to eliminate Federal funding of municipal employees under the CETA Program (PSE) after September 30, 1981 was approved by the Congress. Elimination of this program will affect approximately 300,000 individuals nationwide, many of whom were terminated as of June 30, 1981, with the remainder leaving the program by September 30, 1981, the close of the 1981 Federal fiscal year. Remaining CETA-PSE allocations were reserved by the Congress to pay for any unemployment insurance benefits related to the eliminated CETA employees.

The following actions were taken with regard to Federal funding of the CETA youth and adult job training programs:

- Some $600 million in unspent 1981 appropriations were deferred. If not budgeted by Congress in 1982, these funds will be automatically rescinded.
- The Administration's proposal to consolidate the youth and adult training programs did not pass. Funding set by the Congress for these programs was approximately one-third higher than the Administration's request, but at the same time one-third lower than the Federal 1981 level. In addition to setting the Federal 1982 funding level, the Reconciliation Act provides a continuation of such funding for Federal 1983 should appropriations for 1983 not be enacted by the Congress.

Financial Plan Status: The City budget for fiscal year 1982 assumed the elimination of the PSE Program, and provided $78 million in City funds to continue funding for some 4,500 such positions transferred to the City payroll. Federal funds for training programs are assumed in the Plan to decline approximately 7 percent in fiscal 1982 and held constant thereafter without considering the appropriation of deferred funds.

The City's Financial Plan provided for the possible increase in welfare costs for terminated CETA employees who are not absorbed elsewhere in the economy.

Financial Plan Impact: The provisions of the Reconciliation Act with respect to CETA aid should not adversely impact the City's Plan. As mentioned, the City's Plan assumed the entire elimination of the PSE Program and provided its own funds to prevent the loss of many of these positions.

Our review indicates that Federal funding for job training programs would decline under the Reconciliation Act by about $27 million in City fiscal 1982. Assuming the Federal 1982 funding level continues for subsequent Federal budgets, the City would lose approximately $30 million annually in fiscal 1983 and 1984. Reappropriation of the deferred Federal 1981 funds by the Congress could offset our estimated loss in CETA revenues. However, such action appears unlikely in light of the President's goal to reduce the budget and since the rescission of such unspent funds would not disturb present program levels.

Nevertheless, the decline in Federal aid for such programs will not have budgetary impact. City officials have indicated that the City has not funded these programs in the past, and will not compensate for these Federal cuts.

f. Community Development Block Grants (CD) and Urban Development Action Grants (UDAG)

Federal Budget Update: The Congress did not adopt the President's proposal to consolidate the CD and UDAG programs. Funding for the CD program during Federal 1982 and 1983 will remain at approximately fiscal 1981 levels. However, the Congress voted to allocate a greater share of CD aid to smaller localities by reducing the apportionment to large metropolitan areas from 80 percent to 70 percent of the national allocation. Funding for the UDAG program for Federal 1982 and 1983 was reduced by 25 percent from the 1981 aid level.

Both programs were authorized by Congress with a three-year duration expiring August 30, 1983.

Financial Plan Status: The City anticipates that the Federal CD allocation of $257 million granted the City for CFY 1982 will continue for the duration of the Plan period. Of this amount, approximately $170 million is allocated in the City's fiscal 1982 budget towards housing rehabilitation, community improvement and economic development activities. As in previous years, the remaining CD funds will be used to pay for City operating costs related to the maintenance and management of properties foreclosed by the City as a result of property tax delinquencies (in-rem). In addition, approximately $93 million in CD grants not used by the City in previous fiscal years, but allocated for projects including the maintenance of in-rem property, will be available during CFY 1982.

Aid revenues from the UDAG program are budgeted by the City in line with specific Federal approval of various projects. The City negotiated approximately $54 million in such grants during fiscal 1981.

Financial Plan Impact: The new law would not affect the City's budget for fiscal 1982 since the CD allocation for this year is appropriated in the 1981 Federal budget. These grants were not revised during the recent Congressional proceedings.

Our review indicates that the 10 percent national reduction in the CD apportionment to urban areas in Federal 1982 and 1983 translates into a 5 percent loss in aid for the City. This results from a revision in the method for computing the amount of Federal aid available for distribution.[1] Although these changes should reduce CD aid to the City by some $13 million annually during fiscal 1983 and 1984, the decline in such revenues should have no budgetary impact. Losses in aid used for neighborhood rehabilitation would not likely be offset by corresponding increases in City funds for these programs. Reductions in CD aid used to fund City operating expenses for in-rem properties may not require additional City funds. Such lower aid could, according to Federal officials, be offset by increasing the proportion of CD aid allocated for in-rem use.

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1 Approximately $275 million in CD funds previously reserved for certain smaller localities will, under the new law, be combined in the overall national allocation for distribution.

The impact of the 25 percent reduction in UDAG funding cannot be quantified. Such aid is not distributed based on formula, but is allocated based on competing proposals among localities. However, a reduction of this magnitude substantially decreases the pool of available Federal funds thereby limiting the number of projects that can be implemented.

Both the UDAG and the CD reductions could ultimately result in impeding the City's progress in various housing, community improvement and economic development activities.

B. Impact on City Capital Budget

1. Water Pollution Control Projects

Federal Budget Update: The appropriate sub-committees of both the House and Senate have recommended that $2.4 billion be authorized for funding in Federal fiscal year 1982 under the Water Pollution Control Act. While this amount is consistent with that proposed by the current Adminstration, it is somewhat less than the $3.3 billion authorized for Federal fiscal year 1981. However, because various proposals intended both to limit the types of projects eligible for funding and to alter the present formula used to allocate funds are still pending, the Budget Bill which was passed for Federal fiscal year 1982 includes no appropriation. Action resolving these differences is hoped to be completed by December.

Financial Plan Status: The City's capital plan anticipates that capital contracts of approximately $1.8 billion will be entered into during fiscal years 1982-1985 for the construction of water pollution control projects to allow the City to meet Federal mandates pertaining to water pollution standards. Of this amount, $1.6 billion is expected to be Federally funded.

Financial Plan Impact: Assuming that an annual appropriation for $2.4 billion is enacted for Federal fiscal year 1982 and the subsequent three years, the amounts available to the City would provide only about 25% of the Federal funding which will be required to advance construction of water pollution control facilities as currently planned. The City has indicated that it intends to offset some of this funding shortfall by using approximately $136 million of Federal funds which had been allocated in the City's capital plan for the construction of a land fill sludge disposal system.

(The construction of this disposal system is no longer required as a recent court decision permits the City to continue ocean dumping.)
Such funds will be reallocated to support the continued construction of the North River and Red Hook Water Pollution Treatment Plants which must be operating at secondary treatment by fiscal 1987 pursuant to court decrees.

The City is caught in the middle in this matter since it is subject to severe Federal penalties if it doesn't meet construction milestones in a timely manner. In an effort to alleviate the impact of reduced Federal aid for water pollution plants, the City has asked the Federal government to stretch out the present timetable required by Federal mandates for completion of the construction and upgrading of water pollution treatment plants. This of course, would delay the City's anti-pollution efforts. Although the Federal response is uncertain at this time, it could be favorable in light of the Administration's goal to lessen Federal involvement in State affairs through the relaxation or elimination of Federal mandates.

2. Highways

Federal Budget Update: The Congress deferred action on the Administration's proposed multi-year highway program, which would have provided for a phase- out by Federal fiscal year 1984 of the Federal Aid to Urban Systems Program (FAUS) with a corresponding funding increase for interstate highway and bridge construction programs. Instead, the House has authorized funds for these programs for Federal fiscal year 1982 at slightly lower levels than originally proposed, and action by the Senate is still pending.

Discussions with staff members of responsible committees of both houses indicate a reluctance on the part of Congress to eliminate the FAUS program. Alternatively, consideration is being given to a plan which includes a reduction in FAUS grants and a doubling of the share that localities presently provide to finance such projects.[1] A multi-year program is expected to be addressed by the Congress later this fiscal year.

Should a new authorization bill not be approved for Federal fiscal year 1982, the current authorization bill would stay in effect. While the FAUS funding level would remain the same under the current bill, funding for the bridge program would be less than that proposed by the House.

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1 Current levels of participation by the Federal, State and City for a project funded under FAUS is 75%, 19% and 6% respectively.

Financial Plan Status: The City, as stated in our previous report, has anticipated the funding levels for their capital highway and bridge program will continue at present levels for FYS 1982-1985. Currently, approximately one-half of FAUS monies distributed to the City is used to support its capital street and bridge rehabilitation program with the remaining portion allocated to the Transit Authority for use in its capital program.

Financial Plan Impact: Under the President's proposal, FAUS grants to the City would be reduced by about $13 million in City fiscal 1983 and $31 million in 1984. Although the City has not as yet addressed the likelihood of a funding reduction in Federal highway assistance, officials are concerned that a reduced level of aid would slow the City's street rehabilitation and bridge repair programs and possibly lead to the elimination of some projects. As a result, State Department of Transportation (DOT) has requested the City to develop a standby plan in the event the proposed reductions in Federal aid are enacted by Congress. In the event of a reduction in Federal highway aid, the State has proposed that the City apply the funds it presently plans to use in the TA capital program to the City's highway and bridge construction program.

C. Impact on City Covered Organizations

1. Transit Authority (TA)

Federal Budget Update: The Congress adopted the President's proposal to keep mass transit operating assistance for Federal fiscal 1982 equal to the levels of last year. The Administration proposal to phase out such assistance between Federal 1983 and 1985 was not addressed by Congress. The Act also authorized a reduction in Federal 1982 mass transit capital grants.

Financial Plan Status: Incorporating the President's proposal, the Plan assumes that the City fiscal 1982 Federal operating subsidy to the TA will continue at the fiscal 1981 level of $123 million, but that the subsidy will be reduced to $86 million in fiscal 1983, to $49 million in fiscal 1984, and to zero in fiscal 1985.

Financial Plan Impact: Our analysis indicates that the Financial Plan of fiscal 1982 is not affected by the Reconciliation Act. The expected level of Federal operating subsidy for the "outer years" of the Plan remains uncertain. Congress has not yet acted on these years, and it is unclear what course of action will ultimately be taken. With regard to capital funding, it appears that the Plan will not be affected, as the Act indicates that the reductions in aid will not be levied against older transit systems like New York's.

2. Housing Authority

Federal Budget Update: One housing-related issue contained in the Reconciliation Act may have a direct effect on the City's financial plan. The Administration recommended and the Congress adopted a measure increasing the maximum rent for publicly-assisted housing (both public housing and Section 8 assisted, privately-financed housing) from 25 percent to 30 percent of the tenant's adjusted income. This increase is to be phased in over five years in equal annual installments.

Financial Plan Status: The City's financial plan assumes operating subsidies for the Housing Authority's (HA) City- and State-aided programs based on the current 25 percent provision.

Financial Plan Impact: HA officials indicate that they are likely to decide that the mandated rent increases in Federal housing projects will be similarly applied by the HA to City and State public housing. Higher tenant rents could result in a reduction in the City subsidy to HA by $1 million, $3 million, $5 million and $7 million in fiscal years 1982 through 1985, respectively. We note that the decision to increase rents is solely within the purview of HA.

As noted in our previous report (2-82), a general cutback in the availability of Federal subsidies for housing for the City could affect the prospects for future financing of Housing Development Corporation (HDC) projects, since Federal housing assistance subsidies have been a factor in recent HDC long-term financing and construction loan activity. Reduced subsidies could limit the attractiveness of future HDC issues since these revenues were used to support HDC bonds. The cutbacks have no impact on the current HDC financial plan, as no existing subsidy payments are affected and the plan assumes no new financings.

3. City University (CUNY)

Federal Budget Update: The Congress has adopted new regulations designed to severely restrict eligibility in the college student loan and grants programs. In addition, legislation to eliminate benefits to post-secondary students under the Social Security Act was enacted.

Financial Plan Status: The City's financial plan for the City University (CUNY) includes projected expenditures of $516 million for fiscal 1982, of which approximately 25 percent will be supported with student tuition and fees. City officials indicate that about 70 percent of the student population receives some form of student assistance to finance their education.

Financial Plan Impact: Our analysis indicates that neither potential enrollment declines in the CUNY senior colleges resulting from reduced student aid, nor enrollment growth due to increased transfers from private colleges, would affect the City's financial plan, as the amount of the City's contribution to the senior colleges is capped by State law. However, Federal reductions in student assistance could result in the need for additional City support of its community college system. In addition to reducing tuition revenues, a decline in student enrollment resulting from the stricter eligibility criteria would reduce enrollment-based State aid.

Since City funds provide the difference between total expenses and tuition, fees, and State aid, the City would either have to increase its contribution to the community colleges, or CUNY would have to reduce expenditures to bring them into balance with revenues. A third option, the imposition of tuition increases,[1] lies solely within the purview of CUNY's Board of Trustees. However, City and CUNY officials have not yet quantified the implication of the new student criteria and it is unclear what action, if any, will be taken.

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1 We note that a tuition increase could reduce enrollment.

4. Health and Hospitals Corporation

Federal Budget Update: Departing from the Administration's proposal the Congress revised the law which governs the basis upon which hospitals are reimbursed under the Medicaid and Medicare programs which is expected to result in significant savings for the Federal government. The principal revisions are as follows:

- penalize hospitals with excess bed capacity by reducing reimbursement for certain types of in-patient care;
- limit reimbursement for physicians' services under the Medicare program to comparable fees by private physicians; and
- gives special consideration to hospitals serving an unusually high proportion of low-income patients.

Financial Plan Status: The HHC is projecting approximately $930 million in Medicaid and Medicare revenues, comprising about 65 percent of total HHC revenues. Medicaid revenues are projected to increase 2 percent in fiscal 1983 and 6 percent annually thereafter. Annual growth in Medicare revenues is expected to average from 5 percent to 6 percent annually after fiscal 1983.

Financial Plan Impact: City officials estimate that "excess bed" penalties could result in a $14 million loss in revenues to HHC in fiscal 1982 and up to $28 million annually thereafter. Furthermore, the lower reimbursement for physicians' fees could also result in, as yet, undetermined loss to HHC. However, pending the promulgation of Federal regulations concerning the implementation of this provision, which City officials believe could be favorable to public hospitals, any estimate of potential impact is premature at this time.

In the absence of regulations, it is also unclear what, if any, advantage the provision giving consideration to hospitals serving low-income patients will have on HHC.

We note that certain provisions located elsewhere in the Act could also affect the financial condition of HHC, but not necessarily in the same manner. As noted in the "Public Assistance" section of this report, certain individuals currently receiving Aid to Families with Dependent Children (AFDC) will lose such benefits under the revised eligibility requirements in the Reconciliation Act. To the extent that such individuals are not transfered to the Home Relief category of public assistance, they will lose Medicaid eligibility. This could result in the need for an increase in the City's subsidy to HHC, should these individuals seek care at HHC facilities, but lack the financial resources or alternative third-party insurance to pay for such services.

However, additional Medicaid revenues could be realized by HHC should the State, as now allowed under the Act,[1] limit the present freedom of Medicaid recipients to choose any provider of service and require certain Medicaid patients to utilize HHC facilities.

1 The Reconciliation Act would require states to request a wavier of the "freedom of choice" clause in the Federal Medicaid requirement.

Glossary

Aid to Dependent Children	Federal program restricted to families with dependent children who require financial assistance due to the absence, incapacity, or death of a parent.
Allocations	Funds which are awarded by the Federal government to States and/or localities.
Appropriations Bills	Spending ceilings enacted by Congress for each program for a single budget year.
Bilingual Education	Federal program for children with limited English speaking ability
Block Grant	The consolidation of several programs under one appropriation, at capped fixed expenditure levels
Budget Authority	Permission by Congress to carry out a particular program which sometimes includes limits on the amount that can be appropriated for the program.
CETA - PSE	Provides funds for job training and employment in public service positions.
CETA - Training Programs	Youth and adult training programs sponsored by localities but operated by private institutions.
Child Nutrition	Federal programs which reimburse schools for lunches and breakfast served to students and provides commodity assistance to the schools.
Community Development	Federal program providing grants for neighborhood rehabilitation and housing maintenance.

Concurrent Budget Resolution	An Act passed by both Houses of Congress limiting spending in total and by functional category.
Continuing Resolution	An Act passed by Congress to provide funding in the absence of a budget for the fiscal year.
Depreciation	The reduction of the value of an asset charged to a company's expense with no related disbursement of cash.
Economic Recovery Tax Act of 1981	An act passed by Congress in August 1981 to reduce the Federal income tax liability of business and individuals.
Emergency School Aid Act (ESAA)	Grants to States and localities for the implementation of school integration programs.
Energy Assistance Block Grants	Federal grants to help low income households with energy costs.
Entitlement Programs	Funds paid to individuals based on need as defined by the Federal government, and not limited by appropriations.
Federal Budget Deferral	The withholding of specific Federal obligations by the Administration until reappropriated by either House of Congress.
Federal Budget Outlays	Cash disbursements as in capital projects, extend beyond the year such outlays are authorized or appropriated.
Federal Revenue Sharing	General purpose grant made to localities designed to return a portion of the Federal personal income tax collected.

Food Stamp Program	Federal entitlement program based on income eligibility providing food subsidies to the poor.
General Corporation Tax	A City income tax levied on domestic and foreign corporations for the priviledge of doing business in New York City.
Home Care	Federal program which provides personal care to senior citizens and handicapped persons in their own homes.
Home Relief	State and locally funded program which provides financial assistance to needy individuals and families who do not fit the categorical criteria of any of the Federal assistance programs.
Impact Aid	Federal grants to the City for students who reside in Federally subsidized housing.
Mass Transit Operating Subsidy	Federal subsidies to local mass transit operators based on volume of ridership and population.
Medicaid	A joint Federal-State program administered on the State level which pays for doctors, nursing home and other health care costs of the poor.
Non-Entitlement Programs	Federal programs providing allocation to States and localties limited by appropriations.
Omnibus Reconciliation Act of 1981	Passed by both Houses of Congress and signed by the President establishing spending ceilings for FFY 1982 by programs for appropriations.

Personal Income Tax	The personal income tax imposed on the New York City taxable income of resident individuals estates and trusts, at graduated rates.
Revenue Sharing	Federal program designed to return some of the tax levy collected to localities without restrictions.
Title I (ESEA)	Federal grants to provide education for economically disadvantaged children.
Title XX (Social Security)	Federal and State program which provides for day care, and child welfare services and certain home care services and senior citizen centers for the elderly.
Unincorporated Business Tax	A tax imposed on New York City unincorporated business taxable income of any individual or unincorporated entity engaged in any trade, business, profession or occupation wholly or partly based within New York City, at the rate of 4 percent.
Urban Development Action Grant (UDAG)	Federal grants to urban areas to provide loans for economic development projects.
Vocational Education	Federal grants to improve existing vocational education programs.

Representative RICHMOND. Mr. Comptroller, the mayor was just here a few minutes ago and let me quote one paragraph of his prepared statement:

The City has estimated that the Reconciliation Act reductions alone would reduce aid to the City's expense budget by $273 million, the capital budget by $222 million and off-budget items and income transfer payments to our residents by $203 million, for a total federal aid loss of $698 million in 1982. The losses in these categories would increase to $336 million, $775 million and $274 million respectively in 1983.

Mr. REGAN. Now let's go back to the 1982 figure.

Representative RICHMOND. On one side, the mayor says we are going to lose $700 million in 1982.

Mr. REGAN. If we're going to lose $700 million in 1982, we'd better run for the hills.

Representative RICHMOND. What does he mean by these figures?

Mr. REGAN. What it means is there might be other losses in other areas that are painful, that are harmful, as I have already ackowledged, but the actual loss on the city's actual 1982 budget is nowhere near that number, and if it is, the mayor's staff had this report and they should have commented otherwise to it.

We are dealing with a report in front of us that measures the impact on the actual budget, not on other people or other institutions, and the report that the mayor has had, his staff has had and have in fact commented on, and all their comments are reflected in this report.

Representative RICHMOND. Mr. Comptroller, you're the senior fiscal officer of the State.

Mr. REGAN. Yes; and there's our report.

Representative RICHMOND. And we hear that you might even go higher to God knows what, but here we find that the MTA alone needs $14 million over the next 10 years.

Mr. REGAN. That's not the city's financial plan.

Representative RICHMOND. It's not the city's financial plan. It's your financial plan.

Mr. REGAN. That's different. If we could do the analysis on the MTA——

Representative RICHMOND. Let me just ask you one little question. The MTA needs $14 million over the next 10 years just to keep the subway system going.

Mr. REGAN. Right.

Representative RICHMOND. All right. We have roads which have an average life of 35 years being replaced at a 150-year rate; 1 out of 4 bridges require rehabilitation; subway breakdowns now are running 75 percent higher than they were 10 years ago.

Mr. REGAN. Right.

Representative RICHMOND. That's only in New York City. Now Jim Howard, the chairman of the Public Works Committee, tells me in the United States, due to the fact that we haven't raised the highway use tax since 1954 when it was 4 cents a gallon and it's still 4 cents a gallon that in the United States there are 177,000 unsafe bridges and that our Federal highway system is in a shambles.

Mr. REGAN. I agree with all of that.

Representative RICHMOND. To you, as senior fiscal officer in the State, isn't it pretty terrible to see this great United States falling apart?

Mr. REGAN. There's no question about it.

Representative RICHMOND. What are we going to do about it?

Mr. REGAN. A lot of things, and we could talk about it any time, including now; but if we want to focus on the city plan in front of us, that's the impact.

Representative RICHMOND. It's very different from Mayor Koch's figures.

Mr. REGAN. I doubt that it's different. He's talking about him coming from a different point of view. He talks about cuts on MTA and cuts that poor people will suffer in this town. I agree, undoubtedly, without looking at his figures—I agree with at least the general thrust, though I don't have his testimony in front of me—I would agree with the general thrust of his report and I certainly agree with the infrastructure needs of this city and State and of the Nation and, in my capacity as comptroller, we're working on it from the point of view of trying to loosen up the credit markets, trying to devise new ways of getting in the market, trying to lower borrowing costs, trying to get the State to come up with a capital plan—they don't do it now—to try to get a decent analysis so in fact we prioritize where our money should be and not put it into cosmetic kinds of capital construction programs but, rather, put it into bridges and roads, just what Mayor Koch—our analysis is that that's what Mayor Koch is doing with his capital funds. So I have no problem with all of that and I probably agree generally with what you say and have no problem in being critical of some of the actions that have been taking place in Washington.

But if you want to know the effect on New York City's budget, there it is [indicating].

Representative RICHMOND. It's hard to believe when the mayor gives us such different figures.

Mr. REGAN. I don't think the mayor would walk into your office, Congressman, and say he had a $600 million loss halfway through his fiscal year or a third of the way through his fiscal year 1982—that he had just developed a $600 million problem. We would have to reconvene the Financial Control Board in an hour.

Representative RICHMOND. He did mention he's been spending money this year at a considerably higher rate than the new budget would authorize.

Representative GREEN. After the 12 percent cut.

Mr. REGAN. I think you've got a combination of things. You've got the whole 12 percent, which our report doesn't analyze. We really try to stay out of the speculative arena. Our job is to—Mr. Schwartz's and my job is to take a look at the numbers and lay them out as best we can. That's why we give these reports out to everybody in advance. So we're only here to be accurate and to be honest, and that's why he had—if you do look at the impact on 1982, I do think that the numbers are there. We didn't analyze the 12 percent. We didn't analyze the impact on poor people. We didn't analyze all of those, all of which are very significant, but on the budget which is terribly important, extremely important, the No. 1 document around which everything flows in city government, there is no impact.

Representative RICHMOND. I think one of these days we'd better start analying the problems of the 2 million poor people in the city of New York.

Mr. REGAN. We've done that and we can be helpful in that arena as long as it's consistent with my responsibilities.

Representative RICHMOND. See if we can make a plan to make them taxpayers instead of tax-takers. Just think how greatly your problems would be decreased if we could do that.

Mr. REGAN. There's no question about that.

Representative RICHMOND. Congresswoman Ferraro.

Representative FERRARO. I just have a comment. When you say there's no financial impact on New York City, you did allude to there being other kinds of impacts.

Mr. REGAN. Sure; absolutely.

Representative FERRARO. Lack of services, failure to maintain our infrastructure, the possibility that that can decay over the next several years?

Mr. REGAN. Yes.

Representative FERRARO. There's also a little point you mentioned when you said they will be getting 25 percent of the amount for sewer treatment plants that will cost New York City, in 1982, $339 million if they don't get a difference in the percent or degree. That's something we've got to do and that's a financial impact.

Mr. REGAN. That's a fact.

Representative FERRARO. Unless we're able to modify the court decree, and we're having trouble with that, the city has a problem, so everything you can give us in our Republican controlled Senate, we would appreciate it.

Mr. REGAN. I'm a very bipartisan officer.

Representative FERRARO. I don't know if you've seen this article in Business Week which I thought was absolutely fascinating.

Mr. REGAN. Yes; I'm quoted in there several times and I gave them a fair amount of the material they have.

Representative FERRARO. They speak about the squeeze play the Stares are in and I was at a meeting with State legislators and they are all complaining terribly, the Governors and the State legislators, that cuts are coming in and they are in the middle because the municipalities are going to them and the Federal Government is giving them less and they don't think that the tradeoff on the flexibility is equal to the amount of the decreased amount of money coming into the State.

Mr. REGAN. They are correct.

Representative FERRARO. Two questions. First, is how much will it cost New York State over the next 3 years in loss of revenues on the cuts? Second, how much will it cost the State in loss of revenues because of the coupling with the Federal taxes, and I do have a third part of that—will the State make up those losses by increasing taxes?

Mr. REGAN. OK. As to both question one and two, we have been unable for a variety of reasons to do the same kind of thorough report for New York State as we have done for New York City. There is still no agreement—and, by the way, this is not being critical; it's just a complex area—there is not yet agreement among all the Governor's departments on each impact, on each number. Brad Johnson will start with $2 billion; the Governor's budget office has got that down closer to $800 million; and then you have to distinguish the differences between what will they pick up, what is—I don't want to use off the budget because that's a different phrase—but what is a direct impact on budget versus a program that used to be funded but now no longer will be funded; and then, of course, that comes to your third question, whether they will pick it up or not.

I can deal with that. The answer is, except for that small welfare accommodation they made in the special session, my sense of it—and I'm not the Governor or a legislator and I don't advise them how to vote one way or the other, but my sense is they are not going to pick up those differences because there isn't that kind of flexibility or that kind of revenue growth available to the Governor and the legislators to pick up and accommodate for these cuts that will take place outside the budget.

So we think—and within a couple weeks we'll have hopefully as good a report on the State as we do on the city, but as of now, we are more or less relying on the figures that we get between the various offices in the Governor's office and probably the aggregate is closer to $800 million, and that's both budget and unbudget items as far as the aid cuts, and because of the coupling of revenue that's approximately $100 million this year loss of revenue, rising to approximately $400 million 4 years from now. But those are estimates and I just cannot at this point be more accurate on that.

Representative FERRARO. So you're speaking of approximately $800 million as the low figure?

Mr. REGAN. I think the one the Governor uses himself is that.

Representative FERRARO. But you're still speaking of close to $1 billion in loss?

Mr. REGAN. You've got an enormous impact in the aggregate of total losses as a result of budget cuts on one hand and tax reductions on the other, of enormous impacts on this State and its localities, on the people and programs in the State and localities, and to a fairly lesser extent, on the actual budgets as they now stand.

There is a big difference, as we measured, as the difference between Mayor Koch's testimony and mine indicates. There's just a huge difference. On the other hand, we've not yet measured the impact that the revenue that the tax cuts themselves will have on the State's tax base. That's called supply-side something or other and you deal with that. You're experts on that.

Representative FERRARO. If I were to base a prediction on what I've seen over the past couple months on the supply-side economics, I would anticipate that this State would not rely too heavily on increased revenues.

Mr. REGAN. By the way, that's why we haven't done any analysis. We don't have the capacity to do it and we don't know what the answer would be, but it would be speculative.

Representative FERRARO. My final point is, if you have close to $1 billion in losses and you don't think the State is going to make up that money by increased taxes to the residents of New York State——

Mr. REGAN. No, they're not.

Representative FERRARO. Then where does it go? You're going to shove it on the municipalities and not just New York City, but Buffalo is as bad as New York City. Their infrastructure is falling apart. Are you going to shove it on the cities? How are we going to make it up?

Mr. REGAN. You're not. You're going to have day care programs that fold, CETA people that will find other jobs or not working on welfare. There's a variety of services that used to be offered that no longer will be offered. Now what the impact is on society and New York City and New York State is as a result of that, I don't know.

Representative FERRARO. It goes further than that, if I might interrupt you, because when you have those CETA jobs and you don't have those people employed, they are either going on welfare which is picked up by the State, or if the day care program is eliminated the woman no longer goes to work and she goes on welfare.

Mr. REGAN. So far, the only study I've seen on CETA said a fair amount have received jobs, another small amount are not working, and a small amount have gone into other welfare programs. I really don't know. It's positive if you look at the whole philosophy that currently Washington talks about or thinks about, the Reagan philosophy. I don't know whether it's positive or negative. I do see cuts as cuts, as you do. I do see them having direct effect, but again, my job is to give you and your chairman and the mayor and the Governor an accurate analysis on the actual budget, and that's a little different than a social audit. We are doing a fiscal audit here and the results of our fiscal audit are exactly that.

Representative FERRARO. Thank you very much.

Representative RICHMOND. Congressman Green.

Representative GREEN. One of the problems for the State is the fact that the State tax system is now fairly closely tied to the Federal tax system. That's obviously an administrative convenience. It's a great convenience for the individual taxpayer.

Do you think in view of the unsettled state of the Federal tax laws, it's wise to continue that tie-in?

Mr. REGAN. I would think that the State might want to look at that. Again, this is a little outside the nature of my job, but it is fiscal. The State would want to look at doing two things. One would be to uncouple itself from the Federal Government so as to not be hit arbitrarily; but, two, on the other hand, index their income to inflation such as will happen with the Federal personal income tax starting in Federal fiscal year 1985.

In other words, I think you have—if you look at the State's personal income tax which accounts virtually for 55 or 60 percent of the State revenue total and probably 95 percent of all of our growth in personal income growth, 90 percent is in the personal income tax. You have two major distortions there. One is because of high inflation, the income is flowing in rather rapidly even in the face of tax cuts going from 15 to 10 in all brackets down. The fact is in the income, in the face of tax cutting, the personal income tax grew off a base of about $7 billion to about $8.5 billion.

Representative GREEN. Someone would say that's the whatever curve reaction.

Mr. REGAN. That's also inflation and the progressive income tax. In other words, taxes are being increased. So I think that's a distortion. We ought to unhook from inflation on the one hand, and we ought to unhook from the Federal actions on the other hand, and at that point then you would have a New York State personal income tax source that would be free of inflationary distortions or Federal tax cut distortions. I wouldn't necessarily want to do one without the other, but I would think the Governor and the legislature might want to consider doing both so as to have more stability.

Representative GREEN. Thank you, Representative Richmond.

Representative RICHMOND. Thank you, Congressman Green.

Mr. Comptroller, just one last question. Felix Ruyitan last week I believe made a statement indicating that because of the Reaganomics and congressional cuts he believes it's going to be necessary to raise taxes in New York State as well as in other States.

Now we already are the second highest taxpayers in the United States. What do you think of his statement?

Mr. REGAN. It's conceivable it might have to happen. Both the Governor and the mayor disavowed that statement. It still is conceivable. Of course, if you look to the aid to transit, there was a big tax increase in this State already, and if you look at fees—a variety of fees, there was anywhere from maybe up to $100 million in fees that were just kind of quietly raised in Albany and if you look across the national scene you will see for the first time in 4 years, States have started to raise taxes, and, as a matter of fact, in the last fiscal year, 33 States out of the 50 raised their taxes, where if you went back to 1978, only one or two were raising taxes. So there is this pressure already and everything you say I think has a great deal of—there's a real ring of truth to it. But all I can suggest, having looked at both local and State government for 16 years now and been deeply involved in it, is that somehow, some way—and I don't want to give a supply-side speech—but somehow, some way, the increases in Government spending and Government taxing at all levels just had to get tapered off, leveled out, come to a halt. We are in a very painful transitional period now. Hopefully, there is long-term gain out there. Clearly, we have short-term pain. But what you say is right. I just hope that in a year and a half from now all of this works out the right way, that in fact the economy does get stimulated and people's taxes are lowered and their real take-home pay is increased and productivity improves. That's what I'm working my way through.

Representative RICHMOND. That's a nice hope. It's not working out that way.

Mr. REGAN. As of now, there are some signs that it might not, but something had to be done and I guess I generally agree with the thrust, though our analysis shows that the thrust in the short term hurts.

Representative RICHMOND. Mr. Comptroller, thank you very much and we appreciate your full testimony and if we have any other questions perhaps we can write you.

Mr. REGAN. We're here to help. Our job is to give as close and tight an analysis, both of the State and the city, and to some extent other localities, that we can. Sidney Schwartz provides the Treasury Department with all of their figures and MAC, and this is part of it.

Representative RICHMOND. Thank you.

It's a pleasure to see the borough president of Brooklyn here, Mr. Howard Golden. I think I would like to take you out of order because, as you know, we are having a Brooklyn day on Friday on behalf of the Joint Economic Committee, but we are happy to have you here and we would like to hear you now before we go into our panel of city officials, appointed officials.

STATEMENT OF HOWARD GOLDEN, PRESIDENT, BOROUGH OF BROOKLYN, N.Y.

Mr. GOLDEN. Congressman Richmond, Congresswoman Ferraro, Congressman Green, I'm Howard Golden, president of the Borough of Brooklyn, and I'm pleased to have this opportunity to testify on behalf of the small business owners, middle- and lower-income families, and youth of my borough about the unfortunate effects high interest rates and Federal program cuts are having on our borough.

Today, I want to focus on how high interest rates compounded by inflation and program costs are hindering the expansion of local job-producing businesses, housing construction and rehabilitation, and the educational aspirations of our young people.

Brooklyn is not Fortune 500 country. It is the home base of thousands of small manufacturing, wholesaling, and retailing establishments, 89 percent of which employ 20 people or less—and form the backbone of the economic and social stability of our borough. Even before interest rates climbed to an alltime high, these businesses were unable to borrow money from the private lending market. They could not meet the strict terms of credit worthiness of the banking industry, whose loan programs are geared to multimillion dollar operations and who were traditionally unwilling to develop loan programs that recognized the special characteristics of small businesses.

Even during 1975 and 1976, when the prime rate was consistently below 10 percent, Brooklyn lost thousands of possible jobs because bank credit was unavailable to finance the expansion of small businesses. Thus, my administration has made considerable efforts to improve bank responsiveness to small firms, and, in fact, recently succeeded in persuading several major banks to establish and aggressively market affirmative programs for merchant acquisition of mixed-use buildings. These programs, which are vital to commercial street revitalization project throughout Brooklyn, have unfortunately had no dramatic effect—because their terms and conditions are beyond the means of the average small business owner.

Given the limitations placed on us in the private lending market, my administration actively sought public participation opportunities at the Federal level—with great success. In just the past 6 months, the Brooklyn Economic Development Corp. has helped put together 11 loans using $737,000 in public moneys, for small businesses in Brownsville, Sunset Park, and Greenpoint. This public financing leveraged $1.25 million in private investment and led to the retention of 92 jobs and the creation of 90 new ones, at the cost of only $4,000 public funds per job, as opposed to the generally accepted standard of $10,000 per job.

However, this kind of money will no longer be available given Federal program cuts, and the negative effects are already beginning to show up. For example, cuts in low-interest 312 loans designated for commerical revitalization programs caused the loss of several loans acquired for the Belmont Avenue revitalization project after we had spent months attempting to secure necessary bank participation, which repeatedly slipped through our fingers because of climbing interest rates. When financing was nearly in the bag, it became irrelevant, because 312 was withdrawn.

The kinds of Federal programs still intact are unfortunately of little use to us. High interest rates on IDA bonds and Small Business Administration loans preclude them as a realistic alternative to conventional financing, so that without the previously available loan guarantees, interest subsidies and grants, we are, in a few words, left high and dry.

The same kinds of problems pertain to housing in Brooklyn. The private sector has not been—and will not be—involved in the construction of low and moderate income housing. Indeed, I can state unequivocally that new housing, which average families can afford, is not being built in Brooklyn today. Thus, some form of write-down to cover the gap between development and rehabilitation costs and market value is absolutely required. Again, with the loss of 312 loans, the proposed shutdown of section 8, the discontinuance of the Consumer Cooperative Bank, changes in the Community Development Block Grant formula and other shifts in Federal housing programs, we cannot expect to have the funds needed to save our housing stock, a goal we were just beginning to accomplish.

In recent years, the city has relied heavily on its community development funds to address the housing crisis. However, at current interest rates, our ability to leverage private funds with CD dollars is lessening construction and rehabilitation, resulting in a decrease in the total number of units built or improved. In addition, a large portion of our CD allocations have been absorbed in the maintenance of in rem housing. To the extent that the CD-supported in rem programs are threatened by competition from other housing programs, the city is left with the prospect of using still more tax revenues to maintain and manage the many thousands of buildings abandoned during the last 5 years. Siphoning tax revenues to support in rem housing will, inevitably, erode city services and accelerate the abandonment and deterioration of hard-pressed neighborhoods.

Furthermore, the city's prospect for sound disposition of in rem housing is also impaired. The local development corporations on which the city has depended to organize, manage, improve, and ultimately acquire, or arrange for the acquisition of, in rem property have themselves been devastated by the elimination of CETA and other Federal programs.

I am sure I do not have to say more to illustrate the vicious cycle in which we are caught. While you visualize the increase in the number of in rem buildings, the new difficulties we face in developing responsible private owners for them, and the virtual standstill in new construction, add to the picture the plight of middle income people seeking to purchase a home.

During the last 10 years, a number of Brooklyn neighborhoods were pulled from the jaws of abandonment by young couples willing and able to purchase an old house requiring extensive renovation. Brooklyn Heights is the best known beneficiary of that phenomenon, which later spread to Park Slope, and more recently to Boerum Hill, Cobble Hill, and to all the neighborhoods adjacent to downtown Brooklyn. We have not run out of these so-called "Brownstone Pioneers," but we have run out of mortgage opportunities. The new variable rate mortgage is, of course, unavailable to young home-buyers, because the neighborhoods in which they can afford to buy are still marginal in the eyes of the banks, and therefore unqualified under this new mortgage instrument.

Low- and moderate-income families are also finding it harder and harder to put their kids through college. This fall, my office was inundated with calls from students and their families shocked and dismayed by the unavailability of student loan programs. While the shortage of publicly backed student loans is forcing low income students, and particularly minority students, out of even 2 year colleges, middle income families are turning to the banks for personal loans at amounts in excess of 18 percent, which means that they are mortgaging their own, and their children's futures.

Without providing you with more numbers and details, I want to make one final point. During the last 5 years, Brooklyn has effectively organized 23 merchant associations, over 35 local development corporations and a number of housing groups which are operating betterment programs in which they themselves were willing to invest time, energy, and dollars. Through the borough president's office and the groups I just named, we were fighting back, but now it feels as if we will be pushed back, unless Congress addresses the interest rate question and holds the line on further cutbacks in below-market sources of financing of all kinds.

On Friday, my office will host a hearing before you to which we have invited the people who must daily face the effects of the local impacts I have described. I look forward to seeing you at that time, and to our continuing dialog and shared efforts to preserve the fabric of urban America.

And I want to thank you for giving me this opportunity to speak here today.

Representative RICHMOND. Thank you.

Mr. President, Congressman Green and I, who will be with you Friday, will withhold our questions until then. Congresswoman Ferraro has to go to South Dakota on behalf of the National Democratic Party, so she would like to ask you questions now.

Representative FERRARO. I don't have a question. I just have a comment, and I think your statement was invaluable to bring out another side of the problem which we have not heard before. I would also appreciate it if you would allow me to have a copy of the minutes from the hearing on Friday so I would have the testimony of the people appearing before the committee, but I think your comments with reference to 312 moneys was particularly relevant because Queens is very much like Brooklyn and my constituents were using that to rehabilitate their neighborhoods. You can do whatever to subways and sewers and everything else underneath if you have the money to do that, but if you don't rehabilitate the homes the neighborhoods fall apart.

Representative RICHMOND. Representative Ferraro, it's very much like Queens.

Representative FERRARO. Pretty much so. Brooklyn and Queens are pretty much alike.

In addition, you spoke about section 8 moneys would be less and section 202 housing for the handicapped and the elderly would be less, and students getting low-interest loans and the parents mortgaging their own as well as their children's futures. In Queens, there are a lot of people who cannot go out and get those 18-percent loans. Those kids are not having those futures mortgaged; they're just not having a future educationally. So, I think the impact is very, very great. And you have spoken of it in human terms which is very, very important to us, and I certainly appreciate your testimony.

Mr. GOLDEN. Thank you very much, and I think that's what it's all about. the humanistic element here, that this is really cutting into people's lives. I don't want to belabor the point, but another important point that I mentioned briefly was that it is so important to give people the feeling that Government is responding, knows about it, and cares, and is encouraging what they are doing. Here people are devoting their time and they are devoting their money and energies and we're moving ahead little by little, not as much as we would like to see, and suddenly this onslaught comes along that's going to push us back. It's like a treadmill and that's what we've got to avoid.

Representative RICHMOND. We look forward to seeing you on Friday at 10:30 a.m. in the upstairs chamber.

Our next group is a panel composed of Martin Ives, first deputy comptroller of the city of New York; Ronald Marino, deputy commissioner, Department of Housing Preservation and Development; Jack Krauskopf, commissioner, Human Resources Administration; Saul Cohen, president, Queens College, representing the City University of New York, and Ronald T. Gault, Department of Employment, New York City.

Mr. Cohen, we're happy to have you here. You have been here all morning. What we are trying to do is really get down to the nuts and bolts as to how Reaganomics is affecting New York City and whether you have any suggestions for the Joint Economic Committee which we, of course, will pass on to other Members of Congress. So, please just file your prepared statement. All of your statement will appear in the printed record, and just tell us from your heart what's bothering you, what can we do to keep New York this great, great city it is today.

STATEMENT OF SAUL B. COHEN, PRESIDENT, QUEENS COLLEGE, REPRESENTING THE CITY UNIVERSITY OF NEW YORK

Mr. COHEN. Thank you very much, Congressman Richmond. I think it triply pleases me to appear here. If I'm not mistaken, Congressman Green, you and I are fellow college alumni, Congressman Richmond, you and I are fellow Bostonians, and Congresswoman Ferraro is my favorite Congresswoman, from Queens.

City University can simply not be cut any more, because it went through such unprecedented cuts in 1975 and 1976. I know that the city suffered as a whole during that period, but no element of the public sector suffered the way the university did then, when thousands of the staff and faculty were fired, when tuition was imposed, and when 100,000 students left the system. The city has recovered and so has the university.

CUNY now has 165,000 students. We are, through our students, the backbone of the educated class which is so vital to maintenance and growth of this city and Nation.

Representative RICHMOND. 165,000 students—how does that compare to 10 or 20 years ago?

Mr. COHEN. In 1975 and 1976, there were 265,000 students.

Representative RICHMOND. Under open enrollment?

Mr. COHEN. Yes.

Representative RICHMOND. And 10 years before?

Mr. COHEN. Probably about the same amount, about 150,000 or 160,000.

Representative RICHMOND. So right now the City University has about the same population it was before the open enrollment?

Mr. COHEN. That's right. I think we have learned to cut services to the bone. At least I have at Queens College. We live with very lean budgets. We are relying much more on nontax levy funds than we did, and use resources more affectively.

Just one example. At our own college—and we have the largest college in the system—our per capita budget is $3,200 for about 15,000 FTE students. That's approximately 55 percent of what it would be at a private institution of high quality similar to what Queens College offers academically. It's less than what many public school systems receive on a per capita basis, so I really don't have to be preached to by some members of the administration on the fat in the budget.

Some of our problems are unique and some are general, and I'll talk about three areas: Student aid; interest rates; and research.

Our ability to educate economically disadvantaged, working and middle class students is directly related to the student's ability to secure grants and low interest loans. We all, in the higher education, recognize there have been abuses in the direct student loan programs, terrible abuses, and they have to be corrected. However, they haven't been completely corrected. We find that certain upper middle and upper income families are still able to secure Government-backed loans at interest rates that are below market value for their children at the most expensive colleges and universities. Yet the administration's budget reduces the availability of these funds by altering eligibility standards which will make it disproportionately more difficult for middle income families. If the administration proposal is adopted, the City University could lose $1.4 million or 35 percent of its funding from NDSL. Now that's a lot of money. This could eliminate support for about 600 or 700 students in my own college out of the 18,000 student body. However, of much greater concern to us in the City University, with our high percentage of minority and immigrant students, is that the administration has proposed drastic cuts in the basic educational opportunity or Pell grants. Here these cuts would reduce the current $80 million allocation to the City University by $20 million. Since this student grant program reaches the neediest families, many of our students from such families will be forced to forego a college education or seek a college degree on a haphazard part-time basis, which is the least cost effective in both economic and social terms. We estimate right now that 88,000 students at the City University, about half, receive Pell grants, and as many as 20,000 might not be able to continue if they lose their BEOG support.

The second area has to do with interest rates. They affect us also. As a response to the city's fiscal crisis, we deferred building much needed new facilities and postponed renovating existing structures. One such new facility is the Science Building on my own campus. Examples of renovation needs include City College's Townsend Harris Hall and Lehman College's Old Library. The State Dormitory Authority after several years of having delayed these projects is now prepared to move ahead with the sale of bonds. However, prolonged high interest rates will cost the taxpayers enormous sums and the State has accordingly delayed floating dormitory authority bond issues. Where in 1978 we could have sold a similar $45 million bond issue at an interest rate of 8 percent, we now must pay 14 percent. On a bond issue of this size, this represents an additional total cost of approximately $60 million, not to speak of the increase in building costs that has resulted from a year's delay in the project.

A third area of concern to all Americans and not just New Yorkers is the area of research, applied as well as basic. There can be little scientific, technological and human progress without a concern for the research effort. The scholarly community is the steward for the Nation's intellectual past, present, and future. We will fall behind, not so much in the race for military leadership, as in the race for economic and social leadership, if we allow the research base of higher education to erode.

For example, the Reagan administration is planning to cut the International Communication Agency's budget by $67 million. The administration has indicated that the reduction in funds would be made almost entirely from the Fulbright Exchange and other similar academic programs rather than the Voice of America, Voice of Liberty, and Radio Free Europe. While a case can be made for the importance of the propaganda and information dissemination media—as long as we know what we want to disseminate, and I'm concerned about that—a much stronger case can be made for establishing intellectual and personal bonds with those overseas who are or will become their country's leaders. First-hand contact and personal experience for foreign nationals and U.S. citizens is irreplacable and justifies the $48.2 million yearly cost of this program.

Within the ICA program there is also a program parallel to Fulbright, known as the Hubert Humphrey North-South Fellowship. The suggestion is that this program be "deauthorized" completely; a lovely term. The program needs only $3 million to maintain last year's level. Through the Hubert Humphrey program, 100 mid-career professionals from developing nations are offered 1-year university study in the United States. Hunter College of the City University is the training base for eight of the program's fellows this year. It is particularly ironic that administration would cut this important program in light of the hope for a new international order generated by the Cancun Summit. You, the Members of Congress, must exercise foresight and initiative in not permitting major international programs of such long-standing to go down the drain, because the ICA is intent upon attaining short-term political propaganda and information objectives to the detriment of more fundamental academic exchange activities.

Another area of funding that is in danger is the social and behavioral Sciences at the National Science Foundation and the National Institute of Mental Health. The Directorate of Biological, Behavioral and Social Science at NSF expects a $26 million reduction in funding, while the NIMH expects an $11 million reduction. Yet these are the areas which evaluate the impact of Government programs as well as provide insight into the social dimension to social problems. We at CUNY anticipate a $10 million reduction in supported research and many of the cuts are in programs which enable us to increase our community service, including science education, science for citizens and in-service teacher training. For example, in the last 8 years, we have run science education at Queens College for environmental teachers. That will be out next summer, and you have heard about the others—the threat to the Brookhaven Lab's new atom smashers absolutely essential to maintaining our preeminence in energy physics. It's unbelievable to cut this program back from $10 million to $4 million and then cut more.

Finally, the present administration shows appallingly little concern for the human side of our history. Let me give you a small example. There is a proposal to deauthorize the National Historic Publications and Records Commission, only $45 million. This is a Commission which supports the editing and dissemination of the papers of historic Americans. Under this proposal, Federal support for 50 projects, like the Jefferson papers at Princeton, the Adams papers at the Massachusetts Historical Society, and the Franklin papers at Yale will be terminated. We at Queens College are editing the Robert Morris papers, have completed 5 out of the 10 volumes—most of the projects are similarly halfway completed—and may now have to close shop. These projects provide the human dimension to our history. They are a primary source for future scholarship and the cost is probably no greater than the cost that it took at Cape Canaveral to refit and reprogram the Space Shuttle mission when someone forgot to clean the oil filters.

We come to hearings like this and we fear that we're talking to the wrong people because you tend to agree with us. Nevertheless, permit me to conclude by stating what we all know. We learned something from Vietnam—a lot from Vietnam; we learned that we couldn't provide all the guns and butter that we thought we needed. Then we reacted by allowing our military capacities to deteriorate, as we focused almost exclusively on addressing domestic concerns. Now the pendulum is swinging dangerously in the other direction and you, the Members of Congress, have an awesome responsibility to set history right.

[The prepared statement of Mr. Cohen follows:]

PREPARED STATEMENT OF SAUL B. COHEN

Mr. Chairman, it is my pleasure to be with you today representing the City University of New York. Let me preface my remarks on the Reagan Administration's budget reductions and overall economic program, by saying that I speak not only as a College President who oversees the destinies of the largest college in the City University system, but as a concerned New Yorker.

As you know, New York City has already weathered a fiscal crisis which threatened the collapse of our City's finances, and the disastrous impact on the State and private lending institutions that might have followed. At that time, the City University suffered major trauma: thousands of faculty and staff were fired, tuition was imposed, nearly 100,000 students left the system. New York City has recovered, and so has the City University. We have cut services to the bone, have learned to live with lean budgets, to rely more on non tax-levy funds and to use existing resources more effectively - and to maintain a quality higher education for all. If we learned anything from that experience it was that compassion and fiscal responsibility could be achieved together and, in fact, must be achieved together. Raising the hopes of families through a grossly optimistic commitment of support and service is more irresponsible than not providing any support whatsoever, and we have been faithful to the principle of realism in budgeting and services.

The Reagan Administration has asked New Yorkers to make further cuts. But there is little left for us to cut in higher education. Let me describe the impact of this Administration's economic and budget program in three areas important to America's colleges and universities: student aid, interest rates and research.

Our ability to educate economically disadvantaged, working and middle class students is directly related to the student's ability to secure grants and low interest loans. Everyone in the higher education field recognizes that there have been abuses in the Direct Student Loan programs. Upper middle and upper income families are able to secure loans at interest rates well below market levels. Yet the Administration's budget reduces the availability of these funds by altering eligibility standards which will make it disproportionately more difficult for middle income families. If the Administration proposal is adopted, the City University could lose 1.4 million dollars or 35% of its funding from NDSL.

Of even greater concern to us in the City University, with our high percentage of minority and immigrant students, is that the Administration has proposed drastic cuts in the Basic Educational Opportunity or "Pell" grants. Here the Administration's proposed cuts would reduce the current 80 million dollar allocation to the City University by 20 million dollars. Since this student grant program reaches the neediest families, many of these students will be forced to forgo a college education or seek a college degree on a haphazard part-time basis. We estimate that of the 88,000 students at the City University who receive Pell grants, as many as 20,000 might not be able to continue.

A second area in which the Reagan Administration's programs have had a critical impact is interest rates. As a response to the City's fiscal crisis, we deferred building much needed new facilities and postponed renovating existing structures. One such new facility is the Science Building on my own campus, Queens College. Examples of renovation include City College's Townsend Harris Hall and Lehman College's Old Library. The State Dormitory Authority, after several years of having delayed these projects is now prepared to move ahead with the sale of bonds. Yet prolonged high interest rates will cost the taxpayers enormous sums. Where in 1978 we could have sold a similar 45 million dollar bond issue at an interest rate of 8%, we now must pay 14%. On a bond issue of this size, this represents an additional total cost of approximately 60 million dollars.

A third area of concern to all Americans and not just New Yorkers is the area of research, applied as well as basic. There can be little scientific, technological and human progress without a concern for the research effort. The scholarly community is the steward for the nation's intellectual past, present and future. We will fall behind, not so much in the race for military leadership, as in the race for economic and social leadership, if we allow the research base of higher education to erode. For example, the Reagan Administration is planning to cut the International Communication Agency's budget by 67 million dollars. The Administration has indicated the reduction in funds would be made almost entirely from the Fulbright Exchange and other similar academic programs rather than the Voice of America, Voice of Liberty and Radio Free Europe. While a case can be made for the importance of the propaganda and information dissemination media, a much stronger case can be made for establishing intellectual and personal bonds with those overseas who are or will become their country's leaders. First-hand contact and personal experience for foreign nationals and U.S. citizens is irreplaceable and justifies the 48.2 million dollar yearly cost of this program.

A critical program within ICA which the Administration intends to deauthorize completely is the Hubert Humphrey North-South Fellowship. The Humphrey Fellowship Program needs only 3 million dollars to maintain last year's program level. Under the aegis of this program, mid-career professionals from developing nations are offered one year of university based study in the United States. Hunter College of the City University is the training base for eight of the program's Fellows this year. It is particularly ironic that the Administration would cut this important program in light of the hope for a new international order generated by the Cancún summit. You, the members of Congress, must exercise foresight and initiative in not permitting major international programs of such long-standing to go down the drain, because the ICA is intent upon short-term political propaganda and information objections.

Another area of funding reductions is in the social and behavioral sciences at the National Science Foundation and the National Institute of Mental Health. The Directorate of Biological, Behavioral and Social Science at NSF expects a 26 million dollar reduction in funding, while the NIMH expects an 11 million dollar reduction. Yet these are the areas which evaluate the impact of government programs as well as provide insight into the social dimension to social problems. We at CUNY anticipate a 10 million dollar (or 16%) overall reduction in supported research. Many of the cuts are in programs which enable us to increase our community service, including Science Education, Science for Citizens and in-service teacher training. The problems of rape, divorce, work satisfaction, family life, and aggression exist in all economic strata. Basic research must continue if we are to hope to make any impact in these areas.

Finally, this Administration shows appallingly little concern for the human side of our own history. For instance, it has proposed to de-authorize the National Historic Publications and Records Commission. With only 4 million dollars, this Commission supports the editing and dissemination of the papers of historic Americans. Among its 50 projects, currently it supports the Jefferson papers at Princeton, the Adams papers at the Massachusetts Historical Society and the Franklin papers at Yale. We at Queens College are editing the Robert Morris papers. These documents provide the human dimension to our history and are a primary source for future scholarship.

Let me conclude by saying that we have heard that the Democrats in Congress want the "monkey on the Republicans' back." Having lost the battle of the budget, we are told that the Democratic strategy is to have the President and his party take full responsibility for budget reductions and supply side economics. While this may be effective politics, I believe the monkey of short-sighted programming and misdirected priorities rests squarely on the back of our nation's cities, our educational and human service institutions, and our disadvantaged who can least afford it. Democrats and Republicans alike bear the responsibility for weighing the costs and benefits of all governmental programs as they impact upon the long-term life of this nation. We learned from the Vietnam experience that we could not provide all of the guns and butter that we thought we needed. We then, in reaction, allowed our military capacities to deteriorate as we focused almost exclusively on addressing domestic concerns. The pendulum is now swinging dangerously in the other direction. You in the Congress have an awesome responsibility. Let history not say that America in the 1980's went overboard in our orgy of military spending and permitted the erosion of the social, educational, and economic fabric of the nation.

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Representative RICHMOND. Thank you, Mr. Cohen. Congresswoman Ferraro.

Representative FERRARO. Prior to the other witnesses, I would just like to enter a correction in the record. I'm going to South Dakota on Friday, but it is not for the Democratic National Committee. I'm going at the invitation of the REA of South Dakota, the Rural Electrification Administration of South Dakota, to find out about the problems as they exist for South Dakota and explain why sometimes their Congressman will vote for something that's important to New York City. I did the same thing for Congressman Synar of Oklahoma and he's given us a lot of nice votes. So it's worthwhile.

Representative RICHMOND. Congressman Green.

Representative GREEN. Let me just ask one question on the science education area. That program started as a response to Sputnik and the feeling that we didn't have adequate science education in this country. Since then, the number of students choosing science majors in college has gone down pretty steadily, the one exception is that engineering seems to reflect economic conditions rather than how much money we put into it. I suppose you could argue if we hadn't had the program the math scores would have been lower and so on.

How do we evaluate a program like that after two decades when it doesn't seem to produce? What does someone who is on that Appropriations Subcommittee do to deal with that?

Mr. COHEN. Congressman, the problem is there's no single program that's gone on for 20 years. I think you and I both remember that when we started with the science education program, we spent more time packaging the curriculum than doing teacher training. It took 6 or 7 years for us to go through the curriculum packaging era. Our efforts were to develop teacher-proof curricula—and that was, in retrospect a great mistake. Then in the early 1970's we put nearly all of the emphasis into teacher training. In addition we have to recall what we were training people for in the 1960's and early 1970's, and what we are training them for now. There has been a major shift in science education, particularly away from high school physics and biology programs—we also had a high school geography program then—toward a broader environmental program. We are really not focusing on the same thing. It's part of an overall continuum.

I say the kind of money we spent was well worth it. My concern today is we can't provide New York City with enough science education teachers to deal with today's science needs. The building blocks provided in the 1960's and 1970's were not wasted, but new people are now involved as teachers and they need training. Now you may argue that the real problem is that talented people don't want to go into teaching any more. I agree. There has been a shift of interest to better paying and higher status professions. But it takes programs like the science education program not only to keep people up to date but to provide the status that they need. They want to be able to say "we're up to date, and Federal Government recognizes that we should be kept up to date." I'm afraid we will lose many of our present teachers who have options to move into science-based industry and technology, let alone not being able to recruit new teachers, if we drop Federal programs such as in science education.

Representative GREEN. Thank you, Congressman.

Representative RICHMOND. Thank you. Mr. Cohen, I don't want to keep you, but with the reduction in student loan programs, apparently it's going to mean that our public institutions throughout the United States are going to be getting more applications.

Mr. COHEN. That's right.

Representative RICHMOND. Our State-supported universities, our city-supported universities. What does that do to City College? You're barely supporting 165,000 students on a very slimmed down program. When you say your budget is $3,200 per capita, I know you don't have many frills.

Mr. COHEN. That's right.

Representative RICHMOND. The sad thing is when you have such a low budget and cut all the quality of life programs so when the student graduates, sure, he or she learns English, government, and economics, but doesn't learn all the wonderful things that you and I and Bill and Geraldine learned when we went to college. That's the sad part about a minimal budget. What do we do about it? Parents no longer will be able to send children to the private schools because they won't qualify for the student loans. How do you afford to stay in business?

Mr. COHEN. From my vantage point in the Borough of Queens, I could be very sanguine about the situation, for ours is a lower middle and middle-class constituency. The more of those students who can't go to higher-cost independent universities, the better off we'll be; but it doesn't work that way because the State budgeting process is very quick to reduce our budgets when we don't meet student population targets and they applaud us—without adding to our budgets—when we exceed our targets. So it's obvious if we get the kind of pressure I do anticipate, some of our colleges—Hunter, Baruch, Queens—will say, "We can't take any more," and whom will we take? We'll go back to the kinds of standards—I won't call them the good old days—students seeking admission will need 87 or 88 high school GPA's. The question will then be, where are the students with 80 to 86 averages going to go? So you're quite right. This will put a tremendous squeeze on the public institutions which will not get the kind of support they need to keep the doors open as widely as possible.

Representative RICHMOND. Will the marginal students still be able to go to the community colleges?

Mr. COHEN. No, because a lot of those or most of those students are really much more dependent on the Pell grants than they are on the loan programs, and we forecast a tremendous possible drop, maybe as many as 20,000 students. Then we're back into that whole cycle that we talked about before. We encourage disadvantaged students to graduate from high school, but without some kind of higher educational training, they will not be ready for jobs in the tertiary and quaternary service industries.

Representative FERRARO. Then you put them out in the employment area where the rate of unemployment is so high in that area.

Mr. COHEN. That's right, whereas with higher educational training they could find jobs in the computer technology and communications services area.

Representative RICHMOND. That's the sad part of the unemployment picture. We have just as many jobs going begging as we have unemployed people.

Mr. COHEN. That's correct.

Representative RICHMOND. Representative Ferraro?

Representative FERRARO. I have no other comment.

Representative RICHMOND. Mr. Cohen, thanks so much and we know you have to leave.

Our next witness is Mr. Krauskopf, a man with lots of problems.

STATEMENT OF JAMES A. KRAUSKOPF, COMMISSIONER, HUMAN RESOURCES ADMINISTRATION, NEW YORK CITY

Mr. KRAUSKOPF. Thank you, Representative Richmond. I appreciate the opportunity to appear before the committee on a matter that is of great concern to the Human Resources Administration; and I have submitted a prepared statement to the committee.

Representative RICHMOND. It will be included in the printed record.

Mr. KRAUSKOPF. I will just summarize some of the major points that I think deserve attention.

Clearly, these budget cuts will have a very direct and severe effect on many of the poorest residents of New York City. Unlike some of what the administration has said and unlike what was implied here this morinig, these cuts are going to have a very serious effect and are not to be taken lightly.

We estimate that about 32,000 current recipients of aid to families with dependent children will lose their benefits altogether and another 94,000 will experience a sharp reduction in their AFDC benefits.[1] In addition, about 42,000 current food stamp recipients in the city will be removed from the program altogether and, in effect, the entire food stamp population about 1,100,000-plus, will get a cut because they will not get an increase in benefits that had previously been scheduled.

In addition, because of the reduction in social services funds—about $55 million, a 24 percent cut to the State—the continuation of services provided by day care centers and senior citizen centers in the city is threatened.

These cuts are clearly counterproductive. They hit most sharply at the working poor, at those people who are trying to reduce their reliance on public assistance and to live independent lives. The cuts, for example, in AFDC, will penalize the 13,000[1] families who are currently working and using welfare benefits simply to supplement their income. This doesn't seem to make much sense to us nor does the new income eligibility level for food stamps, which again hits at the working poor level.

Furthermore, in the long run many of the reductions in social services may lead, in time, to higher program costs. Cuts in programs like family planning and in preventive services that keep families together and prevent the need for foster care later on, will allow some savings in the current budget, but will increase costs in the long term.

In addition, many of the short-run savings being won by the Federal Government are being achieved by transferring costs to the city and State levels. You heard testimony earlier this morning from Stanley Brezenoff about how the Health and Hospitals Corp. will be impacted and how the city tax levy costs are expected to go up as a result of the reductions that we are likely to experience in medicaid funding. The same thing applies in the area of welfare payments and in social services. There will be a transfer of costs from the AFDC program,

[1] All numbers are subject to change as the cuts are implemented.

[1] The number may change as the cuts are implemented.

which is 50 percent federally financed, to the home relief program which is 50–50 city-State money. Home relief costs will go up because of the 18- to 21-year-old being cut off from AFDC, and because of pregnant women who cannot get AFDC benefits until their 6th month—and I think this is a good policy, to get home relief benefits from the 4th month of pregnancy—but it is a cost transfer from the Federal level to the State and local levels.

Similarly, with social services, the city has established a reserve of $45 million, part of which will be used to prevent the closing of day care centers and senior citizen centers and other vital programs. But again, we have a cost transfer program here where the city is picking up some of what has been a Federal responsibility in the past, and I think that is a trend that is dangerous and should not be continued.

Unfortunately, it appears that the direction may well be continued. We are faced with the prospect of an additional cut of up to 12 percent. I know that you in Congress are working now trying to minimize what that actual reduction is going to be, but that was the original administration proposal. Not only is the dollar level of that cut a very serious one, it goes beyond any reserve that the city has that could possibly offset the cuts. We will definitely experience service reductions if any of that additional 12 percent cut goes into effect. And, in addition, it's an unconscionable kind of action that's being proposed because the city fiscal year began July 1 and the Federal fiscal year is October 1 and we are now hearing about cuts that may come in the appropriations to support programs that have been underway for 3 or 4 months. That just is a very difficult situation for any city to accommodate.

Finally, and this is really the last point that I want to make, there are other kinds of reductions on the horizon which I think are even more invidious in many ways than what has occurred so far, and these are what are being called the block granting of the entitlement programs.

These proposals have not yet emerged in detail, but there certainly has been enough leaking to know there's an entitlement task force that's at work on changing programs like AFDC, medicaid, and food stamps into block grants which would be given to the States to administer without any direct Federal responsibility continuing. Certainly, there would be some Federal funding over some period of time, but I think that the continuing level of support would be threatened by the block granting of what have been entitlement programs.

The fact is that these programs address truly national problems of poverty, welfare, medical indigency. These are issues that should continue to be a Federal responsibility and should not be given to the various States for them to decide how to support or, for that matter, whether to support.

So I would hope that if these entitlement changes are considered in the future that they would get a very serious review before they went anywhere. The idea that the block grant will somehow give more flexibility to the cities and to the States sounds good in theory. It doesn't work, at least so far. First of all, you get the flexibility with much less money and it becomes extremely difficult to actually utilize it; and furthermore, it is not clear that the State will pass on that flexibility to the local level. In fact, what we have been experiencing is the continuation of Federal requirements and regulations and not the easing at the local levels of those burdens. So, we have the worst of both worlds. We have the block grants with less money and we don't have the flexibility.

[The prepared statement of Mr. Krauskopf follows:]

Prepared Statement of James A. Krauskopf

The federal budget cuts and legislative changes imposed by the Omnibus Budget Reconciliation Act of 1981 (hereinafter referred to as the "Act") are particularly severe in the area of public assistance, food stamps, and social services. They will impact most severely on the working poor and on the City's public assistance clients, nearly two-thirds of whom are children.

In the AFDC program, we estimate that 32,000 persons will become ineligible for assistance, due primarily to the exclusion from coverage of 18 to 20 year olds, more restrictive earned income disregards and the imposition of a gross income limitation on eligibility. About 94,000 persons will experience a reduction in benefits.

In addition to reduced public assistance benefits, welfare recipients and the working poor will also receive lowered food stamp benefits. We estimate that up to 42,000 persons currently receiving food stamps will become ineligible, due primarily to the reductions in the gross income eligibility levels, the exclusion of boarders and the new definition of family unit. All food stamp recipients, up to 1,133,000 persons, will not receive the cost-of-living adjustments they were previously entitled to.

The 24.2 percent reduction in New York State Title XX funds will impact most dramatically on the City's ability to maintain its senior and day care centers, which serve 191,000 elderly persons and 71,500 children respectively, at current levels. However, having long recognized the importance and worth of these programs, the City has established a $45 million reserve fund. Thus, we are able to offset, at least in part, anticipated reductions in these and other priority programs, which include basic educational services and essential health programs.

The full programmatic and fiscal impact on both clients and the City's budget is discussed in more detail in HRA's impact statement which I am submitting for inclusion in the record.

Clearly, the City has neither the funds nor the flexibility to accomodate the additional 12 percent cuts requested by the Administration. Coming three months into the City's fiscal year and after the beginning of the federal fiscal year, a second round of cuts would be unconscionable. Implementation of the Act will result in a federal aid loss to New York City of $698 million in FY 1982, $63 million of which is in HHS funded programs. This loss will increase to $1.385 billion in FY 1983, $137 million of which is in HHS funded programs.

As Congress considers FY 1982 appropriations in the upcoming weeks, it should reject any proposals for further cuts and should instead appropriate at levels authorized by the Act.

Meanwhile, Administration officials continue to talk about consolidating entitlement programs into block grants. Such consolidation would constitute a major cost transfer from the federal government to states and localities for what are essentially national social problems. The welfare and needs of the growing elderly population, veterans, children, and illegal aliens and the handicapped are concerns that extend beyond the boundaries of any one state. It is unfair to shift the burden of these problems to states and localities that have little control over the factors, such as unemployment and inflation, that contribute to poverty.

Block grants that give full control to states would result in state programs that differ in eligibility requirements and benefit levels. When different groups compete at the state level for limited resources, the non-vocal and politically vulnerable sub-groups will suffer. There is an undisputed need to set uniform national priorities for these sub-groups.

Not suprisingly, the much advertised selling point of block grants -- local control and flexibility -- is suspect. Our experience with some of the block grants created by the Act indicates that the severe funding cuts that accompany block grants and the continued state imposition of restrictive requirements deprive us of any real programmatic flexibility to determine and meet local needs.

Thus, consoldiation of the AFDC, Food Stamps, and Medicaid programs into block grants should be opposed.

As Congress continues to look at ways to contain costs and tighten eligibility for various programs, it should consider the counterproductive nature of some of the legislative and regulatory changes that have been made pursuant to the Act. For example, in the AFDC program, the exclusion from coverage of 18 to 20 year olds in school, may create a disincentive for these youths to continue their education. Absent eduction and skills, these youths cannot enter the job market in any meaningful way. The likelihood of seeing such youths continually on the City's welfare rolls is great. New York State recognized the need to counteract this disincentive. Recent state legislation extends Home Relief coverage to these youths.

In Medicaid, the regulation requiring the prospective application of the 3 percent penalty and the retrospective adjustment of the 1 percent offsets will create severe cash flow problems. This regulation will disrupt the administration of the program at a time when states are adjusting to the other major programmatic and fiscal changes made by the Act.

Both Houses of Congress will soon confer on the Food Stamp Amendments. A Senate provision to exclude only federal energy assistance payments as income and thus include state and local energy assistance payments, is misguided. Needy persons should not be forced to chose between heat and food. In addition to creating a "wash" situation in which we give assistance at one level and take it away at another, this provision saves the federal government money at the expense of the states. In any event, those needy persons who are struggling with high utility bills will be the losers.

We hope that Congress will maintain the current law which exempts all energy payments from consideration as income for purposes of food stamp eligibility. In the alternative, we hope that the Roukema amendment exempting such payments if they are provided on a seasonal basis is adopted.

In summary, I think there is a broad consensus among those who are familiar with the delivery of social services that the direction in which the Administration is taking us is both counter-productive and unfair to states and localities.

Representative RICHMOND. We're running out of time, but you say 94,000 people will be taken off the rolls?

Mr. KRAUSKOPF. 32,000 people will be taken off the rolls; 94,000 people will experience reductions in their benefits.[1]

Representative RICHMOND. All right. Now because of all of this, how many people do you estimate—or has your department been able to do a scientific estimate of how many people will have to quit their jobs and go back on full-time AFDC? Let me just put it in a real fashion. Will any people, because of the Reagan cuts, be forced to leave their jobs and go back on AFDC?

Mr. KRAUSKOPF. Nobody will be forced to, but the incentives may be such that many people will find it more advantageous to stop working and rely entirely on public assistance. They don't want to lose their medicaid benefits which they could lose.

Representative RICHMOND. Could you give us a figure?

Mr. KRAUSKOPF. I don't have a figure on how many would do that. We're looking very closely as those cuts go into effect, but it would be from the universe of the 13,000 families that now benefit from these employment incentives. It would be some of those families who might well stop working and rely entirely on welfare.

Representative RICHMOND. So roughly, 13,000 families?

Mr. KRAUSKOPF. I wouldn't expect all of them to, but it is from that universe of families.

Representative RICHMOND. That's the number you're looking at, right?

Mr. KRAUSKOPF. Yes.

Representative RICHMOND. Representative Green.

Representative GREEN. When you get to this question of the entitlement programs, I guess all of us are troubled at total loss of control of the Federal budget that we have seemed to develop as a result of the entitlement programs, and I think that's why these cuts we have had this year have fallen so heavily on State and local governments. That $30 billion is the easiest one to get a handle on other than the defense because those are the two where there is discretionary money, and all the rest we really have very little handle on.

If we're not to scale back the entitlement programs somehow or get a handle on them somehow, how do we deal with the Federal budget?

Mr. KRAUSKOPF. I think there are other ways of doing it other than turning them over to the State and freeing the Federal Government of responsibility for them. We think we can make reductions in medicaid costs by cost containment measures, health maintenance organizations, and other such efforts. There already has been a tightening of eligibility in food stamps and in AFDC. We have dramatically reduced our error rate for welfare in New York City from 27 percent in 1973 down to below 10 percent now. So we think we can tightly administer the programs and save money in that way.

Further, if we have more work incentives available, we can move people off welfare into employment. We did that when we had CETA jobs available. We placed 8,000 people into CETA jobs in 1980. We don't have that resource available now to help us do that.

Representative GREEN. Thank you, Representative Richmond.

Representative RICHMOND. Representative Ferraro.

[1] Subject to change as cuts are implemented.

Representative FERRARO. Just a comment. These programs that are being cut under your jurisdiction, the AFDC, food stamps—most of them are really impacting very, very strongly on women because most of the AFDC families are headed by women. I don't recall the percentages, but the percentage is very high for food stamp recipients that are women, not only the poor women but the elderly women in our society, which is the fastest growing segment of the population in this country, and it's a shame to hear you speak about these things because I think that poverty is fast becoming a woman's issue in this country and it's sad to see what's being done by our Government to make that situation even worse.

Mr. KRAUSKOPF. That's why I think it's so important to try to maintain those services like day care centers and family planning services that will make it possible for families to stay together and for women to adequately support their families if they're a single parent, and that's why the city is allocating some of its budget reserve to keep those programs going.

Representative FERRARO. Thank you for your testimony.

Representative RICHMOND. Mr. Krauskopf, I think you and I are spending an entire day together pretty soon, so I hope to have lots more time to discuss all of your food stamp problems.

Mr. KRAUSKOPF. I look forward to it.

Representative RICHMOND. One thing I'd like to tell you is that I would hope that whatever we develop in food stamp delivery services, such as modern computerization, going to that electronic charge system, that could be used for AFDC also.

Mr. KRAUSKOPF. We are doing so and you will be pleased to know that the pilot test of our electronic payment system for food stamps and welfare began last week and it's going very well and it's handling both of those programs in the west side.

Representative RICHMOND. When we tour the food stamp program I'd like very much to see what you're doing with automatic cash transfer and AFDC because I think that fits right in.

Mr. KRAUSKOPF. Good. We'll show you.

Representative RICHMOND. Next, Mr. Martin Ives, first deputy comptroller of the city of New York. I've got a very hot question for you as soon as you finish your statement, Mr. Ives.

STATEMENT OF MARTIN IVES, FIRST DEPUTY COMPTROLLER, CITY OF NEW YORK, ON BEHALF OF HARRISON J. GOLDIN, COMPTROLLER

Mr. IVES. Thank you, congressman. I'm here today representing Comptroller Harrison Goldin. Comptroller Goldin is taking a few days off, as you're probably aware, after his rather strenuous primary election campaign. The comptroller prepared some remarks and I'd like to just excerpt some of them.

Representative RICHMOND. The full prepared statement will appear in the printed record.

Mr. IVES. If the Congress passes the President's new program, the city will survive, as it has survived other adversities in the past. But there are just so many blows the city can take over an extended period. Remember, the city is only now getting back on its feet after 6 years of unprecedented austerity that included: First, a reduction in staff of some 60,000 positions; second, a drastic cutback in public safety services and other municipal activities that benefit residents and the business community; and third a virtual standstill in our repair and replacement program for our capital plant and infrastructure.

For 6 years the city paid dearly for its past fiscal sins and its penance has finally begun to pay off. We eliminated our operating budget deficits and ended last year with a surplus; our present budget is genuinely balanced; in a small way we have reentered the public credit markets; we have strengthened our financial management processes; we have begun a massive rehabilitation of our physical plant; and we have finally started to restore some of the essential services that were reduced during our fiscal tribulations.

Let me cite a few numbers from the report that we just released for the year ended June 30, 1981:

We ended fiscal year 1976 with a deficit of $1.87 billion; but we ended fiscal year 1981 with a surplus of $128 million. Thus, in 5 years, we've turned our budget around by some $2 million.

In 1975 our financial reporting system was incomprehensible, but our 1981 report was audited and attested to by a national firm of CPA's.

In 1977 we needed to borrow $2.1 billion short-term, all from the Federal Government. In 1981, our short-term needs—which are caused by imbalances in the receipt of state aid—were down to $550 million, all of which was borrowed in the public credit markets.

We have tightened our belts. In 1976, our expenditures were $12.6 billion; in 1981, our expenditures—after adjusting for certain transfers—were only $13.6 billion, an average annual growth rate of only 1-1/2 percent. This means that, in constant dollars, after adjusting for the rate of inflation, we have reduced our budget by about $3 billion, or about 25 percent.

Yes, we have lopped off some of our budgetary fat and we can lop off more through increased productivity. But we have also lopped off some muscle. Our Police Department is badly depleted, our other public services have been cut back, our transportation system is a shambles, and our physical plant is aging badly.

And the first wind of the President's budget cuts caused us to tighten our belts even further. We absorbed some $272 million of these cuts into our 1982 budget—cuts which could otherwise have been used to restore services. The proposed new cuts represent a further withdrawal of some of the Federal commitments on which we had relied. They strike further at the integrity of our budget, our economy, and our social structure.

Let me emphasize that it is not just New York City which has this problem. Many of the large urban centers in the Northeast are in financial difficulty. And I think it's a bit disingenuous, as has been suggested earlier, to say that these cuts have had no impact on our budget because the cuts would otherwise have been used to restore services which have been badly depleted. So far, the President's program has produced only a larger deficit and crippling high interest rates that impede the reconstruction of older cities and prevent building in our younger cities. These interest rates are aborting capital formation in both public and private sector. Let me give you a couple of numbers.

In April 1981, New York City finally issued long-term obligations once again in the public credit markets. Our $4.7 million of 1995 maturities carried an interest rate of 11.3 percent. Four and one-half months later, in August 1981, we issued long-term obligations of similar size. This time our 1995 maturities carried an interest rate of 11.9 percent—60 basis points higher. We estimate that if we were to issue bonds with such maturities today, the interest rate would be about 14 percent. Translated into dollars, this means that the first year's interest on $100 million of borrowings has increased from $11.3 million to $14 million in just 7 months, enough to cost us the services of some 84 policemen if you were to try to substitute one item for another.

One can also see how high interest rates generally are affecting municipal debt by a quick glance at the Bond Buyer Index that measures the performance of the municipal bond market. The Bond Buyer Index for single A bonds stood at 9.68 percent on January 22, 1981, and at 12.44 percent on November 5, 1981. This is a jump of 275 basis points in the 9½ months since President Reagan took office.

High interest rates are resulting in lower levels of economic activity and higher unemployment, factors which make future budget years in most cities look increasingly uncertain. The reduced economic activity attendant on the President's program—at least for some intermediate period—will diminish local revenues, causing further program contractions and the lowering of service levels below already unacceptable standards.

From New York City's point of view, the supreme irony of Reaganomics is the possibility that, in an attempt to step back from its own overspending and overborrowing, the Federal Government may push the city to the brink of a new crisis.

Mayor Koch has issued a detailed analysis of what losses the city will sustain from both the first round cuts already in place and the proposed second round cuts. So I will note simply that the proposed new cuts entail a reduction which aggregates $190 million in Federal aid in this current year and $275 million next year, considering our operating budget, capital budget, and off-budget items.

Let me focus on the implications of the first and second round cuts on our capital program. Much has been written about our capital needs. Two years ago, we issued a report, pegging our capital needs at some $40 billion for the decade of the 1980's. The great bulk of these needs is in the environmental protection and transportation areas: some $16 billion in water supply, sewage treatment and the like, plus $17 billion in roadways, bridges, and mass transit. The mayor's office recently published a 10-year capital program aggregating $30 billion, including some $11 billion for environmental protection and $13 billion for roadways, bridges, and mass transit.

Our physical plant is aging. Time and inflation have taken their toll. We recently took a complete inventory of our sewer pipe and water main systems and found that what cost us $2.4 billion to build would cost $16.1 billion to replace at today's prices. And fully 17 percent of our water mains and 23 percent of our sewer systems are more than 75 years old—fully depreciated. About 60 percent of each system is more than 50 years old.

I just wanted to make my point that our capital needs and current high interest rates are the big problems. Thank you.

[The prepared statement of Mr. Goldin follows:]

PREPARED STATEMENT OF HARRISON J. GOLDIN

Thank you for inviting me to testify on the effects of the President's Economic Recovery Program on New York City.

I am in basic agreement with Mayor Koch. The President's program will adversely affect the City's government, its people and its economy.

If the Congress passes the President's new program, the City will survive, as it has survived other adversities in the past. But there are just so many blows the City can take over an extended period. Remember, the City is only now getting back on its feet after six years of unprecedented austerity that included 1) a reduction in staff of some 60,000 positions, 2) a drastic cutback in public safety services and other municipal activities that benefit residents and the business community and 3) a virtual standstill in our repair and replacement program for our capital plant and infrastructure.

For six years the City paid dearly for its past fiscal sins and its penance has finally begun to pay off. We eliminated our operating budget deficits and ended last year with a surplus; our present budget is genuinely balanced; in a small way we have re-entered the public credit markets; we have strengthened our financial management processes; we have begun a massive rehabilitation of our physical plant; and we have finally started to restore some of the essential services that were reduced during our fiscal tribulations.

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- In 1975 our financial reporting system was incomprehensible; but our 1981 report was audited and attested to by a national firm of CPA's.

- In 1977 we needed to borrow $2.1 billion short-term, all from the Federal government; in 1981 our short-term needs (which are caused by imbalances in the receipt of State aid) were down to $550 million, all of which was borrowed in the public credit markets.

We have tightened our belts. In 1976, our expenditures were $12.6 billion; in 1981, our expenditures (after adjusting for certain transfers) were only $13.6 billion--an average annual growth rate of only 1½%. This means that, in constant dollars--after adjusting for the rate of inflation--we have reduced our budget by about $3 billion, or about 25%.

Yes, we have lopped off some of our budgetary fat and we can lop off more through increased productivity. But we have also lopped off some muscle. Our Police Department is badly depleted, our other public services have been cut back, our transportation system is a shambles, and our physical plant is aging badly.

And the first wind of the President's budget cuts caused us to tighten our belts even further. We absorbed some $272 million of these cuts into our 1982 budget--cuts which could otherwise have been used to restore services. The proposed new cuts represent a further withdrawal of some of the Federal commitments on which we had relied. They strike further at the integrity of our budget, our economy and our social structure.

Let me emphasize that it is not just New York City which has this problem. Many of the large urban centers in the Northeast are in financial difficulty. Moreover, it seems now that the President's program of reducing urban aid while increasing defense spending may well defeat his larger goals of curbing inflation and reducing the Federal deficit. So far his program has produced only a larger deficit and crip-plingly high interest rates that impede the reconstruction of our older cities and prevent new building in our younger cities--rates that are aborting capital formation in both public and private sectors.

Again, a few numbers will demonstrate my point: On April 15, 1981, New York City finally issued long-term obligations once again in the public credit markets. Over $4.7 million of 1995 maturities carried an interest rate of 11.3%.

Four and one-half months later, in August, 1981, we issued long-term obligations of similar size. This time our 1995 maturities carried an interest rate of 11.9%--60 basis points higher. We estimate that if we were to issue bonds with such maturities today, the interest rate would be about 14%.

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High interest rates are resulting in lower levels of economic activity and higher unemployment, factors which make future budget years in most cities look increasingly uncertain. The reduced economic activity attendant on the President's program--at least for some intermediate period--will diminish local revenues, causing further program contractions and the lowering of service levels below already unacceptable standards.

From New York City's point of view, the supreme irony of Reaganomics is the possibility that, in an attempt to step back from its own overspending and overborrowing, the Federal government may push the City to the brink of a new crisis.

Mayor Koch has issued a detailed analysis of what losses the City will sustain from both the first round cuts already in place and the proposed second round cuts. So I will note simply that the proposed new cuts entail a reduction which aggregates $190 million in Federal aid in this current year and $275 million next year, considering our operating budget, capital budget and off-budget items.

Let me focus on the implications of the first and second round cuts on our capital program. Much has been written about our capital needs. Two years ago, we issued a report, pegging our capital needs at some $40 billion for the decade of the 1980's. The great bulk of these needs is in the environmental protection and transportation areas: some $16 billion in water supply, sewage treatment and the like, plus $17 billion in roadways, bridges and mass transit. The Mayor's Office recently published a ten-year capital program aggregating $30 billion, including some $11 billion for environmental protection and $13 billion for roadways, bridges and mass transit.

Our physical plant is aging. Time and inflation have taken their toll. We recently took a complete inventory of our sewer pipe and water main systems and found that what cost us $2.4 billion to build would cost $16.1 billion to replace at today's prices. And fully 17% of our water mains and 23% of our sewer systems are more than 75 years old--fully depreciated. About 60% of each system is more than 50 years old.

Now, where are first and proposed second round cuts? You guessed it; in some of the very areas where we need it most. Federal funds provide about 75% of the cost of constructing and upgrading wastewater treatment plants. Our current capital commitment plan reflects $222 million in Federal funds for 1982 and some $1.4 billion in Federal funds for the period 1983-85. If the Federal funds are not restored, the City may have to bear the full burden of these capital improvement costs.

The President's proposed new reductions would cut $37 million a year from mass transit capital assistance to the City and approximately $11 million a year in highway aid. The proposed reduction in general revenue sharing ($27 million in 1982 and $35 million in 1983) might also affect our capital program, since we have begun to devote a portion of our net operating revenues to help finance our capital needs.

Moving forward without Federal capital aid in these areas will mean that the City will have to raise those losses in the public credit markets. Fine, except that we will be competing with ourselves for capital funds needed for projects which do not receive Federal aid now and which we would normally finance on our own, and further assuming that we can afford to pay indefinitely the interest rates currently being exacted.

It is common knowledge, documented many times, that for decades New York City has been short-changed in many categories of Federal aid. But in noting the cutback in capital assistance implemented through the Omnibus Reconciliation Act and the new further cutback proposed by the President in capital aid, one has to be struck by the gross inequities involved.

For instance, many local water supply systems in the West and South were built with massive Federal aid as beneficial byproducts of a national program to irrigate land and conserve water. It is also true that the Northeast has periodically suffered droughts that damaged agricultural, as well as urban, areas. Yet, New York City, a nineteenth century pioneer in the development of an extensive water supply system, paid for that system with its own funds and until recently received virtually nothing from the Federal government in exchange for what is surely a regional, multi-state resource. In recent years the Federal government began to assume some responsibility for cleaning up the tri-state area's waters. Thus, the loss of more than $1 billion in Federal wastewater treatment funds is especially hard to accept.

If Congress and the President reduce expected Federal revenues in the middle of a budget year, it can wreak havoc on local budgets, particularly those with little flexibility and especially in a business recession, when local tax revenues decline.

In light of this, we ask: will states, counties, cities and smaller localities have to adjust their anticipated Federal revenues downward in mid-year every time it becomes obvious that Reaganomics is failing to meet its ideological goals? If so, it's not a very business-like way of running a government. It's government by panic button.

It is this kind of uncertainty, as much as a tight money policy, that leaves not much hope that interest rates will come down substantially in the near future. Continued high interest rates generated at the national level will have serious effects on both the operating and capital budgets of our nation's cities.

Capital formation in the public sector will be as seriously impeded by high interest rates as raising capital in the private sector. Personally, I do not believe that New York City will be deterred from issuing bonds because of high interest rates. Our infrastructure and our capital plant are failling apart. We <u>must</u> rebuild. And we <u>will</u> rebuild. Our viability as a city, a center of commerce and culture, depends upon a restored infrastructure.

We may be able to absorb high interest rates better than some other cities, but only because our other debt service requirements will be declining. But if interest rates were low, less of our operating budget would be needed for debt service and more would be available for other municipal services. It is only in a climate of low interest rates that a second round of Federal aid cutbacks might make any sense at all.

I urge , therefore, that you reject the President's proposal for a second round of cuts. They are destructive for cities and will defeat their own purpose of balancing the Federal budget by 1984.

Thank you.

Representative RICHMOND. Thank you, Mr. Ives.

Next is Mr. Ronald Gault who has that terrible unemployment problem in New York City.

STATEMENT OF RONALD T. GAULT, COMMISSIONER, DEPARTMENT OF EMPLOYMENT, NEW YORK CITY

Mr. GAULT. Thank you very much for inviting me to testify this morning. I have a prepared statement which I would like to provide for the record.

Representative RICHMOND. It will be included as part of the printed record.

Mr. GAULT. Let me just give you a couple of overview comments. I've sat this morning and listened to the testimony given as well as the questions that you have asked and I think there's something important to put on the record. That is that New York City, starting in February 1980 took a look at what public education and what employment and training meant and the climate for employers that we wanted to retain in this city and others we wanted to encourage to move here, and we thought about how we could use the public resources we had to plan and discuss and collaborate around achieving some mutually desired objectives. Those efforts are going forward now out of city hall with the deputy mayor of economic development. She passed over them very quickly in her comments this morning, but I want you to know that it does represent the kind of collaboration between the city in which agencies are talking to agencies and we in turn are talking to our counterparts in the Federal administration. I want to emphasize that.

The second big thing that I wanted to mention is that the philosophical or ideological underpinnings of this whole Reagan economic recovery needs some close examination, particularly if you look at what's happening here as a microcosm of what's happening in the Nation.

To take only one piece, the public service employment on CETA. The door is closed on that program now. It ended on September 30. According to the economic recovery plan of the Reagan administration, employers and businesses throughout this country, relieved now of the tax burden of carrying 300,000 workers, will now expand, make capital improvements, and turn to this pool of 300,000 people to meet their labor needs.

Well, in the best case, that's a simple-minded notion and, in the worst case, it suggests some invidious scheme that the planners know will not work in the very beginning. And the reason is that as you look at New York City and the 11,000 people who ended their term in PSE on September 30, you can see many of these people do not have the prerequisites to get through the door of an employer. They do not have the basic math and reading proficiencies to take tests and pass those tests that employers would give, nor in many instances do they have a proper degree of motivation; and I think for the administration to have at the very heart, the centerpiece of an economic recovery plan, the notion that the private employer will turn around and employ these persons now to meet their labor demands is just totally unthinkable.

Let me give you a few statistics on what we're doing here. I notice that Congresswoman Ferraro was interested in the targeted job tax credit. In the 15-month period ending in August of this year, we in New York City issued some 1,800 vouchers. About 1,200 employers returned those vouchers indicating they had employed people. So far that small pool, you can see the tax credit was working.

As a general rule, however, the program is flawed and it should be revised and corrected in a number of specific ways.

The first thing that should happen is that the notion that you can give an employer a retroactive tax credit for doing something he or she may have already done is silly. They need to strike that provision, and what I understand from our Washington watchers in city hall, they in fact intend to do that.

The second thing is that the program needs to be extended for at least another year. The life on it was a year. If it has a 2-year life, I think you will be able to see some real changes perhaps in what kind of impact this might make. In New York City, we had significant use made of that this past summer as we launched a private sector employment effort in which we had as an incentive for that private sector employer a tax credit. We found that your large, fast-food operation—your McDonalds in particular—were particularly interested in hiring persons if they brought along that tax credit with them because it in fact said to that employer hiring on a large scale it's some way to help decrease you operating costs. In terms of large employers, it was a very valuable asset.

We have found, however, as we go throughout the city looking at what smaller businesses think about that, there is an aura of suspicion and distrust at work in the minds of most small business people. They feel and have said that if they take that voucher, if they accept that tax credit, it suggests to them that they will have to open their books to the IRS, and for all the headache that that represents they'd rather not have the tax credit and the tax benefit.

Although you can't really change this in terms of what modifications you undertake, I think you might look at what might be done in terms of a public relations campaign to really put in clear and direct ways what benefits will flow from this before a business community will be encouraged to use it.

A last point that I'd make as part of this overview is something that Jack Krauskopf touched on just briefly, and I know each of you, particularly you, Representative Richmond, and you, Congresswoman Ferraro, are concerned about, because we talked about training contractors in your community. What will the impact of these reductions be on those persons who most desperately need them in this city that you come in contact with on a regular basis?

In terms of adults, in 1981, we were able to provide counseling, training and employment for some 41,000 people. As we look at the President's budget, we're looking at a reduction to some 27,000 people, and that's a significant reduction.

If you look at the youth programs in 1981, we were able to provide services—that is, counseling and employment—to some 10,000 youth. If you look at the numbers on the President's budget, you're looking at about 2,000.

How will that be borne out? It will be reflected in those organizations, community groups, et cetera, that are in your districts. We have met with them on a regular basis and kept them fully appraised of this scenario as it is unfolding in Washington.

The bottom line on the service end of it, however, is that there will be fewer training opportunities for people throughout this city, men, women, and youth.

One of the things that we haven't talked about that I think we should mention is one of the high priorities that we have within the administration and that is how can we do business in a more businesslike way. Clearly, those reductions that are being discussed now are going to impact in a very dramatic way on our capacity to manage our business and we are talking about moving to a compurerized management information system which Martin Ives' people have been very helpful in designing, and clearly the kind of cost of putting that system in place is going to have to be looked at very carefully.

A second area I'm very concerned about is our office of the inspector general. I think we have in place one of the best inspector general offices in this city. We are dealing with millions of dollars on an annualized basis and it's a negligible amount, although $1 is too much that is lost through wrongdoing or criminal activity. As we look at the impact of these dollars and we try to hold in place an administrative structure to manage these programs in a sound and responsible way, these are some of the telegraph signs I'm concerned about and I wanted to communicate to you.

[The prepared statement of Mr. Gault follows:]

Prepared Statement of Ronald T. Gault

My name is Ronald T. Gault. I am Commissioner of the New York City Department of Employment. I am here today to discuss the Federal Fiscal Year 1982 funding reductions in the CETA program.

The reductions proposed by the Reagan Administration and by and large enacted by Congress represent an unprecedented withdrawal of Federal support for employment and training. As you know, the elimination of the Public Service Employment Program (PSE) marked the beginning of this entrenchment. Youth programs became the Administration's next target for further budget reductions. Although the President's initial proposal to combine Title IV-A and Title II-B failed, budget proposals have drastically reduced funding for Title IV-A and may seriously encroach on funding for Title II-B. While Congress was to approve permanent appropriations for Federal programs by September 15, 1981, the protracted debate over domestic discretionary budget reductions forced passage of a Continuing Resolution. This measure will provide temporary funding until November 20, 1981. However, the President's September Budget request represents further retrenchment in programs that cannot withstand additional cuts during a period of increasing unemployment and national recession.

The September request approximates a 12 percent reduction from the March Budget request, but is a 14 percent overall reduction from the Continuing Resolution. Title II-A, B, C and IV-A programs were the primary targets of these additional cuts, suffering a 22 percent reduction from the Continuing Resolution. I will outline the loss in dollars and human terms resulting from the budget proposals.

PUBLIC SERVICE EMPLOYMENT (PSE)

SINCE 1978, THE PUBLIC SERVICE EMPLOYMENT PROGRAM PROVIDED A VALUABLE OPPORTUNITY FOR STRUCTURALLY UNEMPLOYED AND DISPLACED WORKERS TO DEVELOP SKILLS AND BUILD A WORK HISTORY. NEW YORK CITY'S PSE PROGRAM PEAKED IN FEDERAL FISCAL YEAR 1978 WHEN APPROXIMATELY 28,000 PARTICIPANTS WERE EMPLOYED IN ESSENTIAL MUNICIPAL, STATE, AND COMMUNITY SERVICE JOBS THROUGHOUT THE CITY.

IN FEDERAL FISCAL YEAR 1981, NEW YORK CITY'S COMBINED TITLE II-D AND VI ALLOCATION WAS TO HAVE BEEN $178 MILLION WHICH WOULD HAVE SUPPORTED A WORKFORCE OF 11,500. THE PRESIDENT'S FEBRUARY 1981 ANNOUNCEMENT OF SEVERE CUTBACKS IN PSE, ENTAILING A 32 PERCENT REDUCTION IN TITLE VI AND A 39 PERCENT REDUCTION IN TITLE II-D FFY'81 FUNDS, AND A FEDERALLY IMPOSED HIRING FREEZE, WERE DESIGNED TO PHASEOUT THE PROGRAM BY SEPTEMBER 30, 1981. THE CUTS TRANSLATED INTO A REDUCED ALLOCATION OF $101 MILLION FOR NEW YORK CITY IN FFY'81. ALTHOUGH THE DEPARTMENT OF EMPLOYMENT (DOE) DEVELOPED AN ALTERNATIVE PHASE DOWN STRATEGY INVOLVING FUNDING FOR TRANSITION AND PLACEMENT SERVICES THROUGH TITLE III, THE PLAN WAS REJECTED BY THE ADMINISTRATION. IN ORDER TO MINIMIZE THE CONSEQUENCES OF THE FORCED TERMINATION OF PSE FOR THE WORKERS THEMSELVES AS WELL AS THE CITY, MANY PSE POSITIONS WERE CONVERTED TO CITY FUNDING. THE DEPARTMENT OF EMPLOYMENT PROVIDED A FULL RANGE OF TRAINING SERVICES FOR THOSE TERMINATED PSE WORKERS NOT REHIRED INTO CITY FUNDED POSITONS.

DURING THE PERIOD 1978-1981, PSE PROVIDED A VIABLE ALTERNATIVE TO WELFARE AND UNEMPLOYMENT FOR OUR DISADVANTAGED CITIZENS. THE DEMOGRAPHIC PROFILE OF PSE PARTICIPANTS SERVED IN FFY'81 DRAMATICALLY ILLUSTRATES THE EXTENT OF

OPPORTUNITY LOSS CAUSED BY PSE'S TERMINATION. OVER 16,000 PARTICIPANTS WERE ENROLLED OR COMPLETED THE 18 MONTH ALLOWABLE EMPLOYMENT PERIOD DURING FFY'81. SIXTY-TWO (62) PERCENT OF THE PARTICIPANTS WERE PUBLIC ASSISTANCE RECIPIENTS; 86 PERCENT WERE MINORITY; 42 PERCENT HIGH SCHOOL DROPOUTS. THE ELIMINATION OF PSE, WHICH WAS ORIGINALLY CONCEIVED AS A STRATEGY TO ENABLE THE DISADVANTAGED TO COMPETE FOR JOBS, WILL MOST CERTAINLY RESULT IN INCREASED DEPENDENCE ON GOVERNMENT ASSISTANCE.

TITLE II-B TRAINING PROGRAM

THE TITLE II-B TRAINING PROGRAMS, THE CORE OF THE ADMINISTRATION'S EMPLOYMENT AND TRAINING POLICY, ARE DESIGNED TO IMPROVE THE EMPLOYABILITY OF THOSE WHO LACK BASIC SKILLS NEEDED FOR EMPLOYMENT. THE PROGRAMS PROVIDE ON-THE-JOB TRAINING, CLASSROOM TRAINING (SKILLS TRAINING AND BASIC EDUCATION), DIRECT PLACEMENT SERVICES, AND WORK EXPERIENCE IN THE PRIVATE NON-PROFIT AND PUBLIC SECTORS.

IN FEDERAL FISCAL YEAR 1981, CONGRESS APPROPRIATED A NATIONAL ALLOCATION OF $2.117 BILLION FOR TITLE II-B. NEW YORK CITY RECEIVED A BASE ALLOCATION OF $80.9 MILLION, NOT INCLUDING CARRY-IN, WHICH SERVED 31,000 PARTICIPANTS. CARRY-IN OF $18 MILLION ALLOWED US TO SERVE A TOTAL OF 41,000 PARTICIPANTS. OF THE PARTICIPANTS TERMINATED IN 1981, 68 PERCENT HAD POSITIVE OUTCOMES--49 PERCENT ENTERED PRIVATE SECTOR EMPLOYMENT, 19 PERCENT FURTHERED EDUCATION, TRAINING, OR JOINED THE ARMED SERVICES. ONE-THIRD (1/3) WERE PUBLIC ASSISTANCE RECIPIENTS; 23 PERCENT HIGH SCHOOL DROPOUTS; 44 PERCENT WERE YOUTH UNDER 21.

THE OMNIBUS RECONCILIATION ACT PROVIDES A NATIONAL AUTHORIZATION OF $1.431 BILLION FOR TITLE II-B; $2 BILLION INCLUDING A $607 MILLION TITLE II-D

DEFERRAL. THE $2 BILLION TOTAL LEVEL OF FUNDING WOULD RESULT IN A $79.3 MILLION ALLOCATION FOR NEW YORK CITY. FUNDING AT THIS LEVEL WOULD PERMIT US TO SERVE 30,566 PARTICIPANTS. IT WAS BELIEVED THAT THE REAGAN ADMINISTRATION CONTINUED TO SUPPORT THIS CORE TRAINING PROGRAM, AS THE $2 BILLION FUNDING LEVEL HAD BEEN HELD CONSTANT.

THE PRESIDENT'S SEPTEMBER BUDGET REQUEST INDICATES THAT THE INTEGRITY OF THIS PROGRAM IS ALSO THREATENED BY ADDITIONAL FUNDING REDUCTIONS. THE SEPTEMBER BUDGET REQUEST PROVIDES FOR A NATIONAL TITLE II-B APPROPRIATION OF $1.226 BILLION; $1.833 BILLION INCLUDING THE TITLE II-D DEFERRAL. THIS TOTAL APPROPRIATION WOULD RESULT IN A NEW YORK CITY ALLOCATION OF $71.3 MILLION. FUNDING AT THIS LEVEL WOULD ALLOW US TO SERVE 27,311. BECAUSE CARRY-IN THIS YEAR WILL NOT BE SUBSTANTIAL, WE WILL BE ABLE TO SERVE A THIRD LESS PARTICIPANTS THAN FFY'81,IF THE PRESIDENT'S SEPTEMBER BUDGET REQUEST IS APPROVED.

THE CONSEQUENCES OF ENCROACHMENT INTO TITLE II-B WILL BE EXACERBATED BY THE ELIMINATION OF PSE; FORMERLY THE PRIMARY MEANS OF SERVING WELFARE RECIPIENTS. REDUCTIONS IN TITLE II-B, OUR MOST SUCCESSFUL PROGRAM IN TERMS OF PLACEMENT INTO UNSUBSIDIZED EMPLOYMENT, RUNS COUNTER TO THE ECONOMIC RECOVERY PLAN PROPOSED BY THE PRESIDENT.

YOUTH PROGRAMS

THE PRESIDENT'S MARCH BUDGET REQUEST WAS THE FIRST INDICATION THAT YOUTH PROGRAMS WOULD BE A TARGET FOR BUDGET SAVINGS IN FEDERAL FISCAL YEAR 1982. INITIALLY, PRESIDENT REAGAN PROPOSED ELIMINATING TITLE IV-A, COMBINING YOUTH WITH ADULT PROGRAMS IN ONE TRAINING GRANT AND CUTTING THE FUNDS, OVERALL, BY 30 PERCENT. ALTHOUGH CONGRESS REAUTHORIZED TITLE IV-A, THEREBY ENSURING

CONTINUED OPERATION OF A SEPARATE YOUTH PROGRAM UNTIL THE END OF THIS FEDERAL FISCAL YEAR, THESE PROGRAMS REMAIN IN JEOPARDY. WHILE A PERMANENT APPROPRIATION HAS NOT YET BEEN PASSED, THE RECONCILIATION LEVEL AND THE PRESIDENT'S SEPTEMBER BUDGET REQUEST SHOW THE SEVERE FUNDING REDUCTIONS WE CAN EXPECT FOR FFY'82.

TITLE IV-A YOUTH PROGRAMS

IN FEDERAL FISCAL YEAR 1981, CONGRESS APPROPRIATED A NATIONAL ALLOCATION OF $825 MILLION FOR TITLE IV-A. NEW YORK CITY RECEIVED A BASE ALLOCATION OF $28.5 MILLION, EXCLUDING OTHER AVAILABLE FUNDING, WHICH SERVED 8,705 YOUTH IN THE YOUTH EMPLOYMENT AND TRAINING PROGRAM (YETP) AND THE YOUTH COMMUNITY CONSERVATION & IMPROVEMENT PROJECTS (YCCIP) PROGRAM. SIX MILLION ($6 MILLION) IN OTHER AVAILABLE FUNDS ALLOWED US TO SERVE A TOTAL OF 12,194 PARTICIPANTS. OF THE TOTAL YOUTH SERVED IN 1981, ONE-THIRD RECEIVED PUBLIC ASSISTANCE, ONE-HALF WERE BELOW THE OMB POVERTY LINE AND OVER 80 PERCENT WERE MINORITIES. MOREOVER, OF THE YOUTH TERMINATED, 66 PERCENT HAD POSITIVE OUTCOMES--37 PERCENT RETURNED TO SCHOOL AND 29 PERCENT ENTERED EMPLOYMENT. THESE FIGURES PROVIDE A STRONG INDICATION OF PROGRAM SUCCESS GIVEN THE AGE AND PROFILE OF THE POPULATION SERVED.

THE OMNIBUS RECONCILIATION ACT OF 1981 AUTHORIZED $576 MILLION FOR TITLE IV-A, A 21 PERCENT REDUCTION FROM THE 1981 AUTHORIZED LEVEL. (THE CONTINUING RESOLUTION, IN PLACE UNTIL NOVEMBER 20, 1981, PROVIDES $400 MILLION.) THE PRESIDENT'S SEPTEMBER BUDGET REQUEST CUT FUNDING EVEN MORE DRASTICALLY, PROVIDING $214 MILLION FOR TITLE IV-A. AT THIS FUNDING LEVEL NEW YORK WOULD SUFFER A BASE ALLOCATION DOLLAR LOSS OF OVER $20 MILLION, AND A SERVICE REDUCTION OF APPROXIMATELY 6,500 YOUTH SLOTS, ROUGHLY 75 PERCENT OF THE BASE 1981 SERVICE LEVEL. BECAUSE OF THE ABSENCE OF THE OTHER AVAILABLE FUNDS,

NEW YORK CITY WOULD LOSE A TOTAL OF $26.1 MILLION FROM FFY'81 AND SUFFER A SERVICE REDUCTION OF 9,986 SLOTS, A REDUCTION OF OVER 80 PERCENT FROM THE TOTAL 1981 SERVICE LEVEL.

SUMMER YOUTH EMPLOYMENT PROGRAM (SYEP)

CONGRESS APPROPRIATED $800 MILLION FOR TITLE IV-C, SUMMER YOUTH EMPLOYMENT PROGRAM, IN FEDERAL FISCAL YEAR 1981. NEW YORK CITY RECEIVED $34.3 MILLION, WHICH SERVED APPROXIMATELY 48,000 YOUTH. SUMMER YOUTH EMPLOYMENT WAS TARGETED FOR REDUCTIONS FOR THE FIRST TIME IN THE PRESIDENT'S SEPTEMBER BUDGET REQUEST. PREVIOUSLY, RECONCILIATION AND THE CONTINUING RESOLUTION MAINTAINED FUNDING AT THE FFY'81 LEVEL, INCLUDING A $40 MILLION DEFERRAL. THE PRESIDENT'S SEPTEMBER BUDGET REQUEST, HOWEVER, REDUCES THE NATIONAL APPROPRIATION BY $92 MILLION, A $4 MILLION REDUCTION FOR NEW YORK CITY. THIS LOWER FUNDING LEVEL WOULD RESULT IN A $30.6 MILLION ALLOCATION SERVING 40,000 YOUTH, 8,000 LESS THAN IN FFY'81.

THE YOUTH PROGRAMS OFFER DISADVANTAGED YOUTH OPPORTUNITIES THAT GIVE THEM THE SKILLS TRAINING AND DISCIPLINE THAT WILL HELP THEM BECOME SELF-SUPPORTING ADULTS. THE DRASTIC FUNDING REDUCTIONS FOR FFY'82 ARE PARTICULARLY SIGNIFICANT GIVEN THE HIGH UNEMPLOYMENT RATE AMONG YOUTH, PARTICULARLY MINORITY YOUTH. IN NEW YORK CITY THE UNEMPLOYMENT RATE FOR YOUTHS AGES 16 TO 19 YEARS HOVERS AROUND 30%, APPROXIMATELY 50,000 YOUTHS. THE RATE FOR MINORITIES IN THE SAME AGE GROUP IS A STAGGERING 41.8%. THE FIGURE FOR OLDER YOUTH, AGES 20 TO 24 YEARS, IS APPROXIMATELY 14%, 54,000 UNEMPLOYED. THESE STATISTICS UNDERSCORE THE NEED TO MAINTAIN CETA YOUTH PROGRAMS AND BUILD UPON PRIVATE SECTOR INITIATIVES. THE REAGAN ADMINISTRATION'S BUDGET CUTS WILL NOT ONLY REDUCE THE PEOPLE SERVED, BUT WILL RESULT IN THE LOSS OF IMPORTANT AVENUES THAT LEAD TO A BETTER FUTURE FOR OUR NATION'S YOUTH.

CONCLUSION

EXPANSION OF BUSINESS OPPORTUNITIES, A PRIMARY OBJECTIVE OF CONGRESS AND THE REAGAN ADMINISTRATION, REQUIRES A TRAINED LABOR FORCE. HOWEVER, A LARGE SEGMENT OF THE CURRENTLY AVAILABLE LABOR FORCE IS UNSKILLED, UNTRAINED, AND POORLY EDUCATED. THE CUMULATIVE IMPACT OF PROPOSED REDUCTIONS IN WELFARE PROGRAMS WILL BE TO INCREASE WORK DISINCENTIVES FOR THE WORKING POOR. IT IS THEREFORE IMPERATIVE THAT THE CORE OF OUR TRAINING PROGRAMS BE MAINTAINED IN ORDER TO SUPPORT THE ADMINISTRATION'S GOAL OF HELPING CITIZENS TO BECOME SELF-RELIANT AND INDEPENDENT OF GOVERNMENT ASSISTANCE. IN THE PAST THESE PROGRAMS HAVE PROVED EFFECTIVE IN PREPARING THE DISADVANTAGED FOR ACTIVE PARTICIPATION IN THE LABOR MARKET, THEREBY PROVIDING AN ESSENTIAL LINK BETWEEN LABOR DEMAND AND HUMAN CAPITAL. THE CURRENT RECESSION AND ALARMING INCREASES IN UNEMPLOYMENT HAVE MADE EMPLOYMENT AND TRAINING A CRUCIAL COMPONENT IN THE NATION'S ECONOMIC RECOVERY.

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Representative RICHMOND. Thank you, Mr. Gault.
Commissioner Marino.

STATEMENT OF RONALD J. MARINO, DEPUTY COMMISSIONER, DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT, NEW YORK CITY

Mr. MARINO. Last, but always the best. Maybe in this case, the bleakest.

Let me thank you and Representative Ferraro and Representative Green, who was a former HUD official——

Representative RICHMOND. He knows the business.

Mr. MARINO. And he certainly has great expertise in this area.

Representative RICHMOND. Twenty years.

Mr. MARINO. I remember. Let me say to simply analyze housing is deceptive because household income cuts in the social service programs and other transfer payments are available for households to spend on their housing. Here in the city of New York, we find that there is a minimum of 870,000 households who are eligible for housing assistance. Some of the other studies have put that number as high as 1.1 million households. So truly, there's a real need here in the city of New York; and thus far, the administration's first rounds of budget cuts and the proposed second round could be devastating to us.

We have three major programs which I would like to talk about in how we use both Federal subsidies and grants in producing new and rehabilitated housing.

First, you have your public housing and rental subsidy for the most neediest families. When you combine those with the mortgage insurance programs and the production of public and section 8 housing, this is how the city is able to produce both new and substantially rehabilitated housing.

We started this year with 11,000 units committed to the city early on. Since the inception of the administration, with the passage of the Omnibus Reconciliation Act, we are now down to $55 million for the city. We have lost already 5,500 and if the second round goes through the results could be even greater. When you combine this with the cutback in GNMA tandem and with the high interest rates and also with the recently enacted eligibility changes, by reducing eligibility from 80 percent to 50 percent which really hurt the working poor of our city, it makes it almost impossible to produce housing.

Second, our CD program. We have been able to rehabilitate 26,000 units of housing; mostly for moderate income people, in our city. Again, we have used this not only for rehabilitation but also for our neighborhood preservation programs and building site improvements and park areas. In the first round of the budget cuts we lost $13 million of $262 million we received citywide from the Federal Government. If round two goes through with a 12-percent cut, we would lose another $28 million. That's over $42 million which forces us into either severely curtailing programs or cutting them back or cutting them out.

Lastly, let me talk about the categorical programs and specifically 312 which Congresswoman Ferraro mentioned earlier, and 235; 312 is a very cost-efficient program. It produced rehabilitated housing for the 1-to-4 family home for less than $10,000 per unit cost. Since the city's increase in productivity in processing loans, we now have a backlog of 1,500 loans of $48 million in our city pipeline. This year's housing authorization bill virtually eliminated that 312 program. There was no funding. It only provided funding from the repayment of past loans. We hope that maybe 20 percent of these loans are going to be able to be funded, if that many.

In 235, for the first time, the city was going to try to use the program which had been used across the United States but never used here. It couldn't be used here because the mortgage rates were too low for our area. We got the mortgage rates changed. Now we have a congressionally imposed date of March 31, 1981. If we don't get an extension on that, we have 2,000 units that possibly could not be built and certainly it jeopardizes any future construction.

Let me lastly comment on some of the administration's proposal and then any questions you might have. The administration's major thrust now is its housing voucher program which they have come forward with. We are very pessimistic about that. We differ with Congressman Green It's a misnomer to call it a housing program. It is really an income transfer program. It does nothing for housing. You cannot leverage or capitalize these loans to rehabilitate or increase maintenance. It's simply a grant to that particular family. There are 9 million families eligible and only 80,000 vouchers nationwide.

Representative RICHMOND. I have to catch a plane. We are still in the Senate-House conference on the farm bill. Comptroller Ives, I'd like to have you write me as to how much money we're losing in New York City because of uncollected taxes, in either State or sales taxes; what plans do you have for starting to collect some of that money.

Commissioner Gault, I feel that under Reaganomics the only thing we can do is start relying on the private sector in New York City. What can we do to work with you and the deputy mayor to see if somehow or other we can get the average business person in New York City, who is basically well motivated, to start working with you and start hiring some of our unemployable people? As you say, the discipline is the biggest problem. How do you get the kid to go to work at 8 o'clock in the morning unless he has a little training?

Commissioner Marino, I would like to hear from you as to your concept of what could be done under the present atmosphere in Washington to allow us to continue rehabilitating our housing.

Now let me turn the hearing over to Congresswoman Ferraro.

Mr. MARINO. Fine. Let me finish up by saying than even in this housing voucher program there are at least 9 million families nationwide who will be eligible. The administration is proposing only 80,000 vouchers for year 1.

Lastly, to have a voucher program, you certainly need an adequate supply of housing, of vacant, available housing, and nationwide, there's about 4.8 percent, a minimum necessary for a voucher program. In some markets, especially in New York City where we have a vacancy rate of 2 percent and in Manhattan about 1.8 percent, in Brooklyn about 1.9 percent, Queens also below 2 percent, I simply would say to you it's going to be impossible for a family as we've seen in the existing program in New York City and elsewhere to find standard housing where a landlord is going to be willing to admit that family. At a time when the Federal Government should probably be entering into a greater role in trying to produce rental housing, we see abandonment. Without the Federal Government's intervention, as they have since 1937—in the boom times and in the bust times, it's never been profitable without a Federal subsidy to build housing for low- and moderate-income people.

So I'd like to simply end by saying that what the current situation reminds us of is the situation which developed in 1973 when we had a housing moratorium. It took us 6 or 7 years just to begin to recover from that. Housing is a real linchpin in the entire economy of this Nation and unless you have a healthy housing industry you're not going to have a healthy economy. So what I've come to ask you, on the part of the city, is to please help us with some specific programs such as 312 and 235 and the eligibility question, to allow New York City to participate; but I would ask you to preserve us from any further cuts. Thank you.

[The prepared statement of Mr. Marino, together with an attachment, follows:]

Prepared Statement of Ronald J. Marino

As Deputy Commissioner for Policy of the New York City Department of Housing Preservation and Development, I am pleased to have this opportunity to testify before the Joint Economic Committee of the Congress on the effects that the Administration's economic policies will have on the quality and supply of housing in New York City. I would like to tackle this issue in two steps, discussing first the impacts of the already enacted budget cuts for this fiscal year and second, the effects that enactment of the proposals of the President's Commission on Housing and the Department of Housing and Urban Development would have in the coming years.

Before discussing the direct effects of budget cuts and program changes in the housing area, which in themselves are sufficiently severe, it is critical to note that housing programs are also affected by other aspects of the Administration's economic policies. Cuts in income transfer and social service entitlement programs will reduce the overall level of funds available to low- and moderate-income households for housing and other essential needs. Taken as a whole, the Administration's economic policies will have a disastrous effect on housing as well as the overall quality of life in the United States.

The Administration, in conjunction with the Congress, has already taken steps which will drastically reduce the ability of the City of New York to provide decent, safe and sanitary housing at affordable prices to our estimated 870,000 low-income households needing assistance. Programs providing varying types of aid to households with differing needs have either been eliminated, drastically cut back or altered in manners which will have deleterious effects on the City's housing stock. There are essentially three types of housing programs which the City has utilized to meet the housing needs of our low- and moderate-income residents. First, are the various public housing and rental subsidy programs which offer assistance to hundreds of thousands of New York's neediest households, as well as those mortgage insurance and below-market rate financing programs which support the production of public and Section 8 housing. Second, is the Community Development Block Grant Program which funds much of the City's housing rehabilitation and neighborhood preservation efforts. Finally, are various categorical programs, such as the Section 312 and 235 programs which provide targetted assistance to help meet the needs of low- and moderate-income homeowners.

It must be noted that none of these programs can, independently, operate successfully. For instance, without below-market rate GNMA financing, low-income rental housing would still be economically infeasible even with the rental subsidy provided through the Section 8 program. And without the supportive neighborhood services provided through the CD program, the economic and social viability of individual projects is jeopardized. Thus, when individual budget cuts in various housing program areas are taken as a whole, the effect is far greater than the numbers alone would indicate.

Of course, the City has not relied entirely upon Federal funds to meet its housing needs. To the limits of its ability, the City has utilized tax exemption and abatement programs to stimulate new construction and housing rehabilitation. The City's J-51 program alone has, since its inception in 1955, stimulated the rehabilitation of more than 900,000 units. However, the City's own means of assistance cannot meet the demand for housing. Continued Federal support is essential.

Rather than helping to meet the Nation's housing needs, the actions of the Administration and the Congress will severely impair, if not entirely eliminate the ability of the City to construct new, or rehabilitate substandard housing. Since the passage of the National Housing Act of 1937, the Federal government has committed itself to expanding the supply of decent and affordable rental housing for low- and moderate-income families. In the current fiscal year, appropriations for assisted housing have been drastically reduced. For FY'83, both HUD and the President's Commission on Housing propose the almost total elimination of all assisted housing programs, reversing a nearly half century Federal commitment.

In FY'81, the City received an initial allocation of contract authority sufficient to fund approximately 11,000 families. Pending passage of a final appropriations bill for FY'82, the City anticipates an initial allocation which will enable us to aid half that number of households. Reductions in the GNMA Tandem Program, combined with current high interest rates in the tax-exempt bond market, will make it extremely difficult to utilize even this reduced contract authority. The reduction in contract authority for public housing and Section 8 will affect many more families than those directly assisted under these programs. The City has carefully utilized its assisted housing allocation in its efforts to preserve entire neighborhoods as well as aid individual families. If we are unable to target assistance, the loss of funds for public housing and Section 8, combined with the reduction or elimination of programs such as CDBG and Sections 312 and 235, will prevent hundreds of thousands of New Yorkers from obtaining standard housing in stable neighborhoods.

In addition to FY'82 cuts in assisted housing, there will be a steep reduction in the City's CDBG allocation. We project that changes brought about by passage of the Omnibus Budget Reconciliation Act of

1981 will cost the City $13,000,000. Passage of the President's proposed 12% budget cut, which is currently being considered by the Congress, could result in an additional $28,000,000 loss. To date, the CD program has funded the rehabilitation of 26,000 housing units and other neighborhood development activities in New York City. Now, as a result of the budget cuts, the City will be forced to make the difficult choice of selecting programs to cut or even possibly eliminate. The City will not be able to comply with the Administration's suggestion that we fund eliminated categorical programs from our reduced CDBG budget. It is, therefore, a cruel hoax, to offer localities the illusion of greater flexibility in the use of its block grant funds while budget cuts, in reality, severely restrict the number and types of programs for which we can effectively utilize such funds.

The cutbacks and elimination of categorical programs provide the most poignant illustrations of the effects of the current economic policies. The Section 312 program provides one of the few means to upgrade owner-occupied small homes and multiple dwellings in neighborhoods experiencing social and economic change. Productivity and demand have increased dramatically over the past three years in New York City, to the point where the City's current pipeline consists of 1,500 requests for $48,000,000 in loans. Clearly the need is there, and at an average of $10,000 per unit the program is extremely cost-effective in preventing the loss of a valuable housing stock and in helping to stabilize neighborhoods. However, Congress rescinded any new funding for the 312 program which can now operate only from repayments. The Administration continues to seek this valuable program's total demise.

The Section 235 program similarly provides one of the few first-time homeownership opportunities for low- and moderate-income families. In its first use of the Section 235 program, New York has committed itself to the construction of 2,000 new units in depressed areas throughout the City. Such concentrated development activity can be expected to have a revitalizing effect on the surrounding communities and marks a change in emphasis of the City's housing plans from high density rental developments to low density homeownership neighborhoods. However, the scheduled March 31, 1982 termination of the Section 235 program will seriously jeopardize the City's commitment to build the 2,000 units originally planned. At the very least, the City will be unable to duplicate this homeownership program in the future.

In view of the drastic effects of the FY'82 budget cuts already outlined, we are extremely skeptical of the Administration's preliminary proposals to eliminate virtually all assisted housing production programs in FY'83, and replace them with a "housing voucher" program offering aid to families in existing housing only. Such vouchers will not be linked to construction programs and will therefore do little, if anything, to increase the supply of new housing to persons of low- and moderate-income. Since there will be no ability to leverage or capitalize vouchers, it is a misnomer to cite such a system as a "housing" program. Rather, the voucher system will function as an income transfer program, and, as such, its effectiveness will be limited because it will not be administered as an entitlement program. Even under the recently reduced Section 8 income eligibility criteria, approximately nine million households nationwide would be eligible for a housing voucher. Clearly the proposed level of 80,000 vouchers in FY'83 will not come close to meeting that need.

A voucher system assumes the existence of an adequate supply of standard housing. While the Administration claims there is no national shortage of rental housing, the facts speak differently. Nationally, the rental vacancy rate stands at 5%, the minimum necessary to ensure adequate mobility. In many submarkets, the vacancy rate is considerably lower. For example, a preliminary analysis of 1980 Census Data indicates that the vacancy rate in all of New York City is only slightly over 2%. In stable communities, the rate is considerably lower still. Such a tight market will significantly inhibit the ability of voucher recipients to find standard housing in stable neighborhoods at affordable prices. The City's experience with the Section 8 Existing Program confirms this. Since the program's inception here, one-third of the households granted Section 8 Existing Certificates have been unable to utilize them, many finding it impossible to locate standard housing in a suitable environment where the landlord will accept the subsidy.

Certainly, in the near future, the rental housing market will become even tighter. High interest rates and inflation will continue to suppress building, already at record low levels. These same factors will prevent many potential homebuyers from entering that market. The rental supply will continue to be eroded by condominium amd cooperative conversion from the one side and disinvestment and abandonment from the other. Therefore, now is hardly the time for the government to withdraw from its commitment to assist in the production and preservation of rental housing for those truly in need.

There are other aspects of the Administration's housing program which warrant comment. Particularly onerous are those provisions which will prohibit millions of working poor households from being eligible for housing assistance by virtue of reduced income eligiblity limits. The City also protests vigorously proposed cuts in operating assistance for public housing, reductions so drastic in nature they may lead local housing authorities tó collapse.

In conclusion, the City of New York believes that the Administration's housing proposals represent more than just a fair attempt to cut costs and eliminate waste. Rather, they are more closely akin to the 1973 moratorium on Federal Housing programs, except that the current policies may portend a permanent retreat from the Nation's war on substandard housing. The City recognizes that the task before the Congress is a difficult one as it must balance the needs of fiscal restraint with those of decent housing and other legitimate concerns. However, the Congress must recognize that a healthy housing industry through its multiplier effects can be the linchpin of a national economic recovery. On the other hand, even in the most vibrant economy, it is foolhardy to believe that low- and moderate-income housing could be produced without Federal assistance. It has taken more than six years for the housing industry to recover from the 1973 moratorium. If current proposals are implemented, housing recovery may take even longer and the effects on the overall economy and those truly in need of assistance will be even more traumatic. Housing programs have already taken a disproportionate share of all domestic budget cuts. We must therefore urge the Congress to reject any additional budget cuts in housing program areas.

THE CITY OF NEW YORK
DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT
OFFICE OF THE COMMISSIONER

DEPARTMENTAL MEMORANDUM DATE: Nov. 5, 1981

TO: Ron Marino

FROM: David Singer DS

SUBJECT: Impact of Reagan Budget Cuts in Congressman Fred Richmond's District

312 Loan Program

There are 60 312 loans in Richmond's district.

PLP

The fact that there will be less money available for PLP may mean that the Mohawk Hotel project will be eliminated.

The rehab component of the Columbia Street project is in dire straits due to the 312 cut; the prognosis for obtaining alternative financing is not good.

The declining availability of GNMA financing poses a serious threat to the Tri-Block project. Williamsburg Site 3B faces the same dilemma.

Section 8

La Cabana: New Construction. This was originally slated for 233 units -- now down to 175 units.

Williamsburg Site 3B - The Bedford Apartments: Rehab from 102 units down to 70 units.

Sumet II: Rehab has been reduced.

The Columbia Street Park is in jeopardy as is the Williamsburg Urban Renewal Area.

Caribe Village - Section 8 funds have been recaptured by HUD.

Community Consultant Contracts

Brooklyn Neighborhood Improvement Association - $30,000
Pratt Area Community Council - $45,000
St. James Cathedral - $30,000
Southside United Housing Development Corp.
People's Firehouse - $30,000

Facade Improvement Program - $78,000 (People's Firehouse)

235

3 New Construction Sites at Columbia Street
Prospect Heights 235 Site

Sites at Atlantic Terminal were denied due to lack of funding..

Representative FERRARO [presiding]. Thank you, Mr. Marino.

Representative GREEN. I'd like to ask Commissioner Marino a question.

I was told by the previous area director of the HUD area office here in New York before he left that his anticipation was that for section 8 and new construction or substantial rehabilitation during Federal fiscal 1982, the average annual subsidy cost per unit would be in excess of $11,000.

Mr. MARINO. I think that's accurate.

Representative GREEN. And that, of course, the program called for commitments for 20 to 40 years. In addition, just about all the housing that's been built under that program has had some form of mortgage subsidy, whether it's the use of State tax-exempt bonds or through GNMA mortgages. There's another layer of subsidy implicit in all of those programs. And finally, of course, we know most of it has been generated because the IRS code is very generous with preferred treatment in forms of tax shelters to rental housing for low and moderate-income households. So you have still another layer of Federal subsidy.

I guess, frankly, the program has been dying of its own financial weight. It hits its peak in the last year of the Ford administration when 400,000 units were authorized. That was down to about 210—there was some dispute as to how much the last Carter proposal would produce. And it's now down below 150,000 and I'm not sure where it's going to come out in the conference report.

What do you see as the alternatives? Don't we really have to be looking at separating the stimulation of housing production from the very real problem of affordability and enabling the lowest income families to afford housing?

Mr. MARINO. I think you're definitely right. I think the section 8 program—certainly we're not here to defend that. It did produce some housing, but that had no real cap or no real incentive to minimize costs. It was an incentive to maximize the costs.

What we would rather see in terms of rehabilitation would be modeled after some of the successful programs we have in the State, our participation loan program where both private industry and government are in there together, our 8–A loan program which produces energy improvement for less than $5,000 a unit.

I think some of the directions HUD and the administration have taken are good. I think, as you pointed out, three or four layers of subsidy might be excessive and unnecessary. Certainly what the administration is telling us—and in a sense I would categorize it as a hoax—you're going to have the decisionmaking power placed back in the localities through a block grant program, but at the same time they are going to cut the block grant programs or fold in so many other programs—if they cut operating assistance to public housing authorities, if you get other housing programs severely reduced—they will all be folded into CD, so the pot becomes so much smaller, the competition becomes that much greater.

I think some of the directions we talked about in the last year or so are the ones we want to take to minimize those costs. That's the direction I think we would like to help you in formulating at the Cougress; and certainly just to cut for the sake of cuts is not going to help us.

Representative GREEN. So you would see some sort of moderate rehabilitation? It's my understanding HUD has gone to OMB with that kind of program.

Mr. MARINO. We have seen something, but again, it seems to be limited to really small multifamily building and it really doesn't help the city of New York as some neighborhoods within the city might be helped, but maybe in the neighborhood that Congresswoman Ferraro represents, Corona or possibly Greenpoint, Windsor Terrace, those areas——

Representative FERRARO. Did you hear something about redistricting that I didn't?

Mr. MARINO. Don't you have a piece of Corona?

Representative FERRARO. Not yet.

Mr. MARINO. You may be getting it.

Representative FERRARO. I just have a question for you. Mr. Ives. Before I ask questions, when we take a look at housing programs, you take a look at the job training programs, and you take a look at the problem Mr. Cohen was talking about, educating our youth, and business is going to look at what we're doing and the impact on the economy is yet to be felt other than the individual programs—but the overall view is going to have a larger impact on whether or not business will come in and want to stay here.

I just have two questions, one for you, Mr. Ives. One is with reference to Mr. Goldin's prepared statement. You talk on page 2 about the $550 million, all of which was borrowed in the public credit markets, and then two pages later you talk about the amount of money being paid out on municipal bonds is 14 percent, 60 basis points higher than was being paid before.

What kind of impact is that going to have on the fiscal situation in New York City, the combination of those two; where you're borrowing money at higher amounts and paying out higher amounts on our bonds?

Mr. IVES. Well, obviously, with regard to the both of them, it's going to cost more. We do need to borrow. We need to borrow because the expenditures, for example, in education, that we lay out during the early part of the year go out at a faster rate than the amount we get back from the State as State aid. So we do need to borrow and the interest rate with regard to short-term borrowings was approximately 11 percent last year. If we had to—we probably have completed our borrowings for this year—but if we had to borrow again, we would have to pay an additional 200 basis points, let's say, that's some $10 million in additional cost.

With regard to the long-term borrowing, as I indicated, we tried to translate that into what that actually costs us and I believe that you were out at the time, but we estimate that on a $100 million bond issue, the first year's interest cost, just taking the difference between 11.3 percent and 14 percent, which is what we think we have to pay now if we were to issue bonds, that is $2.7 million; $2.7 million translates into roughly 84 policemen at $32,000 per cop.

So your choice is either being fiscally responsible and keeping within your budget parameters and cutting services or going past the point where you can——

Representative FERRARO. Yes. Actually, we really don't have any choice. We're required by statute, by the Federal loan agreement, to have a balanced budget.

Were you here during Comptroller Regan's testimony?

Mr. IVES. Yes.

Representative FERRARO. Did you hear him say these cuts would have no financial impact on New York City?

Mr. IVES. Yes.

Representative FERRARO. Do you agree with him?

Mr. IVES. No; I don't. We estimate—the mayor has estimated that roughly $272 million of our budget was impacted by the Federal cuts. Now we absorbed those cuts into our budget. We must have a balanced budget. So by absorbing them, that left $272 million that we no longer had available for other things. Obviously, there was a major cut in the CETA program. They were just cut out. Those are people without jobs.

Mr. GAULT. There was about $78 million——

Representative FERRARO. You absorbed the title 20 cuts for the senior centers, but there seem to be very few programs.

Mr. IVES. One can say there's no impact, yes, but there's a very real impact in reduced services.

Representative FERRARO. I want to thank you all.

Mr. GAULT. Before you conclude, there's one thing. I have been saving this for my zinger for you to have as part of your record. If we look at what we pay in welfare costs for an AFDC mother with one dependent, about $5,700 on an annualized basis, it costs us about $4,600 to train that person in a skills training area, whether it's typing or data processing or what have you. Those areas are the areas that are now being focused on more sharply as we talk about these reductions, and those areas are the areas in which I give you the numbers for. So just on the basic simply dollars and cents basis, it doesn't make sense to have further cuts in these skills training programs.

That person, incidentally, on an annualized basis, is earning between $9,600 and $10,000.

Representative FERRARO. And paying taxes.

Mr. GAULT. And paying taxes. So as my zinger to conclude my comments, I think it's important to put this both in human terms as well as in dollar and cents terms, and in either case, it doesn't make much sense to persist now with further reductions in training programs.

Representative FERRARO. I want to thank you, commissioner. It's a good note to end this hearing on. It's taking a look at the whole picture and not just the figures on a very cold sheet. I want to thank each of you individually and as the panel for your participation today. The committee will stand in recess.

[Whereupon, at 1:30 p.m., the committee recessed, to reconvene at 10:30 a.m., Friday, November 13, 1981.]

[The following information was subsequently supplied for the record:]

REMARKS BY BOROUGH PRESIDENT ANTHONY R. GAETA, STATEN ISLAND, AT HEARING SPONSORED BY U.S. CONGRESS JOINT ECONOMIC CONGRESSIONAL COMMITTEE RE AFFECTS OF PRESIDENT REAGAN'S ECONOMIC PROGRAM ON CITY INCLUDING STATEN ISLAND, NOV. 9, 1981

MANY AREAS OF OUR NATION WILL BE SPECULATING ABOUT THE EFFECTS OF REAGAN ADMINISTRATION POLICIES ON THEIR ABILITIES TO PROVIDE BASIC SERVICES . . . BUT ON STATEN ISLAND WE HAVE SOME CONCRETE EXAMPLES WHICH CAN BE POINTED TO -- EXAMPLES THAT CLEARLY SHOW HOW LOCALITIES SUCH AS OURS WILL BE LEFT HIGH AND DRY WITHOUT FEDERAL SERVICES THAT WERE PREVIOUSLY GUARANTEED. IT WOULD HAVE BEEN BAD ENOUGH THAT THESE SERVICES WERE STRIPPED AWAY, BUT TO HEAP ON EVEN FURTHER DISCOMFORT, THEY WERE PARED AWAY QUICKLY WITHOUT GIVING ROOM FOR OUR COMMUNITY TO REACT WITH A PROGRAM OF ITS OWN.

PERHAPS MOST WELL KNOWN IS OUR FIGHT TO RETAIN THE HEALTH SERVICES AND THE 1000 OR MORE JOBS OF THE U.S. PUBLIC HEALTH SERVICE HOSPITAL AT CLIFTON ON STATEN ISLAND. THE ENTIRE HEALTH SERVICE WAS LOPPED FROM THE FEDERAL BUDGET, LEAVING US WITH SOME SHORT MONTHS IN WHICH TO FASHION SOME KIND OF COMMUNITY TAKEOVER OF A MULTI-MILLION DOLLAR FACILITY.

WITHOUT RELATING SOME OF THE CLIFF-HANGING DETAILS, I FIND MOST DISTURBING THE CLEAR MESSAGE THAT THE NATIONAL ADMINISTRATION CARES LITTLE ABOUT PROVIDING THE MOST BASIC

HEALTH SERVICES TO THE POOR AND THOSE ON FIXED INCOMES, AND CARES NOT AT ALL FOR THE ECONOMIC IMPACT ON A SINGLE COMMUNITY ABOUT TO LOSE A MAJOR EMPLOYMENT CENTER.

STATEN ISLANDERS WILL ALSO TELL YOU OF THE COMPLETE ABOUT-FACE OF THE FEDERAL DEPARTMENT OF THE INTERIOR AS IT DECIDED TO ABORT ITS PLANS TO ACQUIRE CITY-OWNED RECREATIONAL LANDS FOR ITS GATEWAY NATIONAL RECREATION AREA. IGNORING SEVERAL GOOD-FAITH BARGAINING SESSIONS OF THE PREVIOUS YEARS, IGNORING ENABLING STATE AND FEDERAL LEGISLATION, THE INTERIOR DEPARTMENT SIMPLY DECIDED IT WOULD NOT ASSUME THE BEACH LANDS, LEAVING ITS MAINTENANCE TO THE CITY INSTEAD.

IN FACT, FROM WHAT HAS BEEN EXPLAINED TO ME, THE ENTIRE GATEWAY SYSTEM -- FORMED AS A MAJOR PROGRAM OF THE NIXON ADMINISTRATION -- WOULD LIKELY FIND A SHRINKING BUDGET WITH WHICH TO MAINTAIN ITS MANY SERVICES FOR THE THOUSANDS OF MEN, WOMEN AND CHILDREN OF OUR AREA.

WITH THESE DEVELOPMENTS IN MY MEMORY, I CONFESS THAT I AM FRIGHTENED ABOUT WHAT WILL FOLLOW: THE SERVICES THAT WILL BE CUT TO THOSE WHO WERE SERIOUS BENEFICIARIES OF GOOD BREAD AND BUTTER PROGRAMS . . . AND THE SPEED WITH WHICH THEY WILL BE HAMMERED INTO OPERATION, LEAVING STATE AND MUNICIPAL GOVERNMENTS RUSHING INTO PROGRAMS OF THEIR OWN TO SALVAGE THINGS LIKE SENIOR CENTERS AND JOB DEVELOPMENT PROJECTS.

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AND, I AM ALSO BEGINNING TO WONDER IF OUR NATIONAL HEALTH WILL BE THAT MUCH BETTER OFF, AS WE HAVE BEEN TOLD. WITHIN ONLY THE PAST TWO WEEKS, WE ARE HEARING SERIOUS ASSESSMENTS THAT SHOW THE FEDERAL BUDGET WILL NOT, IN FACT, BE BALANCED BY 1984 . . . AND THAT A TAX INCREASE PACKAGE WILL LIKELY BE NEEDED TO BRING IN MORE FUNDS TO THE TREASURY . . . AND OUR ECONOMY IS NOT REBOUNDING AS PREDICTED -- IN FACT, IT'S DECLINING.

THE DEBATE OVER AWACS HAS SHOWN ME, THOUGH, THAT OUR CONGRESS HAS THE ABILITY TO BALANCE THE SWEEPING, SOME ILL-CONCEIVED, PROGRAMS OF THE EXECUTIVE BRANCH -- IF THEY STAND FIRM, IF THEY REACH INTO THEIR OWN CONSTITUENCIES TO TAKE THE PULSE AND MOOD OF THE PEOPLE THEY SERVE, AND TRANSLATE INTO ACTION THE LEGITIMATE NEEDS OF THE PEOPLE.

THIS IS A PROUD PRESIDENCY, TO BE SURE. AND, MR. REAGAN'S ACTIONS HAVE SHOWN THAT HE SEEKS OUT THE MEMBERS OF CONGRESS, TO WIN THEIR APPROVAL AND SUPPORT FOR HIS PROGRAMS. CONGRESSIONAL MEMBERS SHOULD BE EQUALLY TENACIOUS IN BRINGING TO THE EXECUTIVE BRANCH THE LEGITIMATE CONCERNS OF AMERICANS, TRANSLATING THOSE CONCERNS INTO A REALISTIC AGENDA FOR HELPING THOSE WHO ARE TOO OFTEN TURNED ASIDE.

I FEAR THAT TOO MANY COMMUNITIES THROUGHOUT THE COUNTRY WILL BE LEFT WITH MORE POOR AND MORE JOBLESS AS THE FEDERAL BUREAUCRACY PURSUES ITS GOAL OF A BUDGET THAT'S BALANCED ON PAPER.

THE EFFECT OF PRESIDENT REAGAN'S ECONOMIC RECOVERY PROGRAM ON NEW YORK CITY

FRIDAY, NOVEMBER 13, 1981

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10:30 a.m., in Borough Hall, Brooklyn, N.Y., Hon. Frederick W. Richmond (member of the committee) presiding.

Present: Representative Richmond.

Also present: William R. Buechner, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE RICHMOND, PRESIDING

Representative RICHMOND. This is the second day of hearings which are being conducted in New York City by the Joint Economic Committee to assess and document the impact of the Reagan administration's economic recovery program on the city's economy and fiscal condition. On Monday of this week, we heard from Mayor Koch, Borough President Golden, and other city officials, who described economic policies to the city's operating and capital budgets.

Today, we are very happy to be at this magnificent room at Borough Hall in Brooklyn to go beyond the official numbers and look closely at how the President's program is affecting the neighborhoods, small businesses, and people of this city.

The economic policies that were followed during the past year created an economic climate that has been particularly difficult for people and small businesses in local communities like Brooklyn. During the past summer, Congress enacted a $35 billion budget cut that severely hurt lower and middle income people all across the country. On the one hand, the President forced major cuts in programs that help people, such as food stamps, social security, and student aid. On the other, the President stopped aid to State and local governments, making it impossible for them to take up the slack and, in fact, forcing many to make additional cuts in local services. This is what was reaffirmed before our committee on Monday.

In addition to these budget cuts, the President's program included two other elements. First, Congress enacted a major cut in both corporate and personal income taxes. Second, the Federal Reserve Bank at the President's bidding followed a policy of extremely high interest rates, with the prime rate never falling below 17 percent this entire year until yesterday when it went to 16.5 percent.

During our hearing this morning, the committee will begin studying how these policies are affecting economic conditions in the private sector in Brooklyn. We will look at four areas in particular—local development corporations, housing, small business, and higher education. In each area, we will have a panel of witnesses who will tell us exactly how they are being affected by current economic policies.

These two hearings—Monday's in Manhattan and today's in Brooklyn—are the first attempts by Congress to evaluate the impact of the President's program on local communities and governments. The testimony we receive will have a major impact on how Congress acts in the near future.

I again want to thank the borough president for hosting this meeting and for allowing us the use of this room, and I hope the borough president will make some opening remarks.

Opening Statement of Howard Golden, President, Borough of Brooklyn, N.Y.

Mr. Golden. Thank you very much, Congressman Richmond. Fred Richmond is not a stranger to Brooklyn. As you all know, he's one of the most dedicated public servants that I know of, as are, of course, all of these people who are coming here today.

I'll tell you, I'm very upset and disappointed when I look out here today. If anything is true in this life, it's that the Federal cuts will probably affect this borough and this city as bad as or worse than anywhere else in the United States, and I would think that this place should be overflowing with people at this point concerned about what's happening. And so I apologize to this committee—this committee that could have met anywhere but chose to meet here—because we wanted to bring the impact of all of this home to the people of Brooklyn.

Again, I'm very pleased to host this hearing before the Joint Economic Committee. I want to thank Congressman Richmond for providing this important opportunity for the people of Brooklyn to speak to Federal lawmakers on the personal and economic travesty we face as a result of high interest rates and Federal program cuts.

I would also like to officially welcome to Borough Hall Members of Congress who will be here soon, Bill Green, Geraldine Ferraro, and Leo Zeferetti, who by their presence here this morning will demonstrate their concern and commitment to the people and businesses of New York.

This is the second session of a two-part hearing before the Joint Economic Committee on the local impact of high interest rates and Federal program cuts. I was privileged to testify this past Monday, along with other governmental officials at a hearing chaired by Congressman Richmond and attended by Representatives Green and Ferraro.

The main purpose of that hearing was to present testimony on our ability at the local level to provide the necessary services of government with the tools and funds expected to be available to us. In my office we encounter the frustration and inadequacy of these tools and resources face-to-face with the people who turn to us for help. I attempted in my testimony on Monday to summarize the major problems brought to us for which we have no satisfactory solution as long as Federal policy continues on its current course. I discussed the chronic neglect of the credit needs of small businesses by government and the financial community and the serious crisis these businesses now face.

I described the fear of accelerated abandonment and deterioration of our housing stock which will result if the Federal Government fails to provide resources to directly support development and rehabilitation at below market rates and if the Government fails to stabilize interest rates well below present levels.

We have seen the prime rate come down before, as it has recently, and we have watched it go back up again. I talked about the plight of qualified low income and minority students now forced to discontinue or indefininitely postpone higher education because the market for low interest, deferred payment loans has virtually dried up.

Today you will hear from representatives of business, community organizations, and government, all of whom must struggle on a daily basis with the ravaging effects of high interest rates and Federal program cuts. The committee will hear from a panel representing the plight of more than 50 local development corporations throughout the city. These LDC's have been able to piece together various Federal, State, and city resources and leverage millions of dollars in private capital to hold the line in transitional neighborhoods.

Since the resources on which these vital adjuncts to local government have been eliminated, the future of local development corporations beyond the year 1982 is doubtful. As you will hear, the voluntary sector cannot hope to fill the gaps created and the corporations themselves see no reliable alternatives to help them continue their work in the development and preservation of our neighborhoods.

Private community and government spokesmen will describe what the prospects and implications are for protecting Brooklyn against the threat of rapidly accelerated abandonment of our housing stock. There are many areas in Brooklyn where the visible change which makes the difference between a program of preservation and one of clearance will happen in months—not years. This change will occur when private owners realize that there is no hope of continued government assistance at levels sufficient to hold the line.

You will hear from three Brooklyn businessmen, two in manufacturing and one in construction, and all with long histories of survival, despite a chronic gap in the credit market for small businesses. In the past they have managed to survive by relying primarily on their own personal resources to finance the expansion and modernization. Today, they will discuss what the prospects are for the immediate future if the now drastically widened credit market gap for small businesses is not bridged.

Finally, you will hear from a panel of educators about the prospects for our minority youth and the institutions of higher learning here in New York which have traditionally educated the majority of our low- and moderate-income students.

We had also planned to have a panel of voluntary service providers to speak to the crisis in human services created by actual and proposed cutbacks in the Federal programs through which religious and charitable agencies have served our local community. Unfortunately, because of time constraints, this panel will not be heard today. We are nevertheless extremely concerned about the impact of those cuts on health and human service providers in the voluntary sector. We trust that testimony from these organizations and individuals will be made a part of the official record on this hearing and the merits of their case heard and addressed by the Federal lawmakers.

Again, I want to thank our distinguished panelists for coming forward today to share their experiences with you. They have come in the hope that their investment of time and effort in preparing for this hearing will help you and your fellow lawmakers develop a Federal program that truly addresses the needs of millions of New Yorkers whose problems and aspirations they reflect and represent.

And once again, I want to thank my colleague in government, Representative Richmond, for bringing us this opportunity here today in Brooklyn.

Representative RICHMOND. Thank you, Mr. President, and as you request, we will see that any statement that isn't given today will become a part of the official record.

Our first witness this morning is Mr. Paul Schosberg, president of the Savings Association League of New York State.

Good morning, Mr. Schosberg.

STATEMENT OF PAUL A. SCHOSBERG, PRESIDENT, SAVINGS ASSOCIATION LEAGUE OF NEW YORK STATE

Mr. SCHOSBERG. Congressman Richmond, Borough President Golden, a slight correction if I might. There was a typographical error on the witness list. The association I represent is the Sa_ings Association League of New York State, which is the trade group which represents New York's federally chartered and State chartered savings and loan industry. Incidentally, it's the sixth largest State component of the savings and loan industry nationally and, as is true with the entire housing and housing finance sector, the savings and loan business in New York State has been dramatically impacted by the effect of double digit inflation and high interest rates over the last several years.

Just in the first half of 1981 the 111 savings and loans in New York State had an annualized loss of $1.45 for every $100 of assets. Only 21 of the 111 associations in the State posted positive earnings for the first half of this year and nowhere is the impact of this interest rate phenomenon more clearly seen than in the mortgage activity sector.

Just to compare 1976, which was an average year, not a great year for housing and mortgage activity, we find that in the first 9 months of 1976 our associations closed $1,130 million in mortgage loans. For the first 9 months of this year, 1981, that figure was reduced to $526.4 million. This is a dramatic deterioration in mortgage activity. It impacts virtually every sector of New York State's economy because of the substantial ripple effect that occurs when a home is bought or built or sold.

We've seen it in unemployment in the building construction trades, a dramatic slowdown in activity on the part of the realtors, and the hundreds of ancillary industries that support housing in New York State and around the the Nation are feeling the effect as well.

If you were to talk to appliance manufacturers such as General Electric and Maytag, they would tell you that they are carrying enormous inventories, again at record high interest rates, and because of the decline in housing activity the sales of their products have tailed off with the result that they are experiencing substantial layoffs in their work crews.

For the savings and loan industry, which has been the bulwark of our private sector housing finance, the impact of the high interest rates is always felt with great immediacy and when there is a decline in rates the benefits are felt only over time.

We have seen this very clearly in the record of savings flows as inflation has become more deeply embedded in the fabric of our economy. Inflation, as you know, drastically erodes the purchasing power of the consumer-saver in combination with a tax code which until recently had very strong, built-in disincentives to save. We have seen this country go from one with a very strong savings habit to one with one of the lowest personal savings rates of all the major industrialized nations in the world.

And again to use comparisons for the first 9 months of 1976 verus the first 9 months of 1981, in that period 5 years ago, our associations experienced a net new savings inflow, and these savings over withdrawals exclusive of dividends, was $856 million. For the same period this year through September, we experienced an outflow of $1.7 billion. You can see very clearly with savings experience like that that the foundation of the mortgage market, the source of credit for housing simply cannot exist.

Inflation and high interest rates have done a good deal to impede the ability of the savings and loan industry, not just to maintain its historic level of commitment to housing, but to recover and increase that commitment at a time of economic stability, because what it has done is dramatically increase the cost of funds to these institutions while their asset yields remain essentially stagnant.

Through the first half of this year savings associations in New York State experienced a cost of money of 9.07 percent, while their mortgage yields lagged behind at 8.33 percent. You cannot sustain any type of economic activity and particularly not in housing where longer term stable credit flows are necessary when you're working on negative yield cost spreads like that. And unless this equation is reversed, the impact on the future of housing, the future of community development, the ability of people to get home improvement loans and upgrade their domiciles, is going to be felt for some time to come.

Housing is not a spigot that can be turned off and revitalized again with some magic economic wand. Like some other economic sectors—agriculture and automobiles—it tends to be the first to suffer and the last to recover when inflation takes hold.

We have seen the effect of high interest rates in a number of significant areas of our associations' operations and they are, in effect, rewriting, the landscape of financial institutions, like the emergence of the so-called small-saver issue 3 years ago when it became recognized—and I think properly so—that interest rates on insured savings accounts were lagging behind rates in the money market. This has led to a decision by Congress to phase out deposit interest rate ceilings over 6 years, a rate that is not being adhered to by the regulators. We are seeing an imbalance in the deregulation of both sides of the balance sheet and, again, the housing sector will be the most to suffer.

I think if I were to leave the committee with one message, it's to go back to something that occurred in 1968 when I was a staff member in the House of Representatives and worked on the Housing Act that was passed that year. That act contained a very significant provision. It set a 10-year housing goal. But more important than that, it established a congressional directive that fiscal and monetary policies be coordinated so that those goals could be realized.

I don't think except in one or two of the 10 years that that housing goal mechanism was in place the goals were realized because of the imbalance in fiscal and monetary policy. We need to achieve that. We need to get back to the coordination of fiscal and monetary policy that will give us economic stability, and I can assure the committee that this industry will have full backing for you in your efforts to achieve that.

Representative RICHMOND. Thank you, Mr. Schosberg.

Mr. Schosberg, in your opinion, how can the savings and loan industry continue in those States where we have S. & L.'s with the present high interest rates, fluctuating interest rates, the impossibility of any type of forward planning, a constant dra'n on your deposits, the inventory of low interest mortgages that you picked up years ago? The future of your industry seems terribly bleak unless actually the Federal Government takes some real strong steps to strengthen you Am I right?

Mr. SCHOSBERG. It's very clear that the root of the basic problem we are dealing with carries a "made in Washington" label.

Representative RICHMOND. Your average savings and loan is sitting with mortgage inventories of 8 percent.

Mr. SCHOSBERG. Eighty percent of the loans on the books here in New York State are below the current cost of money.

Representative RICHMOND. Let's say your average inventory of mortgages is——

Mr. SCHOSBERG. About 8.3 percent. That's what they are yielding.

Representative RICHMOND. Now your depositors have no intention of putting their money in your association at 8.3 percent.

Mr. SCHOSBERG. No. They'd like 15 or 16 percent and you can't blame them.

Representative RICHMOND. And they are getting how much?

Mr. SCHOSBERG. Well, the 30-month certificate is at about 14 percent these days and the 6-month certificate is getting down into the—well, we are using the 4-week weighted average now—a little over 13 percent.

Representative RICHMOND. So you have an income of 8.3 and expenses of——

Mr. SCHOSBERG. A cost of money getting very close to 10 percent.

Representative RICHMOND. You have an income of 8.3 percent and you have a cost of money of 10 percent. That's assuming that the people that now have low interest savings book accounts are going to leave them there. And as you were saying before, gradually people are becoming wiser to the fact that they can get higher rates and take their money out.

Mr. SCHOSBERG. Right. Those represent an increasingly small percentage of savings balances.

Representative RICHMOND. So before you pay your electricity and your telephone bills, you have a 1.7 percent net annual loss?

Mr. SCHOSBERG. That's right.

Representative RICHMOND. Now how are the S. & L.'s of the United States, mainly in New York and California where the total housing industry is built on S. & L.'s—how are they going to survive?

Mr. SCHOSBERG. Fortunately, the industry has developed a very strong reserve position over the years and it's that net worth buffer zone that is enabling institutions to remain viable now. But what you're really asking, I think, is that if we don't wring these high interest rates out of the fabric of the economy, how will these institutions remain viable?

Representative RICHMOND. What could the Joint Economic Committee recommend to Congress to do to stabilize our savings banks? Because the savings banks are certainly in the same situation as the S. & L.'s.

Mr. SCHOSBERG. Absolutely. In some instances, worse.

Representative RICHMOND. We have savings banks with an income of 8.3 percent and an outgo of 10 percent at the moment.

Mr. SCHOSBERG. That would be typical.

Representative RICHMOND. You don't have to be much of a businessman to know that you can't exist with those numbers.

Mr. SCHOSBERG. You don't make it up in volume; no.

Representative RICHMOND. Even if the numbers were reversed, because it actually costs you about how much, on a percentage basis, to run your bank?

Mr. SCHOSBERG. Well, institutions can run on a spread of 150 or 175 basis points.

Representative RICHMOND. That means 1.75. So take 8.3 times 1.75. In other words, in order to break even you need a 10-percent yield; right?

Mr. SCHOSBERG. That would be right in today's market.

Representative RICHMOND. That would allow you to just market, with absolutely no dividends to your stockholders.

Mr. SCHOSBERG. Well, it would pay dividends, but it would not add materially to net worth.

Representative RICHMOND. Right. So what could Congress do? We thought, of course, this latest tax exemption would help. Now, apparently it has helped somewhat.

Mr. SCHOSBERG. It is helping. There's no question about it.

Representative RICHMOND. I have to admit Congressman Reuss, our chairman, and I worked very hard on that particular item, and we did all we could to push that and we felt at least it would give the savings banks and S. & L.'s a little breathing space.

Mr. SCHOSBERG. I think the all-savers certificate has really accomplished two things, and, admittedly, we are only in the seventh week of our experience with it, so it's too early to make a final judgment, but it has brought in new money. It has enabled and encouraged depositors to transfer from the 6-month money market certificate into a 1-year tax-exempt account.

Representative RICHMOND. But a 1 year tax-exempt account doesn't allow you to give anybody a 20-year mortage, does it?

Mr. SCHOSBERG. One year's savings never meant 20-year mortgages, but what it has done is enabled institutions to bring their cost of funds down overall which will get them back into the mortgage market.

The other thing it's done—and I think the long-term significance is—it's the most potent and the most significant recognition by Congress—and the Joint Economic Committee was instrumental in getting this across—that our Tax Code has been inside out as far as savings incentives are concerned. We have discouraged people from saving.

Representative RICHMOND. Unlike the Japanese who have a basic tax exemption on savings. The average Japanese worker can have $50,000 worth of tax-exempt savings.

Mr. SCHOSBERG. That's right; and this not only applies to housing needs but the country's overall need for capital formation to rebuild our industrial capacity and become competitive in the world markets again.

So I would hope that at the time that the results of the all-savers certificate can be properly judged, which I say would be 8 or 9 months downstream, that if it's proven its merits, then I think it should be continued; and if it should need to be fine-tuned and revised that some type of permanent savings incentive will be written into the Tax Code. That's one step.

Representative RICHMOND. Undoubtedly, Congress will continue the all-savers if we find, as I hope we do, that a number of people want the tax exemption badly enough to convert to all-savers. That apparently is happening now.

Mr. SCHOSBERG. Yes, it is.

Representative RICHMOND. What are the numbers in New York?

Mr. SCHOSBERG. We've brought in close to $3 billion just in the thrift industry in all-savers certificates in 6 weeks.

Representative RICHMOND. Whereas, if we hadn't had the all-savers certificate, what would have happened to the $3 billion?

Mr. SCHOSBERG. We would have continued to see deposit outflows as we have seen over the first 9 months. So there's a net gain in bringing the cost of funds down as well as attracting some new money. I cannot pretend that most of the funds coming in in all-savers certificates are new. There are many transfers from existing accounts, passbook accounts, and so forth. Statewide, we are running about 22 percent new money, but that is new money and that is money that, by bringing the cost of funds down—if we continue to see the interest rates decline that began about 3 weeks ago—there is a possibility for getting back into the mortgage market next spring, which is absolutely critical for New York State. We have had 3 consecutive years of a stagnant housing market.

Representative RICHMOND. One thing Congress can do is evaluate the all-savers certificate and if it does appear to be an effective instrument—and I do believe it will be—that could be put in place as a permanent fixture of the tax law.

Mr. SCHOSBERG. Possibly modified, but the principle is sound.

Representative RICHMOND. What else can we do to stabilize our savings banks? You're not only speaking for the S. & L.'s but for the savings banks too.

Mr. SCHOSBERG. I'm speaking for all financial institutions which have supported housing in this State.

Representative RICHMOND. Which are S. & L.'s and savings banks.

Mr. SCHOSBERG. And many of our smaller commercial banks as well.

Representative RICHMOND. Sure.

Mr. SCHOSBERG. I think Congress should recognize that this industry exists largely as a mandate of public policy over four and a half decades, and that it was given a directive to provide stable low-cost housing credit so Americans could afford their own homes. As a result of that, we come down to the situation you and I were just describing, a portfolio choked with low-yielding, inflexible mortgages.

Representative RICHMOND. What can Congress do now to help rectify the situation?

Mr. SCHOSBERG. I think Congress should take a hard look at legislation, as Senator Moynihan introduced last year, which would authorize a swap of some of these older, low-yielding loans between the financial institutions and the FDIC and the FSLIC for variable rate debentures. I think we urgently need to get these older loans off the books for 2 or 3 years to give the industry some breathing space and new liquidity to get back into the mortgage market.

Representative RICHMOND. How much money are you talking about?

Mr. SCHOSBERG. We're talking about very little because it's an asset swap. Perhaps as little as $2.5 billion a year. The fiscal impact of this plan is minimal and the economic benefits would be substantial.

Representative RICHMOND. Various insurance entities have more than the capacity to handle that.

Mr. SCHOSBERG. You're really talking about essentially a bookkeeping transaction. The loans would go on the books of the insurance corporation, a variable rate debenture would be transferred to the financial institutions. They would essentially use that to collateralize new borrowings in the credit market.

Representative RICHMOND. Mr. Schosberg, as I told you during our private meeting last week, at the next full delegation meeting of the New York delegation where we have all 39 members, I would like you and Senator Moynihan to explain that to all of the members of the New York State delegation so we can get busy on it.

Mr. SCHOSBERG. We would be happy to. I think it's a very cost effective mechanism and it is at hand.

Representative RICHMOND. Certainly this Congress has to do something to stabilize the savings industry of New York State if we want the housing industry to ever start again.

Mr. SCHOSBERG. I think there are thousands of builders and prospective homebuyers that are looking at this type of leadership to accomplish that.

Representative RICHMOND. Mr. President.

Mr. GOLDEN. No questions.

Representative RICHMOND. Also, it's a pleasure to have Mr. James Mangano, a member of the board of the Atlantic Liberty Savings & Loan.

Mr. MANGANO. I would like to make a brief statement.

Representative RICHMOND. Will you, please?

STATEMENT OF JAMES MANGANO, VICE PRESIDENT, ATLANTIC LIBERTY SAVINGS & LOAN

Mr. MANGANO. I would be presumptuous at this time to compete with the eloquence and the descriptive explanation given by the president of our State organization but, nevertheless, being a resident of the Borough of Brooklyn all my life——

Representative RICHMOND. Being the most distinguished resident of the Borough of Brooklyn.

Mr. MANGANO. I don't know about that, but I have been affiliated now with the Atlantic Liberty Savings & Loan for the past 5 or 6 years as vice president, but also many years as a member of the board of directors, and I don't profess here to be an expert banker, but to me it's plain ordinary commonsense, and it was so clearly explained here a few moments ago—if the income is 8.5 percent and your expenses are 13.5 percent, how in God's name can you exist and how can you continue the dream of the average American citizen to purchase a home?

Unless the interest rates fall dramatically and remain at low levels for an extended period of time, the problems will persist and continue to erode the financial basis of the thrift industry. Institutions are being developed to finance residential mortagages. I would be less concerned about the longer term if Federal institutions would accept that responsibility, but the current level of interest has created a wide gap between the income thrifts derived from their mortage investments and the cost they must pay for funds and, incidentally, may I state that we are compelled from time to time because of the shortage of money to borrow, and we have to pay the prime rate. I was happy to see this morning that the prime rate was reduced to 16 percent, and unless that prime rate comes down to 11 or 11.5 percent, we're in a very, very serious situation.

In conclusion, I want to state, Congressman Richmond and Mr. Borough President, the first thing that we should recognize is that the ability of the working person to own his or her own home has contributed greatly to the political stability of which we Americans are justifiably proud. If the institutions which are primarily responsible for making this possible are irreparably damaged, it clearly will impair the quality of our lives.

So, Congressman, I want to take the opportunity of commending you, the borough president, and your staff for taking this interest and taking our story here to Brooklyn, and as I say, unless the interest rates come down we are in trouble. Thank you.

Representative RICHMOND. And I agree with you and thank you, Mr. Mangano.

Our next witness will be Mr. Anthony Gliedman, commissioner of housing preservation and development; Mr. Ron Shiffman, Pratt Center; and D. Kenneth Patton, of Helmsley-Spear Organization.

Good morning, Mr. Gliedman. It's a pleasure to have a couple of professionals here.

STATEMENT OF ANTHONY GLIEDMAN, COMMISSIONER, DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT, NEW YORK CITY

Mr. GLIEDMAN. Thank you. I'm sorry I couldn't make the original set of hearings, but I'm particularly pleased that I could make this one.

Representative RICHMOND. Your deputy did an outstanding job.

Mr. GLIEDMAN. I would rather come to Brooklyn anyway. Honestly, it's obviously something much more important to me, Brooklyn and its future, than any other particular area of the city, coming from here and being a Brooklynite. I'm particularly happy that you and Howard Golden have seen fit to hold these hearings today, Fred, because the Joint Economic Committee will clearly play, with your participation, a major role in restructuring the economy of this city and the country.

The high-interest rates that we are facing today have virtually made impossible the construction of housing for anyone remotely in the middle class or working poor and certainly for the poor.

If you just do the economics of it today and see what runaway inflation in the construction industry together with the high-interest rates has created, it becomes impossible to really build a high-rise unit in New York City today renting for less than $2,000 a month. Obviously, those numbers are out of the range of any——

Representative RICHMOND. Repeat that again?

Mr. GLIEDMAN. Today, to build a two-bedroom unit.

Representative RICHMOND. That's our usual four-room unit?

Mr. GLIEDMAN. Four and a half.

Representative RICHMOND. That's two bedrooms and how many baths?

Mr. GLIEDMAN. One.

Representative RICHMOND. A living room and a kitchen?

Mr. GLIEDMAN. Yes.

Representative RICHMOND. And a foyer.

Mr. GLIEDMAN. Today, to be built, it would have to rent for about $2,000 a month.

Representative RICHMOND. That's absolutely horrifying. Has that figure been publicized? Does the average person know that?

Mr. GLIEDMAN. Well, again, I can't say what the average person, knows, but certainly anybody who reads the New York Times rental ads will know it.

Representative RICHMOND. Is that without any type cf tax abatements or——

Mr. GLIEDMAN. Even with minor tax abatements. Otherwise, it would be higher.

Representative RICHMOND. $2,000 for a two-bedroom apartment?

Mr. GLIEDMAN. That's right. Ken can fill you in more on that. But actually, I met the other day with members of the industry who indicated that those numbers aren't holding anymore; that, in fact, they're now looking to go up another $200 or $300 a month. Those seem to be the directions we're going for new construction, starting today, if you built a two-bedroom apartment, I think you would expect those rents.

Representative RICHMOND. Would this be a luxury apartment? It would not be a luxury apartment because it only has one bath.

Mr. GLIEDMAN. The superluxury apartments are going for much, much more. By superluxury, I mean two baths. The numbers are absolutely incredible. It's not that anybody is getting rich on it. It is not largely profit. What it is is your construction interest rates are 22 percent. You're talking about your long-term mortgage at 5-6-plus points and you're talking about operating costs with fuel and other utilities, such as, that which have gone through the roof, Fred. So consequently, you're looking at numbers that are along that magitude.

What this means is twofold. One, obviously, you can only build for the very wealthy under any kind of program that the Federal Government seems to be talking about, but even more importantly, it means you can't build in most of the neighborhoods of New York City because, in fact, those neighborhoods cannot possibly, theoretically, in any way, shape or form, command $2,000 a month rent. The difference in building in the outer reaches of the city versus the inner city are perhaps a $200 a month difference.

Representative RICHMOND. In other words, building that apartment in Staten Island or Manhattan would only be a $200 difference?

Mr GLIEDMAN. It would be just the land. Other than that, it would be basically the same cost.

Representative RICHMOND. The land cost would be $200 a month?

Mr. GLIEDMAN. At most.

Representative RICHMOND. The same high-rise apartment in Canarsie or Staten Island or 3d Avenue in Manhattan would only have a variance of $200 in costs?

Mr. GLIEDMAN. Yes. In fact, what happens is you don't build those. I think it's really less——

Mr. PATTON. The density goes up.

Mr. GLIEDMAN. The density in Manhattan would be greater.

Representative RICHMOND. What do you see as the direction of your department for the next couple years until we can straighten out interest rates?

Mr. GLIEDMAN. I think a couple of things. First of all, we're looking at new construction only in a few cases because of that. We're looking more in terms of saving neighborhoods, preserving the housing that we have. Therefore, code enforcement, housing enforcement actions, become important in terms of the first level of defense, and then the programs which provide moneys for the rehabilitation of city and privately owned buildings becomes even more essential.

Representative RICHMOND. What are those rents?

Mr. GLIEDMAN. The city-owned rehabilitated buildings are generally rented for between $50 and $60 a month per room—$240 or $250.

Representative RICHMOND. For a four-room apartment?

Mr. GLIEDMAN. That's right.

Representative RICHMOND. In other words, a new building with only one bath would be $2,000 a month, a rehabilitated city-owned building equally nicely done, because many of these older buildings are beautifully rehabilitated, can be rented for only——

Mr. GLIEDMAN. As little as $250 and as much as perhaps $400, something in that range.

Representative RICHMOND. Which is in the range of the middle income people.

Mr. GLIEDMAN. That's why it seems to me that rehabilitation and neighborhood preservation is particularly important and is the future of the city in terms of housing for the next decade.

Representative RICHMOND. How many units does the city have in stock now?

Mr. GLIEDMAN. In the city of New York, there are 2.8 million.

Representative RICHMOND. I mean city-owned units.

Mr. GLIEDMAN. Well, the total number of occupied units in city-owned housing now, in rem housing, is around 35,000 to 40,000. It's around 37,000. Many of those, in fact, are rehabilitable. About

12,000 of those apartments are presently in the program to be rehabilitated. Others are in a holding action until additional funds can be made available.

Representative RICHMOND. And you provide the Federal funds for the rehabilitation?

Mr. GLIEDMAN. We're using Community Development funds for that.

Representative RICHMOND. Which are being severely limited.

Mr. GLIEDMAN. Not only limited, but in fact, if the President's policies and cutbacks occur, it would in fact decrease, not only in relative dollars because of inflation but in absolute dollars as well.

For example, last year, the Community Development budget for the city of New York was $254 million. This year, the year coming up, it's only going to be $241 million, an actual loss of $13 million, about 6 percent. It is now proposed, I understand, that that budget be cut across the board 12 percent. Another 12 percent cut would bring the CD budget for the city down to $210 to $212 million as distinguished from $254 2 years ago. So the loss to the city would be just staggering and what that would mean in fact would be all the discretionary programs of the city would have to suffer the cutback, the programs where we don't have mandates, the program where you can decide whether or not you want to do that extra building on Ocean Avenue, if you want to rehabilitate it. That would no longer be done because we would not have the funds to do that.

One other thing that's being cut back. It seems to me that the programs that were cut back were particularly ill-suited for being cut back. While section 8 provided for new construction and substantial rehabilitation, the costs obviously made it a prime candidate for cutting back. We don't agree, but we can understand.

What I cannot understand is the 235 program which allows you to build one family homes in neighborhoods where it was impossible for decades. It's a program that never worked in New York before. We finally got it to work here. We had the largest program in the country for 1 year. The next year the program is zeroed out by the Federal Government.

The 312 program similarly is a program where small homeowners can borrow money at 3 to 9 percent to rehabilitate their homes from one to two family homes. These funds were recommended by the Federal Government to be cut back to zero. Congress stopped that, happily, and it was cut back still by two-thirds, though, and there's a program that helps the small homeowner keep his house at very little cost. The maximum you're talking about there was $27,000 a unit, total maximum cost. The average for the city was $10,000 an apartment for rehabilitation, and these people are paying back their loans and they are the small people that have a stake in society and have begun to rebuild their neighborhoods and upon whose backs frankly we're trying to rebuild the neighborhoods. That program they tried to zero out the year after we became, in fact, the country's largest user of 312.

I don't want to sound paranoid, but obviously we are concerned that as we become predominant in being able to use Federal programs, they do seem to go higher up on the program list to be cut. It is obvious I think, an error on the part of the Federal Government to cut back the small homeowner neighborhood building programs and to replace them, in all honesty, with a program that is not positive for New York.

Representative RICHMOND. As you know, this administration is not slanted toward the Northest at all. It knows its votes don't come from the Northeast and they're really not that much interested in helping the lower income people of New York City, and this is something our Congress has got to take in hand and help out with because certainly if they can't build new housing you must be allowed to have the funds to rehabilitate housing. And I think it's probably the most economically sound thing we can do to rebuild the city anyway.

Mr. GLIEDMAN. I think that's right and the key item we're going to stress with the Federal Government over the next 6 months, with the Federal administration, is that we can help design programs that will work in New York, that will have a maximum impact in New York, given a certain amount of dollars. Whatever that level of dollars is is one the Federal administration can decide, but let us help shape those programs so they have a maximum impact for New York instead of having perhaps no impact or a negative impact, as I believe the existing housing vouchers would have. We can help design a program that can help rebuild neighborhoods.

Representative RICHMOND. Thank you, commissioner.

President Golden.

Mr. GOLDEN. There's no question that in traveling around this borough you see so much rehabilitation housing that could be good housing stock that should be rehabilitated, and obviously you try to do what you can do with the limited funding, as you outlined earlier, but aren't we getting dangerously close to the point where, like the airplane, the point of no return, that once we get to a certain point we run out of fuel to rehabilitate these houses? And then the prospects of where we go from there are really the thing that should make everybody cringe because, as you pointed out earlier, what builder in his right mind is going to build in Brooklyn when the value of rental charges is so much greater in Manhattan? So what would happen then? The prospect becomes even more to shun because then you've got to envision that once the building begins in Brooklyn it won't begin for the benefit of the Brooklyn people. It will begin on the waterfronts where they will build these high skyscrapers so they make another bedroom community for Manhattan people who can't afford the rent in Manhattan who will come to Brooklyn to sleep and spend all their time in Manhattan . And in the interim, what happens to Brooklyn people? That's really the thing that concerns us and which we should really try to address, and how do you address that? There's only one way, to my way of thinking that you can address it, and that is—and this may not sound intelligent, it may not sound political, but it's the truth—to make it as inconvenient as possible to build for builders in Manhattan and to make it as attractive as possible for them to build in other boroughs, and until and unless we address that in that fashion, by making the tax incentives and abatements available in the other boroughs, Manhattan is always going to be the sinking island as far as real estate is concerned and office buildings and hotels, and the fourth largest city will never have a hotel.

Mr. GLIEDMAN. Yes. Again, I think we're talking on that perhaps more about commercial establishments like office buildings than we are about housing.

The problem on housing, Howard, is that in fact the tax dollar is not the major factor in the cost, and when you're talking about a rent of $2,000 a month, there aren't many neighborhoods in Brooklyn where that can support such a market rent, in my judgment. So if you had all the tax abatement or no taxes, it would be $1,900 a month. That simply isn't the big factor in that package.

Our ability, locally, to change and to make Brooklyn a more attractive place to build is limited, and that's why we need so much help from the Federal Government in terms of tax-exempt financing for some of these buildings.

For example, when a builder goes into an older neighborhood perhaps he could be entitled to a tax-exempt financing as distinguished from going into a luxury neighborhood in Manhattan. Perhaps that could bring down the cost from $2,000 to $1,000 a month. Perhaps, if the city gave tax abatement and tax exemptions, that could bring the cost down still further.

Mr. GOLDEN. They would have to come down a lot lower than that. How many people can afford $1,000 a month?

Mr. GLIEDMAN. I say, I think we have to go further.

Representative RICHMOND. Then again, commissioner, you've got the problem of the city giving tax abatements and then having to give these people the services.

Mr. GLIEDMAN. Yes.

Representative RICHMOND. And the city can't afford to do that either.

Mr. GLIEDMAN. Clearly. But I think if we could bring the rents down for the new construction to $600 or $700 a month, we would at least have a position where in fact middle class people could afford it. I don't think it's the answer to our housing problem, though. The answer to our housing problem has got to be the rehabilitation of existing buildings for and by the people living there today. You've got to build communities. You folks know that more than anybody.

Representative RICHMOND. And you must have government assistance. There's no country in the world that builds modern housing or rehabilitated housing without government funds. Switzerland and every other country everywhere in the world, every housing project you see is federally financed. For our administration not to realize that we must continue housing financing throughout the United States is totally shortsighted.

Mr. GLIEDMAN. Not only that, but you were talking before about the Japanese model which is particularly apropos because even there what they do is they in fact do subsidize the accumulation of private capital to be able to build homes.

Representative RICHMOND. By giving people tax exemptions. Anybody who wants to build a house in Japan is allowed to save as much money as he wants tax-exempt to build a house.

Mr. GLIEDMAN. It does make sense. It's a subsidized venture. They take no taxes on that accumulation of income. Here we do tax it.

Representative RICHMOND. If we added that to our tax bill instead of the personal income tax deduction, I think we would have helped the housing industry. Somebody in the audience just said, "When are we leaving for Japan?"

Mr. GLIEDMAN. There are other problems there.

Mr. GOLDEN. I think so.

Representative RICHMOND. Mr. Patton, can you tell us a little bit about the commercial area of the city?

STATEMENT OF D. KENNETH PATTON, HELMSLEY-SPEAR ORGANIZATION

Mr. PATTON. I would like to just direct your attention backward if I could take the liberty, because we're really talking about this problem in two parts. One is to cope with these impossible interest rates, but the second is to deal with their existence in the first place. It's my opinion, having just come back from a major housing conference in Philadelphia for this purpose, that there's far too much attention being paid to coping, which is understandable, but far too little attention being paid to must they exist?

It's now clear that the economic science of the Reagan administration is the ethical equivalent of Russian biology. That is, that if you have an ideology to prove—in the case of Russia, the philosophy of a Lysenko, you keep going around until you find a model that supports that ideology. In the case of high interest rates, the President told us that the reason the interest rates were high is because inflation was so high. Never mind that a month ago interest rates were 20 percent and the underlying rate of inflation was 8 percent but 6 months later this administration produced a finding that high interest rates reduced inflation rather than being the cause of it.

Since we fell in the thrall, along with Chile and England of Milton Friedman, we have had a series of cycles which have constantly produced these high interest rates followed by ever-higher inflation, and I think your committee and my dear friend, Henry Reuss, should stand up now and say that the clothes have been stripped from the King and start looking at these basic things because no matter what I suggest in a few moments, this fallacious theory is at work and is the error in our economy. It is poisoning everything we're doing. In the name of killing our crabgrass, we're killing our forests and cities.

I want to dwell just a couple moments on that because I want to suggest some avenues of research in that basic area.

First, let, me ask the question of whether the money supply is measurable, because that is the chalice that we are seeking to gain—is control over the money supply. My opinion is that there are so many credit leaks, there are so many avenues of newly created financial instruments that are outside of M–1B and M–2, that there is no way demonstrably that they can control it. So we are seeking a phantom.

Let me give you an example of a board of a company, an electronics company on which I sit. I always ask the question, as interest rates change, what's happening to the age of our accounts receivable? Two years ago, it was 31 days. That was the answer. Today, it is 65 days. Where do we get the money? From our accounts payable, just like everybody else. We have become a nation of slow payers. As you increase the time it takes for people to pay money, whether it's Helmsley-Spear or the General Motors Co., you have created an enormous supply of money which is off the books. That elastic property is simply in excess of anything the Fed can do to control it.

As interest rates go up, the cost of living goes up, social security and veteran benfits go up, and I believe the number is for every higher point in interest rates they go up $12 billion in terms of the national deficit. So increase the money supply by increasing the national deficit, and we borrow at 16 percent—I'm happy to own some of that paper which I did not invest in housing projects incidentally—and we borrowed to pay the interest rates on the money we borrowed, and half of next year's $20 billion deficit will be the result of high interest rates.

Now that will generate, according to every economist on Wall Street's expectations, higher interest rates next June.

Representative RICHMOND. And further inflation.

Mr. PATTON. Further inflation and everybody that we know is betting after a downturn of recession that next year we will be back in this situation again.

So no matter what I suggest about the destructive nature of this, I think we have to go and challenge the assumptions.

Representative RICHMOND. Clearly, the present administration policy is wrong. As you say, the Emperor's clothes have been stripped off of him now. I think Congress realizes it made a serious blunder in following the President's dictates about the personal income tax deduction. That was the worst thing we could have done.

Mr. PATTON. Absolutely, and we must find an alternative to interest rate manipulation, whether it's credit allocation which we now have—we have backdoor credit allocation. This gentleman's banks have on deposit $500 million in Federal funds at 12-percent interest to keep their heads above water, and the Fed is going around telling Mobil and people like that or the banks not to lend Mobil and Conoco and Du Pont for these mergers because you're increasing the money supply. So that they are jawboning.

Representative RICHMOND. What type of construction is Helmsley-Spear doing right now? You are probably the largest construction organization in the United States.

Mr. PATTON. None really, but we're doing some. I happen to be doing some myself, but they're doing none. In my conversations with the principals of my firm, I bring in a project and the answer is, if I can sit here and make 20 percent doing nothing, why should I take risks which are twice as great as I did last year and earn very little? There is no reason. We have destroyed the investment not only in housing and offices and the rest—although office construction is a separate case—but we are destroying investment in lathes and machinery and productivity improving devices also with high inflation.

Now having gotten that off my chest, I think these are serious avenues of research to determine what are the inflationary effects of these interest rates, measure them, put them on the table, and get away from this theory that they have to go out to Claremont, Calif., to find a supporter for, and deal in the mainstream and get some hard answers because they have thrown numbers and ideology at a problem without knowing what's underneath it.

The next question is, assuming—I hate to say this because you won't be successful or in time and in time that we may have to go through even worse before it gets better. The first major issue for housing, having this report in hand—and I do not believe that Lee Goodman or anybody knowing anything about housing had anything to do with this. They were forbidden to issue a dissenting report if they were on a committee, and I do know they were forbidden to speak about and express their own personal views if they were contrary to this report. It says there is no housing problem and the housing will provide a safety net for 40,000 people. If this is carried out, we face the additional problem of institutional extinction. The savings and loans and the lenders in housing will disappear. There are 10 banks in New York I can point to that do not have a mortgage officer today. They do not have them. Why do they need them?

Incidentally, some of the solutions to the problems of S. & L.'s and mutual savings banks is we'll homogenize them with the commercial banks and remove them. They may save the banks, but they will remove them from housing and real estate. They will take them further away and the commercial banks are moving further away because they are chasing Merrill Lynch and Sears, Roebuck, and American Express to catch up with their game of paper pushing, and it is quite conceivable 1 more year of this and there will be no institution available to deal with even if the interest rates change.

The same thing is true in the area of housing preservation and housing production. There are three issues. One is the affordability of housing, and we can deal with that through construction techniques and we can deal with that through vouchers, but the production of housing where it's needed will always be an issue. The clearance of blight—the traditional issues of housing have been abandoned by this commission in its report and I fear that through administrative sabotage where we see the administration appointing opponents to human rights to the Human Rights Commission and appointing opponents to the Economic Development Administration to run it, to destroy it by administrative abuse, that we could end up a year or two from now where Tony, with new appropriations and a new Congress, would have nobody to talk to. They would have rented HUD to the U.S. Chamber of Commerce.

Representative RICHMOND. And that's the administration's intent, as you know.

Mr. PATTON. Absolutely, and you and Congress and your committee have got to put some lifeboats there if only as a holding action to save these critical institutions.

Representative RICHMOND. I think nothing would make the administration happier than to put HUD out of business. They really feel housing ought to be private; it ought to be taken back to the State and businesses, and housing should be taken out of the Federal Government. There isn't a single Federal Government in the world that doesn't support its own housing. It can't be done otherwise.

Mr. PATTON. On the other hand, to make a very Republican kind of statement, if you're going to allocate credit and you're going to intervene in housing, it would be much better to do it by some massive form of all-savers plan, by compartmentalizing the institutions we have and having tax exempt bonds issued and placed in deposit in the savings and loan institutions so that they could administer them.

Representative RICHMOND. Or use the Japanese method of allowing people to have tax-exempt savings accounts toward building their own housing. That would help savings banks and housing and people in general.

Mr. PATTON. Absolutely, generating the capital. It would not cost any more to do it that way than it will cost. Incidentally, the home builders told us yesterday that the United States lost $249 billion in economic activity, if you want to be a supply sider, in the last 2 years in the housing industry due to this condition.

Representative RICHMOND. True.

Mr. PATTON. So we need some supply side thinking in the housing area just as we seem to be talking about it in the other parts of our economy. So it is a critically important area.

The cost of interest in the production of housing today is roughly 50 percent of the product and when you rent it out, the lender at 15 percent gets more than the builder. The interest paid over the cost of the mortgage will far exceed it and you won't know, by the way, because you're not going to get anything more than 4 or 5-year mortgages in this interest rate environment or floating rates.

There is one other area that is building up that I think could be addressed as well. To produce a unit of housing and take the risks inherent in it and raise the investor capital, you have to make a minimal profit charge of 100 percent more than it cost you to build it—probably 120 percent. Now the reason for that is that you tie your money up at risk for a 2-year period so your return on investment in each year is 50 percent. That's one. But, two, the gain in that is ordinary income. So an investor investing in the production of housing is taxed at the 50-percent level. There is no tax shelter. Quite the contrary, there used to be until this year unearned income that you were taxed at the 70-percent level for. So to provide an investor with a reasonable return in this environment you have to give them 25 percent and if the developer gets something he has to share it with him. So a reasonable return on a 2-year cycle to produce housing requires a doubling, a 100-percent markup.

Now housing, if you look at the manufacturing side of things, since it is a long drawn-out process, that is not a very healthy situation from the standpoint of inflation. So with the sales tax paid locally on the materials and the taxes on the labor and then the ordinary income treatment of the gain, I think it's disadvantageous to the buyer and I don't know where you should come out here, but I think it's something that should be explored in such a way that the savings in taxes would be passed along to the buyer obviously. I'm not here to suggest that the transaction should be tax exempt, but any saving should be passed to the buyers to create affordable housing.

I guess the next thing is, no matter what we do, we are going to face smaller houses, fewer baths, and less units.

Another thing that is happening—and I don't know whether it's good or bad and I don't want to totally contradict what I said before—this report says there's no shortage in housing. This is a count on unoccupied bedrooms and it does not deal with the mishmash of people's lives. It's typical in that it doesn't say, well, who's going to live in Mr. Gliedman's unoccupied bedroom or something. It does not work that way. But it does argue that maybe we should find some ways through zoning or through other techniques to increase the number of two or three family homes as a source of housing supply and anything that could be done to facilitate that throughout the country—New York has done a lot of it and it is permissible here, but that is one safety valve to deal with the housing crisis over the next few years.

Representative RICHMOND. Turn toward smaller families?

Mr. PATTON. Right.

Representative RICHMOND. Areas like South Brooklyn are most adaptable to converting single family housing into two-family housing.

Mr. PATTON. It deals with the emptiness and so forth. I still wish to go back, in summary, and say we have to deal with the underlying premise of monetarism and high interest rates and, in the meantime, until we have solved that problem, have got to deal with the issue of keeping these institutions alive so that when, as I believe is certain, we come back to normalcy or sanity, we will have some institutions and an infrastructure to work with.

Representative RICHMOND. Thank you, Mr. Patton.

Next is Ron Shiffman. It's a pleasure to have you here.

STATEMENT OF RONALD SHIFFMAN, PRATT INSTITUTE CENTER FOR COMMUNITY AND ENVIRONMENTAL DEVELOPMENT

Mr. SHIFFMAN. Let me apologize for being late, but I had a class this morning. I have submitted not only a prepared statement but also some supporting documents of work that we have been doing recently on monitoring the transition from the Carter administration to the Reagan administration, primarily to see what the impact of that transition would be on New York City and on housing in general.

Representative RICHMOND. All of which will appear in the printed record.

Mr. SHIFFMAN. The one item that doesn't appear there is a draft outline that I think will interest you in which we are looking both at the Japan model and the Singapore model of compulsory housing savings programs to see how such programs might benefit people in the United States.

Representative RICHMOND. What do you mean by compulsory housing savings?

Mr. SHIFFMAN. Well, it would be a way of allowing—well, it's a similar program to the one in Japan that allows people to put money into a special account that would be restricted from being removed for other purposes.

Representative RICHMOND. That's for tax-exempt savings. It's not compulsory, as you know.

Mr. SHIFFMAN. In Singapore it is compulsory. It's tied to the social security system.

We are looking at that in terms of Japan, in terms of West Germany, in terms of Singapore, as a way of seeing how we can generate additional money for housing construction.

Representative RICHMOND. Lee runs Singapore like President Golden runs Brooklyn.

Mr. GOLDEN. Wait a minute.

Representative RICHMOND. Lee was driving through Singapore just recently and he noticed the streets were dirty and he telephoned his Parliament and told them the streets are dirty and we ought to have a $500 fine for anybody that litters and Parliament enacted the law that evening and it was signed and made into law that night.

Mr. GOLDEN. If you gave me that kind of power, I guarantee you that——

Representative RICHMOND. Ling Won Lee is one of the most remarkable men in the world. He graduated from Oxford first in his class and his wife graduated from Oxford and they have a law firm called Lee & Lee in Singapore and she runs the law firm and he runs Singapore. It's a most unique situation. You can't compare it to anywhere else in the world.

With regard to housing savings, I think the most comparable situation is Japan where you have this tax-exempt savings program for people who actually are saving toward housing. If we could adapt that method, we could have our housing, savings and loans, and savings banks all at once.

Mr. SHIFFMAN. All I want to do is point out that we're looking at all of those models to see which elements would be best suited for adaptation in the United States.

I would also like to underscore the comments of both Commissioner Gliedman and Kenneth Patton because I agree with everything they said. That's not always been the case, as some of you know, but I think they get to the heart of what the major issues are.

The Presidential Commission's report, which is an interim report, is very interesting because it has seven basic principles, four of which have absolutely nothing to do with housing and which basically say that if the economy is going to recover housing will recover.

For those who have been involved a little bit more than the 14 to 15 months that the Reagan people have been involved in housing, we know that poor people in low-income urban neighborhoods have suffered even when the economy has flourished, that housing has not been available and accessible and affordable for many low-income people for a long time. Moreover, at present in New York City, only 22 percent of those who are in need of housing assistance receive that kind of assistance. So I believe that a lot of what the Presidential Commission's report is based on is really irrelevant and basically wrong.

In terms of the hidden agenda of the administration, I would like to point out that in a Washington Post article dated November 6, 1981, Secretary Pierce is quoted as saying that he hopes that maybe we'll get out of providing subsidies by 1985, and he lays the basis very openly in this article—subsidies for housing will end, Pierce says, by 1985 by HUD. He goes on, by the way, to say that displacement is not an issue and therefore HUD should not be involved in the displacement issues concerning low- and moderate-income people.

There are a couple things I'd like to add to some of the things Commissioner Gliedman talked about. In addition to the elimination of 312 programs and the reduction of federally assisted housing, New York City in 1982 will receive about one-half of what it received in 1981. We anticipate the elimination of the 235 small home program, which, as the commissioner said, has been a major step forward in the city's housing policy. In addition to its being cut in future years, there is the danger that as of March 31 we can stand to lose the money that has been committed to projects already and many of those are in Brooklyn.

A few weeks ago some of us attended a groundbreaking ceremony at Coney Island. Those profect 235 homeownership programs out there might be eliminated if the houses are not sold before the 31st of March. I would hope that one of the basic things on your agenda, Congressman Richmond, is to go back and amend the omnibus legislation so it would give community-based efforts and the cities more time in which to sell the housing that it already has commitments for because the legislation allows that commitment to be taken back.

We also saw the elimination of CETA. We also saw or see on the horizon the loss of housing authority operating subsidies and moneys for rehabilitation of public housing, cuts in AFDC payments and right on down the line. In fact, we'll see in New York City the cutting of 32,000 families from AFDC, 27,000 households will no longer be eligible for food stamps, and about 440,000 households will see their food stamp allotments reduced. These are the same people who, if the voucher program is put into place, will also lose any eligibility for housing assistance, and eligibility is limited to those whose income is under 50 percent of the median, will also lose any eligibility for other kinds of publicly assisted housing programs.

In a study that we recently completed—and I must say, with the full cooperation of Commissioner Gliedman and a lot of input from him and his staff—we have found that the people who will be most hurt by the lowering of the standards are going to be minority families, the people with two wage-earners in the household, and people with children. The elderly in need of housing support are the only ones that will really benefit from the housing voucher program. Others who are living in substandard conditions, who are living in overcrowded conditions, and who have less available income for housing, will be kept out of the housing voucher program because of the way the program is structured. We have appended a draft in which there are some typos but the full corrected version of that study will be out sometime in the middle of next week.

Representative RICHMOND. Thank you.

Mr. SHIFFMAN. In addition to the eligibility requirements eliminating a number of housing poor, we are very concerned that dropping the standard below the fair market rent in New York may force a substantial number of recipients to pay in excess of 30 percent of their income. The way the proposal in structured, we may find that we will put poor people in the position, because of the shortage of supply and the lack of any production capability, of getting vouchers providing them with subsidies but still winding up paying more than 30 percent of their income to stay in subsidized housing, and I think that's an untenable position.

Finally, one of the other points—and I'm just touching on some of the points—is that the voucher proposal has a potential of redlining or triaging certain neighborhoods by requiring certain households to move from their neighborhoods to benefit from the program because the standards that may be set may not be applicable to the kinds of housing that is available in many parts of our city.

The other points that I want to touch on that are not part of that study have to do with the floating rate mortgages which administratively have been allowed by this administration through the actions of the Federal Home Loan Bank Board and others. These have unpredictable cost to the consumer and create financial risks for borrowers and I believe lenders alike, and to minimize those risks many of the financial institutions will once again begin to redline some of our neighborhoods and be forced to permanently exclude many low, moderate and middle income families from becoming homeowners.

Somehow—and I think some of the tools that Ken Patton talked about—monetary policies and others—somehow we have to develop new approaches to financing housing, particularly for low and moderate income families. The Japanese model may be one, and there are a couple others, including joint ownership and shared equity arrangements, and that is part of another document which is briefer called Considerations for a Long-Term Homeownership Program.

The other thing that concerns me is the fact that the Senate Banking Committee is now looking at means to preempt many State laws from allowing homeowners to transfer old, low-interest mortgages to purchasers when they sell their homes. I can understand fully the bind that many of the S. & L.'s are in and the savings institutions, However, I think that this action will burden some older homeowners and curtail the transfer of properties in some of our older cities. And what I would urge is an assessment—I'm not sure it will work—but an assessment of Senator Lugar's proposal to establish thrift partnerships which would allow savings and loan institutions to sell their low-interest rate mortgages to private investors who would, in turn, use them for tax shelters. Again, I think that that might be an approach that we should put under study.

I would also like to recommend to your committee consideration of restructuring housing tax policy so it benefits those most in need. To quote from the National Low Income Housing Coalition:

> The Federal cost of housing-related income tax expenditures now tops $40 billion annually, more than five times the cost of housing assistance presently being provided for low income people. The bulk of those tax expenditures benefit people at the top quarter of the income distribution.

This means Brooklyn residents and Brooklyn homeowners, to a great extent, are not the beneficiaries of those tax deductions. In order to make the system more equitable, I would like to urge your support of the coalition's proposal, to convert homeowner deductions to tax credit with a certain limit on the amount. This, would, in essence, shift the benefits of a tax credit from the upper 25 percent to many of the people on the lower end of the scale who do not presently have such tax advantages. That would wind up with a saving and a shifting of tax expenditures to low- and moderate-income families rather than force the higher income sector of our population or the very high income sector to constantly, up their expenditures on housing. Indeed, I think a lot of what we need to do in times of tremendous housing turmoil is to begin to look toward innovative devices and means for housing survival. Hopefully when the pendulum swings back we would have in place the mechanisms and the institutions that can provide housing primarily for our neediest population.

[The prepared statement of Mr. Shiffman, together with the documents referred to, follows:]

PREPARED STATEMENT OF RONALD SHIFFMAN

The Impact of Reductions in Federal Program Budgets and High Interest Rates on Housing

I really don't know where to start.

The combination of high interest rates and simultaneous reductions in Federal domestic programs has had a devastating impact on the entire housing industry, but particularly on low income housing in urban areas.

- Total housing starts for this year will reach the lowest level since World War II.
- Conventional housing starts have ground to a halt.
- Affordable rental housing units are being lost through abandonment on the one hand and speculation and condo and co-op conversion on the other.
- Based on the national rate of displacement, 28-30 families a day in Brooklyn are forced to move for reasons not of their own choosing - the most common being building abandonment and families' inability to afford the rent.

Most affected are our low-income neighbors who continue to live in substandard and/or overcrowded housing and who pay a disproportionately high share of their income for housing. Their needs are not met even when the economy is healthy, or when interest rates are low. Indeed, the limited subsidies available in the past have enabled us to serve only 22% of those with demonstrated housing needs.

The situation in Brooklyn, with its large low-income black, hispanic and elderly population, is particularly acute. Abandonment in many of our neighborhoods continues unabated despite valiant efforts to preserve housing by neighborhood-based developmnet organizations such as Los Sures, The People's Firehouse, St. Nick's, Flatbush Development Corporation, Bedford-Stuyvesant Restoration Corporation, and countless others. And just when their abilities and the need for services are being widely acknowledged, these groups are facing programming and staff cuts mandated by the recent Federal budget actions.

The litany of "cuts" affecting these organizations, their constituencies, and their neighbors is a painful one. It includes:

- elimination of CETA
- elimination of 312 rehab. program
- elimination of 235 Small Home Construction Program
- a 50% reduction in federally assisted housing subsidies (from approximately 10,880 units in Fiscal Year 1981 to 5,434 units in Fiscal Year 1982)
- proposed elimination of all housing production programs
- cuts in Community Development Funds for housing rehabilitation and neighborhood improvements
- loss of public housing operating subsidies
- restrictions on household eligibility standards for Federal Housing Subsidies
- cuts in AFDC payments, including shelter allowances

Couple these with the social service, health and education cuts enacted blindly by Congress and one begins to get a horrifying picture of the cumulative impact of our new domestic policy on the people in our City. For instance, new eligibility requirements will result in:

- 32,000 families being cut off from AFDC
- 27,000 households will no longer be eligible for food stamps
- 439,000 households will see their food stamp allotment reduced

This group of "ineligibles" would be left out once again if the President's proposed housing voucher program is enacted.

All the despair, fear and anger that one hears and feels throughout the City will only increase. The tragedy is that the full impact of the shift in Federal spending priorities, which were made without debate and without substantive analysis, has yet to filter down to our neighborhoods.

In December of 1980, the Pratt Center anticipated that sweeping changes introduced by the new administration would have dramatic effects on poor people. In seeking funding to begin the work necessary to monitor these changes, we wrote:

"The election of Ronald Reagan and the shifts of power in Congress -- major in the Senate, somewhat more modest in the House -- are clear indicators that there will be greater departures from existing housing and development policies than we have been accustomed to witnessing. The new initiatives and decisions to be made by the Federal government after what we expect will be a six to nine-month transition period will have a dramatic impact on New York City in general, and on the neighborhood and low-income housing movements in particular, and they will set the framework for housing and community development activity for the next decade or more. It is therefore imperative that we use the next few months to prepare the technical base for the dialogue and the program development process that will inevitably follow."

Over the past six months, the Reagan administration has demonstrated an incrediable level of political sophistication in obtaining quick congressional approval for its budget and tax reduction proposals. The resultant fundamental changes in domestic policy were anticipated last December, but the speed, intensity and degree of change that has taken place has surprised many knowledgeable observers.

The speed and forcefulness with which the proposal for a national "housing voucher" program has been brought to the fore as the centerpiece of the administration's national housing policy is further confirmation of the ideological momentum which has built up during the first ten months of Reagan's presidency, and the ease with which this momentum can be carried over into new program initiatives.

It is for that reason that the Pratt Center initiated a study on The Impact of the Voucher Program on New York City's Population - a draft of which is appended to this statement.

The study, based on an evaluation of how New York City's Existing Section 8 Program worked, indicated that:

- Reducing the eligibility limits for vouchers as the Presidential Commission on Housing suggests, to very low-income families will not just reduce the propotion of households served but will preclude certain sectors of the "housing poor" population from receiving assistance (p. 18).

- Many households in New York City may not have received benefits because of an inadequate supply of housing meeting program standards, therefore pointing out the need for a housing production program (p. 9).

- Dropping the payment standard 10% below Fair Market Rents would force a substantial number of potential recipients to pay more than 30% of their income for rent (p. 35).
- The voucher program has the potential of redlining or triaging certain neighborhoods by requiring households to move from their neighborhoods to benefit from the program (p.41).

The administration proposal, as outlined in the First Interim Report of the President's Commission on Housing, fails to propose any measures to adequately address the desperate need to provide decent housing at affordable rents.

Regulatory changes allowing for "floating rate mortgages" - with unpredictable costs to the consumer - create financial risks for borrowers and lenders alike. To minimize those risks, I believe financial institutions will once again begin to redline many of our neighborhoods and be forced to permanently exclude many low-, moderate-, and middle-income families from becoming homeowners. New approaches to finance housing, particularly for low- and moderate-income persons, must be developed. I have attached a paper prepared for the Pratt Center by Robert Schur entitled, "Consideration for a Low Income Homeownership Program for New York City," which begins to explore some of these options.

I would urge you to reject the Senate Banking Committee proposal that would pre-empt many state laws allowing homeowners to transfer old, low-interest mortgage to purchasers when they sell their homes. Instead, I would urge you to see how banks may be assisted without further burdening the consumer and inflating the cost of housing to owner and renters alike. One such approach which deserves to be examined closely is Senator Lugar's "Thrift Partnerships" proposal that would allow savings and loan institutions to sell low-interest rate mortgages to private investors who, in turn, would use them as tax shelters.

I would also like to recommend that your committee consider restructuring housing tax policy so that it benefits those most in need. To quote the National Low Income Housing Coalition: "The Federal cost of housing-related income tax expenditures now tops $40 billion annually -- more than five times the cost of housing assistance presently provided for low-income people. The bulk of these tax expenditures benefit people in the top quarter of the income distribution."

In order to make the system more equitable, I would urge your support of the Coalition's proposals "that homeowners' deductions be converted to tax credits, with a limit (say $5,000) placed on the total amount of the credit that can be claimed by any taxpayer in any one year." This would put a ceiling on how much any one taxpayer could deduct while the use of a tax credit would benefit the vast majority of homeowners who now do not take these deductions. The benefit to residents of Brooklyn would be enormous, since most homeowners here are not in the top quarter of the nation's income distribution.

In my opening remarks I said I did not know where to start, in closing let me say I do not know where to stop, in part because so much has to be done. I believe the housing problems that face us and the prospects of addressing those problems have never looked so bleak. Today we stand on the verge of abandoning 45 years of Federal commitment to housing the nation's poor. Our only hope today is that concerned members of Congress from both sides of the aisle begin to carefully evaluate and debate the merits of their past actions.

DRAFT

IMPACT OF A HOUSING VOUCHER PROGRAM

ON NEW YORK CITY'S POPULATION

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Community and Environmental Development
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November 1981

DRAFT COMMENTS RECEIVED PRIOR TO NOVEMBER 15, 1981
WILL BE CONSIDERED FOR INCLUSION

CREDITS

The impetus for this study came out of preliminary discussions held with Mike Stegman of the University of North Carolina at Chapel Hill, Karen Murphy of the Department of Housing Preservation and Development in New York City and Kent Hiteshew of the Mayor's Office. In developing various aspects of the study, many knowledgeable housing resources were consulted, including Robert Schur, consultant based in New York City; Sybil Phillips of The Department of Housing and Urban Development; and Fran Levenson of New York Bank for Savings.

While we credit them for helping define the concept for the research and guiding its progress, any flaws in its execution and resultant policy recommendations are, needless to say, our own.

The principal researcher for the project was Frank F. DeGiovanni of Pratt Institute. He was assisted by Mary E. Brooks, consultant to the Pratt Center and Melanie Hudak and Cliff Holterman, graduate students of the Department of City and Regional Planning at Pratt's School of Architecture.

Throughout the course of this research we received the unstinting cooperation of Harold Sole and Leo Newman of the New York City Housing Authority and the invaluable assistance of Michael Gurnee and Michael Lenauer of the Fund for the City of New York in processing the data on invariably short notice. Howard Hammerman of the U.S. Department of Housing and Urban Development provided analyses of the Annual Housing Survey conducted in New York City in 1976.

In formulating our analysis of the Section 8 Existing Housing Program and its effects at the neighborhood level in New York City, we are indebted to the participants in the Housing Roundtable Meetings in September and October of 1981. For contributing to our understanding of the broader policy implications of the voucher proposal, we wish to thank those who gave so freely of their time and advice as part of the Transition Advisory Panel over the last six months. Again, while we gratefully acknowledge the contributions of all of the above, the opinions expressed herein are truly our own.

And finally, for defraying part of the cost of Pratt Center's Transition Study, we are grateful to Nancy Castleman of the Fund for the City of New York and Lorie Slutsky of New York Community Trust.

Ron Shiffman
Brian T. Sullivan
Pratt Center
New York City
November, 1981

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IMPACT OF A HOUSING VOUCHER PROGRAM ON NEW YORK CITY'S POPULATION

I. INTRODUCTION

WHY THIS REPORT?

In the summer of 1974, the staff of the Pratt Center began an evaluation, monitoring and advocacy project that focused on the Community Development Block Grant program then still working its way through Congress. In the wake of the Nixon moratorium on housing, which had been in effect since June 1973, the CDBG program was clearly destined to shape a major part of the nation's urban policy for years to come. Our commitment to the equitable treatment of poor people under this program made it imperative that we involve ourselves in the public debate both nationally and in New York City. That involvement continues to this day.

Similarly, in December of 1980, we assessed the likelihood that the new administration would bring its own sweeping changes to national policy as it affects poor people. In seeking funding to begin the work necessary to deal effectively with these changes we wrote:

> The election of Ronald Reagan and the shifts of power in Congress—major in the Senate, somewhat more modest in the House—are clear indicators that there will be greater departures from existing housing and development policies than we have been accustomed to witnessing. The new initiatives and decisions to be made by the Federal government after what we expect will be a six to nine-month transition period will have a dramatic impact on New York City in general, and on the neighborhood and low-income housing movements in particular, and they will set the framework for housing and community development activity for the next decade or more. It is therefore imperative that we use the next few months to prepare the technical base for the dialogue and the program development process that will inevitably follow.

Over the past six months the Reagan administration has demonstrated an incredible level of political sophistication in obtaining quick congressional approval for its budget and tax reduction proposals. The resultant fundamental changes in domestic policy were anticipated last December, but the speed, intensity and degree of change that has taken place has surprised many knowledgeable observers.

The speed and forcefulness with which the proposal for a national "housing voucher" program has been brought to the fore as the centerpiece of the administration's national housing policy is further confirmation of the ideological momentum which has built up during the first ten months of Reagan's presidency, and the ease with which this momentum can be carried over into new program initiatives.

Therefore, it is all the more necessary that the analysis we have performed in New York City be shared as quickly as possible with as many people as possible in order to better inform the intensifying national debate on this issue. It is in this spirit of open discussion and examination of the realities of housing the poor in the 1980's that we offer these preliminary findings and recommendations for your consideration and comment.

BACKGROUND ON HOUSING VOUCHERS

"Supply-side" subsidies have been a major component of Federal housing policy since 1937 when the first public housing projects were built. Successive Federal programs have utilized land acquisition grants, interest rate reductions, tax incentives and rental subsidies, all designed to increase the availability and affordability of rental housing for lower income households.

Increasingly, however, Federal policymakers and especially members of Congress have been disillusioned by the steadily escalating costs of producing new and rehabilitated housing for the poor.

The dissatisfaction with the federal supply-side programs centers on three aspects of the programs. First, the per unit costs of the programs relying on new construction or substantial rehabilitation (public housing, Section 8 new construction/substantial rehabilitation, Section 236) are much higher than the per unit costs of programs such as Section 8 Existing which rely on the existing housing stock to meet the housing needs of lower income households. Second, the federal share of the costs of the supply programs increases sharply with increases in inflation and interest rates and the failure of tenant incomes to keep pace with increases in operating costs. Third, the federal government incurs a long term financing obligation (20-40 years) for the unit constructed or rehabilitated in these programs, a financial commitment which is greater than the 15 year obligation incurred under the Section 8 Existing Program. These concerns are expressed quite clearly in Chapter 3 of the First Interim Report issued by The President's Commission on Housing.

In contrast to these supply-side interventions, the Section 8 Existing Housing Program has focused on bridging the rent vs. income gap with a commitment of Federal funds for shorter periods of time for rent subsidies to households relying on the private sector to provide adequate housing.

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[1] Throughout this paper lower income households refers generically to the poor and generally includes those households with annual incomes at or below 80% of the median income for the area - the income eligibility limit for Section 8 housing.

Low income, however, refers specifically to those households with annual incomes at or below 80% of the median income for the area but greater than 50% of the median.

Very low income refers specifically to those households with annual incomes at or below 50% of the median income for the area.

The Section 8 Existing Housing Program has been shown to be an effective and less costly mechanism for reducing rent hardships experienced by lower income renters in paying for decent quality accommodations.[1] Evaluation of the Experimental Housing Allowance Program indicates that a housing voucher or allowance also is an effective means for making available decent quality housing affordable to lower-income renters.[2]

It is not surprising then that the concept of housing vouchers has received such a warm and surprisingly uncritical welcome, at least at this stage in its definition, even by many housing "experts". There is a growing consensus that there is something seriously wrong with our current approach to providing housing for the poor and any radical departure from the very costly old "supply" programs is bound to get, at least initially, a sympathetic hearing.

Although a voucher program is not a new idea, the Consumer Oriented Housing Assistance Payments Program proposed by The President's Commission on Housing is a radical departure from previous Federal policy:

> It focuses exclusively on affordability (as opposed to availability) as the major impediment to housing the nation's poor. It simply supplements the ability of very low-income tenants to pay their rent.
>
> It requires no new mobilization of private sector resources, since existing housing (assuming it meets minimal quality standards) will continue to provide shelter to rent subsidy recipients.
>
> It makes no long-term commitment of Federal resources to anyone—developer, builder, owner or tenant.
>
> It does not commit the public or private sector to add even one new dwelling unit to the nation's housing stock.
>
> It imposes no national housing objectives upon localities in the distribution of their share of the Federal budget devoted to rent subsidies (no HAP to prepare, no site selection criteria for subsidized housing projects to worry about, etc.). Tenants find their own housing wherever the voucher enables them to afford it.

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[1]See U.S. Department of Housing and Urban Development (1978) and Abt Associates (1981).

[2]See U.S. Department of Housing and Urban Development (1980) and Struyk and Bendick (1981).

Three major arguments in support of the approach described above are advanced by advocates of housing vouchers:

> The quality of housing has improved steadily for Americans, so that today a very small proportion of households occupies substandard dwellings.
>
> A widely quoted Rand Institute study by Ira S. Lowry (Lowry, 1980) failed to find a general shortage of rental housing at the national level (although it acknowledged the existence of tight housing markets in some urban areas). Furthermore, the research concluded that quality of housing is no longer a major problem either, with 3% of the stock (judged by 1940 standards) estimated as either dilapidated or lacking basic plumbing facilities.[1] This study has been cited as the statistical justification for declaring victory over the national housing supply problem and focusing on other items on the country's agenda such as reindustrialization and national defense.
>
> According to The President's Commission on Housing, the primary housing problem of lower income households is their inability to obtain adequate accommodations without paying an excessively large portion of their income for rent. More than 60% of very low-income renters (those with incomes less than 50% of median family income) and 24% of low-income renters (those with incomes between 50 and 80% of median family income) pay more than 30% of their income for rent.
>
> Experience gained through the Experimental Housing Allowance Program (EHAP) and the Section 8 Existing Housing Program has demonstrated at least the administrative possibility of implementing a program which reduces rent hardship for a large number of recipients through existing housing agencies at the local level.

On the other side of the issue are not only the predictable opponents of the voucher approach, i.e., those whose financial interests are tied to the housing production industry, but also a wide range of lower-income tenant advocates who see in the voucher approach, not a step toward a national "entitlement" to affordable housing, but a major step backward in national housing policy as it

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[1] The President's Commission on Housing, using a definition of inadequate housing developed by the Congressional Budget Office, estimates that approximately 7.5% of the nation's housing is in need of major rehabilitation. (President's Commission on Housing, First Interim Report, 1981). Based on this and other data, it concludes that substandard housing is no longer the primary housing problem facing the poor.

affects the poor. Vouchers, they argue, are a prelude to the eventual withdrawal of the Federal government from any commitment to lower-income housing, by either supply or demand side intervention.

Three major objections to vouchers are raised most frequently and forcefully by opponents of the still vaguely defined voucher program:

> Gross aggregate figures purporting to represent the national housing supply picture ignore the very real fact that housing markets are localized. Tenants, especially lower-income tenants, have a severely restricted choice of housing opportunities available to them even assuming the income supplement provided by a voucher system. Also, both in major northeastern cities and in the rural south, significant housing quality problems persist.
>
> Problems facing renters in major northeastern cities are compounded by critically low vacancy rates, especially in the non-luxury end of the rental market. While the voucher program is boosted as a money saver for the Federal government, its severe income restrictions for recipients (50% of median income for the SMSA) and the hopelessly inadequate level of funding available for its operation combine to disenfranchise millions of households who by any definition have to be counted among the "truly needy" in terms of their lack of alternatives in the present housing market.
>
> Vouchers do not allow for housing to play any meaningful role in the yet to be defined national urban policy of this administration. Besides providing shelter, Federal funding for new and rehabilitated housing production programs has been the linchpin of local redevelopment and neighborhood revitalization efforts in cities throughout the country. The vouchers' single-minded focus on the affordability problem ignores the inextricable connection between investment in housing and the future viability of urban neighborhoods and does not address directly issues like displacement or economic integration.

This report attempts to examine the decision to rely on a Consumer Oriented Housing Assistment Payment Program (hereafter called a housing voucher) as the primary federal program addressing the housing problems of lower-income households not from the perspective of a theoretical national housing market but from experience gained in New York City's utilization of the Section 8 Existing Housing Program. The Section 8 Existing Housing Program is the closest programmatic approximation of vouchers ever implemented on a national scale. A housing voucher program of the type proposed by The President's Commission can be viewed as an extension of the Section 8 Existing Housing Program with major modifications. The potential effects of these modifications on New York City's lower-income renter population are examined and, where possible, the implications of these changes for either areas are discussed.

MOVING TOWARD ENTITLEMENT

The President's Commission on Housing reiterates and affirms the "commitment" of the present administration to "a decent home and a suitable living enrironment for every American family".[1] The Commission recalls that the pursuit of this goal has traditionally involved the government in two strategies. The first is to foster conditions in the housing production and financing industries conducive to maximizing the production of housing which the majority of Americans can afford and which is suitable to their needs. The other government concern is to provide assistance to those "other" American households whose incomes are too low to enable them to participate as consumers in the market created by even a healthy private production and financing sector.[2]

The First Interim Report addresses almost exclusively, the second issue. It examines at length government actions designed to insure that the poor shall be adequately housed. The preambulatory statements culminate in the promise to assure to all whose share in the rewards of our free market economy are insufficient to procure all of the necessities of an adequate, if not a good, life, shelter of a minimum quality. But then, as always, comes the statement: "We are not, despite what you have read thus far, talking about an entitlement program."

How similar to Franklin Delano Roosevelt who, in 1936 saw "one-third of a nation ill-fed, ill-clothed and ill-housed" yet who, with his successor over the ensuing sixteen years, provided barely 1.3 million housing units for 40 million needy citizens.[3]

Everyone is entitled to decent shelter along with minimum supplies of food, clothing, medical care and the like. As to these others, we at least make the pretense of furnishing some succor to all who can prove necessity. Housing programs for the poor are never created to offer benefits to all whom the programs themselves classify as "deserving".

On this point, the President's Commission is unequivocally candid. "The assistance payment (i.e., the housing voucher program which it proposes) is not proposed as an entitlement program but as a mechanism to deliver to the widest number of low-income households the maximum federal dollar benefit". And this, despite the Commission's frank recognition that even today, only a small fraction of those persons whose incomes are too low to allow them to secure adequate shelter in the private housing market

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1 The quoted language is from the preamble to the Federal Housing Act of 1949.

2 The President's Commission on Housing, First Interim Report, October 30, 1981, p. I-1 (hereafter referred to in the text as the "Commission Report").

3 This figure of 1.3 million units of new and rehabilitated housing includes over 700,000 units of largely temporary housing, built to house military personnel and defense workers and their families during World War II and the Korean War - most of which was either demolished or sold to private industry after the emergency conditions ended.

are being served by current public programs.

Why do we not have and why are we so reluctant even to espouse a true entitlement program for low-income housing? The Commission argues forcefully and at length that the problem, from a national perspective at least, is not (any longer) an inadequate supply of housing. The problem for the poor, according to the Commission, is essentially one of affordability. This perception [1] should make the solution all the easier. When the supply of standard housing is insufficient, short-term solutions are certain to be extremely difficult and costly. To build new housing or rehabilitate substantially existing structures in large quantities takes a lot of time, may well strain available construction capability or divert it from other desirable activities and requires huge capital outlays.[2] But where the problem is "only" to provide funds to individual households to enable them to acquire or rent existing housing facilities which are in reasonably good condition, all it should take is the allocation of sufficient funds and a simple administrative mechanism to handle their disbursement.

Is it because such a program would cost more than anyone might reasonably request? To provide funds to subsidize everyone's housing needs under the most generous eligibility formula yet designed by the federal government, would require an expansion of public outlays on the order of only $10 billion or so a year. The present level of expenditures, according to the Commissioner's Report, provides assistance to only about 27% of those households which have housing needs under the Commission's less liberal definition.

Yet, it may be argued, the present trend is clearly to reduce government spending. If it is inappropriate to spend any more on programs to improve the lot of the poor, is it not most just and proper to confine housing assistance (as the Commission proposes) to the very low-income and thereby at least alleviate the plight of the most needy? This premise, as applied to housing will be examined more closely in Chapter II below.

[1] The conclusion that our current low-income housing problem is due to high housing costs rather than inadequate supply has already been challenged. See, e.g., Statement of the National Housing Law Project to The President's Commission on Housing, October 16, 1981, pp. 2, 5-8; Kate Crawford, "The Low Income Housing Problem and a Proposal for Change."

[2] The Post World War II experience of Great Britain and other European countries, in attempting to replace housing destroyed by military action during the war, is instructive. Despite average allocations to housing two to three times as large as the proportion of the United States' federal budget outlays, it took Great Britain almost thirty years to eliminate the shortage of housing supply which existed at the end of the war. See, David Eversley, "Are We Better Housed?", New Society, Vol. 14 (April 1977).

We shall allude, later in this study, to alternative ways to structure eligibility criteria for rental assistance programs. Yet, it is clear that a program which places additional strictures on eligibility will fall with widely unequal impact on those who are eliminated. When we design lower-income housing assistance programs and fail to provide sufficient funds to cover all who come within the basic standards, we necessarily insist upon just such further selectivity.

The argument for reducing aggregate housing assistance funding levels is especially hard to justify in the face of the kinds of cuts in non-housing social service programs which the present administration is making. Using the justification that the relatively less destitute must bear the burdens of curtailments in these programs, the initial round of budget cuts are falling most heavily on those families and individuals who are closest to the upper limits of income eligibility. This is true, for example, of the vast majority of the 32,000 families in New York City who are to be eliminated from the AFDC program and of the 27,000 households who will cease to be eligible for food stamps as well as the additional 439,000 whose food stamp allotments will be reduced.

But this same group, who consist essentially of those whose incomes are in the 50 to 80 percent of median range, also has substantial housing problems. To eliminate them from housing assistance eligibility as well, is to deal them the cruelest blows.

If a housing assistance program, through inadequate funding, is to be operated on a less than entitlement basis, how is one to determine whom to serve? To reduce, rather than increase (as is necessary if considerations of equity are to be served) the federal budget allocation for lower-income housing assistance, the Reagan administration proposes to limit the universe of eligibles for its housing voucher program to households with incomes below 50 percent of median and to reduce program costs further, within that shrunken universe, by (i) raising the rent-to-income ratio from 25 to 30 percent and (ii) possibly reducing the maximum amount of rent which will be subsidized. Even within those restrictions, it will not receive sufficient funds to become an entitlement program. Further choices will therefore have to be made. On whom will the burden of those choices fall?

New York City's experience with the Section 8 Existing program is instructive. As the succeeding sections of this paper show, the choices which a voucher program will force upon housing providers are not necessarily equitable or fair; they tend, in fact, to be highly discriminatory among different elements of the eligible universe. Our analysis shows how the choices may be made and indicates some guidelines for more rationally dividing up the too-small pie.

IS NEW YORK CITY TOO DIFFERENT?

One of the dangers inherent in using New York City as a vehicle for research into urban problems or programs is the time-honored cliche that New York is always the exception to every rule. And, indeed, for various purposes, New Yorkers have accepted this image and, occasionally, even promoted it when it seemed to work in their favor.

In fact, however, New York City's problems, legion as they are, may seem different from other major cities in the United States only because of their magnitude and equally important, their timing in relation to other cities. Often, very similar problems occur in other cities on a smaller scale within a few months or years of their appearance in New York. For example, New York's fiscal "crisis" in 1975 presaged by only a short time similar crises in several Northeastern cities, some of which have not yet been as successfully resolved as has New York's (for the time being).

Comparison of data for a number of cities in the United States in 1970 and 1975 supports the view that the population of New York City is similar in many ways - proportion of minority residents, per capita and median income, age distribution - to the population of a number of other major cities.[1]

Furthermore, the renter population previously eligible for the Section 8 Housing Program in New York City (renter households with incomes below 80% of the New York SMSA median family income) resembles the eligible population nationally in three important ways.[2] Elderly households comprise a relatively large minority of eligible households in New York (31%) and throughout the U.S. (28%). Second, very low-income households represent a majority of eligible households - 68% in New York, 64% for the country as a whole.[3]. And, third, a similar proportion of the very low-income population is shared by the Section 8 Program and Public Housing in New York City (22.2%) as for the U.S. as a whole (26.4%)[4].

Despite these similarities, New York does differ in some important respects from other cities. Residents of New York are more likely than residents of many other cities to rent their accommodations, to live in large multi-family structures and to live in dense surroundings. Only Boston and Washington, D.C., of all the major cities, had comparably high

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[1]U.S. Department of Housing and Urban Development. Changing Conditions in Large Metropolitan Areas, 1980

[2]As will be observed in a later section, the households receiving assistance in the Section 8 Existing Program in New York City resembles in very important ways the population served by the program nationwide.

[3]Data on describing other characteristics of the eligible renter population in New York City are not available.

[4]The data for the U.S. as a whole is obtained from Khadduri and Struyk (1980).

proportions of renter occupied units in 1970 (the range was from 72% in Washington, D.C. to 76% in New York). Only Boston had a similar prevalence of multi-family structures (85%-88% of all residential structures). A number of other large cities - Chicago, Washington, D.C., St. Louis, Cleveland, San Francisco - had concentrations of multi-family structures that ranged from 62% to 76%. Furthermore, The President's Commission on Housing reports that the proportion of dwelling units in New York City classified as deficient according to the Congressional Budget Office definition (nearly 19%) is more than twice the national average (7.5%). The Commission notes, however, that deficient units also are prevalent in other large cities (more than 16% of the units in Miami and Washington, D.C., for example are rated inadequate). These comparisons indicate that, on balance, New York City is relatively similar though not in every respect, to many of the other old, major cities in the U.S.

Taking a broader and more dynamic view of housing markets, New York, like many other older cities, has an extremely tight housing market (a 2.13% vacancy rate in rental units as of February/March 1981); a very active condo/coop conversion movement; pockets of gentrification in transitional residential neighborhoods; a heavy reliance on Federal funding for virtually all its initiatives in housing, but especially in new construction and substantial rehabilitation production programs; and a population that is having a difficult time keeping up with the increases in the cost of housing.

Beyond these similarities in the population eligible for the program and housing problems, New York and other localities share one other major common characteristic—the economic context. Lower-income households across the nation are suffering from the same combination of inflation, unemployment, cutbacks in public benefit programs, restriction on entitlement grants and perhaps most ominous of all, the clear prospect of more of the same.

Again, while many of these problems may have afflicted New York City earlier and more harshly than they have the rest of the nation, the poor throughout the country will eventually feel the brunt of the rapidly developing crisis in low-income rental housing. Given this administration's clear intention to implement a voucher program as its "primary" means of assistance for lower-income tenants, the New York city experience may well be instructive in charting a course for advocates of low-income housing facing this issue on the national level. While the precise or identical effects of going to a voucher program identified in New York City may not be observed in other older, large U.S. cities with relatively tight housing markets, it is probable that a housing voucher program will create similar patterns of effects. For example, while the same population groups excluded from participation as a result of eligibility changes in New York City may not be excluded in other cities, the effect of the eligibility changes is likely to fall harder on some groups than others in most cities. Which groups are most adversely affected will depend on the profile of both the previously eligible population and the households who have been most successful at participating in the Section 8 Existing Program. Similarly, the possibility that a reduction in the rent ceiling, if it occurs, will increase substantially the rent burden of many Section 8 recipients will the market rent in each locality.

Ultimately, officials and groups in each city will have to decide, based on their knowledge of the characteristics of the eligible population, the profile of the households receiving Section 8 Existing subsidies, and the local housing market, how applicable the findings presented in this report are to their city. We believe that reliance upon a housing voucher as the primary housing program addressing the housing needs of lower-income households is likely to produce effects in other large cities similar to those anticipated in New York City. In this situation, the recommendations proposed in this report receive broad support.

On the other hand, the adverse consequences likely to be generated in New York City by the changes in the Section 8 Existing Program may bedue to a unique set of circumstances which exist only in New York City. This situation, however, should not minimize the seriousness of the problems, or the importance of the recommendations, since we believe that housing policy should not be designed in a way which would penalize any locality because of its unique circumstances.

ORGANIZATION OF THE REPORT

The remainder of the report is organized into four sections. The first of these sections examines the impact of one change - lowering of the income eligibility limit - that has already occurred. This section demonstrates very clearly that some types of households are more adversely affected than others by the changes in program eligibility. The second section examines the problems that are likely to occur in localities with tight housing markets where a housing voucher program is implemented without housing production subsidies. The third section explores the impacts on present (and by implication, future) Section 8 and housing voucher recipients of reducing the rent standard that will be used in calculating household subsidies under the voucher program. The final section addresses the need to adopt flexible housing quality standards in the voucher program.

II. THE LOW-INCOME POPULATION WHO WILL NO LONGER BE ELIGIBLE FOR FEDERAL HOUSING ASSISTANCE HAS DISTINCT HOUSING NEEDS.

INTRODUCTION

Localities may vary with respect to the types of housing problems experienced by their poor residents.

Virtually every time national press gives coverage to a report identifying housing problems in this country, at least a half dozen cities raise their hands to claim "that's not the case here". Both sides are right. While statistics provide us with important information about the magnitude of housing conditions and poverty across the country, or even within a single metropolitan area, few cities or neighborhoods fit that norm.

Reminding ourselves of this does not invalidate the usefulness of this information. Yet, we must remember that planning for the norm ignores the individual cases that make up that average or aggregate picture. And, as a consequence, programs designed to meet broadly defined needs may miss specific and significant needs existing in cities and neighborhoods all across the country.

Cities and neighborhoods within every city have distinct housing and population characteristics. Although this is obvious, unfortunately, the implications of these differences among cities and neighborhoods are too often ignored. These are not the exceptions, they are in fact the substance of the housing problems in this country.

It is precisely this point that requires careful consideration in observing the impact of a housing voucher program on any city or neighborhood, and in this instance, on New York City. While the information and evaluation we provide here are specific to New York City, and its neighborhoods, we know that some other cities and their neighborhoods will have similar characteristics, while others will differ in important ways.

We suggest that an understanding of the full range of housing needs existing in various cities and neighborhoods must guide any attempt to design programs addressing the housing needs of the poor in this country.

Addressing housing needs requires a close examination of what "housing poor" means.

Much attention is currently being given to the housing affordability issue.[1] And, indeed, the statistics provide stark support for this: the median rent-to-income ratio for the nine million renters with incomes below

[1] The President's Commission on Housing states that "affordability is the most serious problem." The President's Commission on Housing, First Interim Report, October 19, 1981, p. 1-10

$7,000 is over 52%. Poor homeowners are in virtually as difficult a position, providing further evidence of the magnitude of the effect of increased operating costs on housing.[1]

As severe as the housing affordability problem is, the Commision's definition of the problem is a limited view of true housing needs. First, while lower income families, as a whole, have higher rent-to-income ratios, this is by no means uniformly so. A housing subsidy program, therefore, which looks to assist only very low-income households ignores what may well be equally pressing needs of households whose incomes are not quite so low. It is probably true, however, that above a certain income level, even those who pay a very high percentage of their income for rent will have enough left over to satisfy their other wants reasonably well, and therefore do not need to be included in a housing subsidy program. The issue lies in deciding where to draw the line.

Secondly, there are clearly other housing needs of some severity present in this country. There are seven million dwelling units in the U.S. that are substandard or that have serious deficiencies and, for the first time in decades, the number of overcrowded units is on the increase.[2] But sheer numbers should not determine how our national housing dollars are allocated. Who is willing to state that a very low-income family paying 50% of their income for rent is more needy that a low-income family crowded into an unsafe structure without hot water or heat. Without answering the unanswerable, it is safe to conclude that housing needs are not determined by a deficiency in income alone.

Finally, housing programs have failed to take into account the importance of neighborhoods and their relationship to housing needs. This is reflected in the narrow focus of housing assistance programs on the unit ignoring the setting. Many poor households have been unable to

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1 Kate Crawford, "The Low Income Housing Problem and a Proposal for Change," (Washington, D.C.:" The National Low Income Housing Coalition, 1981), p.1; The President's Commission states that over 60% of the very low income pay rents in excess of 30% of income to obtain adequate housing and some 28% pay over 50%. They found less than 25% of low-income households paid in excess of 30%. The President's Commission on Housing, "First Interim Report," October 19, 1981, Table 2.4

2 Crawford, p.2.; The President's Commission states that 7.5% of the housing stock in 1977 was in need of major rehabilitation. This proportion inreases to 13.3% for renters with 18.6% for very low income renters and 10.8% for low income renters. It soars to nearly 20% for Black households. President's Commission on Housing, First Interim Report, October 19, 1981, Figure 2.2

benefit from the very assistance intended to help them meet their housing needs. Too often, housing programs have destroyed neighborhoods and uprooted families. From the days when urban renewal was pegged "urban removal" to today when "gentrification" changes the character of neighborhoods as they begin to show signs of promise, housing poor have been displaced without being able to exercise their right to stay in place or to benefit from the very programs intended to serve them.

There exist neighborhood networks that provide the kind of support services never adequately imitated by publicly or privately supported institutions. These networks are being destroyed all across the country in city after city, when families are uprooted and the very social fabric wrecked that made it possible to maintain and renew neighborhoods.

To ignore the full range of circumstances that create a "housing poor" family is to continue to address only part of the problem. Inadequate housing conditions may be more difficult to address than the need for additional income and community stability may be less quantifiable than ppor nutrition, but neither are less important in meeting the needs of the housing poor in this country.

Thus, it is virtually impossible to identify with certainty the magnitude of this country's housing needs. If we were to sum those households living in substandard quarters, those living in overcrowded units, those living in deteriorating neighborhoods, and those paying excessive amounts of their income for housing, the number of households who have severe housing needs in the country would be several times the figure generally acknowledged by any source to date.[1]

<u>An adequate definition of "housing poor" must rely on more than income eligibility</u>.

The issue of housing affordability relative to income has centered on the generally-accepted standard that any household paying more than 25% of its income for housing costs is paying more than it can afford. Putting aside the question of whether the increase to 30% is more realistic for today, many analysts criticize the use of a single percentage.

The standard rent-to-income ratio ignores the obvious fact that true ability to pay housing costs varies with the number of persons in a household and expenditures for non-shelter necessities.[2] Thus, true affordability for housing could only be represented by a sliding scale taking into account these additional considerations.

Just such a calculation has been developed. The Lower Standard Budget computed by the U.S. Bureau of Labor Statistics gives the cost of basic necessities for a minimum adequate standard of living in urban areas all

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1 Jon Pynoos, Robert Schafer, and Chester W. Hartman, ed. <u>Housing Urban America</u> (New York: Aldine Publishing Company, 1980), p. 9.

2 Non-shelter necessities include food, transportation, clothing, medical care, taxes and other such costs.

over the country. Identifying the income for any particular household size (after taxes) and subtracting the lower standard budget cost of meeting their non-shelter needs at an adequate level provides the income left for shelter.

For instance, in New York in 1980, according to these lower budget standards, a family of four would need an annual income of $16,682 to be able to pay for adequate non-shelter costs and pay for a unit at fair market rent for the Section 8 Existing Program. This household, which would be paying slightly less than 30% of their income for rent, would be classified as low-income according to the previous Section 8 eligibility standards. This household, even if it resides in substandard housing, would be excluded from participation in the program under the new eligibility standards.

The results of these calculations for the entire United States reveal that about 30% of all households are paying more than they can afford for housing costs. Nearly 40% of all renter households and 25% of homeowner households are in this category. These total percntages are quite close to those reached using the standard 25% of income for housing costs. However, what is important in this sliding standard is that the distribution is quite different. Excessive rent-to-income ratio is much more severe among lower income and larger households and much less severe among higher income and smaller households.[1]

This "market basket" approach for identifying housing poor carries the potential for more accurately measuring the true relationship between income and ability to pay for housing. It illustrates that a dependence on a single percentage to represent those households paying too much of their income for rent ignores that the proportion of income that must go for minimally adequate non-shelter consumption increases as household size increases.

It also illustrates that an income eligibility standard set at 50% of the median income for the area may exclude many households with an affordability problem. These housing poor families may be identified only by measuring the proportion of their income that must go for minimally adequate non-shelter costs.

FINDINGS

New York City's housing poor exhibit a variety of housing needs.

We found that of the population eligible for the Section 8 Existing Housing Program in New York City in 1976, nearly 27% were living in dwelling units that did not meet quality standards.[2] Another 16% were

1 Michael Stone, "Defining and Measuring Shelter Poverty" (unpublished), (Boston: University of Massachusetts, 1981), p.9.

2 These standards are developed by HUD for the Annual Housing Survey and are believed to be less strict than those employed to determine standard units acceptable for the Section 8 Existing Housing Program.

living in units that had rents above the Fair Market Rents established for the Section 8 Existing Housing Program.

Thus, if New York City's population were subject to a housing voucher program in which everyone had a chance to participate if their unit were standard and they met current income criteria (at or below 80% of the median income for the area) 58% of the eligible population could stay in their unit and benefit from the program. Nearly 54% of the low-income population would be able to benefit from the program, while they represent only one-third of the total eligible population. Nearly 60% of the very low-income population would be able to benefit and they represent nearly two-thirds of the total eligible population.

At the same time, however, over 42% of the eligible population would either have to move to benefit from the program because their unit is presently substandard (unless the unit were rehabilitated) or could stay in place (because they live in a standard unit) but would have to pay more than 30% of their income for rent.

While roughly the same proportion of low-income households and very low-income households live in substandard units, in both instances, the proportions for New York City are higher than for the nation as a whole. While 27% of the very low-income population in New York City live in substandard units, only 24% do so for the nation as a whole. Yet the difference is much more stark for low-income households: in New York City 25% of the low-income households live in substandard units, for the nation as a whole that figure drops to 15%. Thus, in New York City, a greater proportion of the eligible population is living in substandard units, than is true for the nation as a whole, and this is particularly true for the low-income population.

If we look at the reasons recipients of the Section 8 Existing Housing Program in New York City identify for entering the program, the issue of housing quality becomes even more interesting. Most of the recipients entered the program to reduce the proportion of their income that they spent for rent. Prior to entering the program these households generally were devoting more than 40% of their income to housing. While some 63% of the recipients entered the program for this reason, 34% entered the program to obtain better housing. This means that over one-third of the households were living in either substandard or overcrowded units and sought relief from such housing conditions. (See Table 1)

Sixty-eight percent of the low-income households that received assistance under the Section 8 Existing Housing Program in New York City entered the program to obtain standard quality housing, compared to only 28% of very low-income recipient households.[1]

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[1]It is believed that part of the reason for this difference is that New York City requires that households that want to enter the program to reduce their rent-income ratio in their dwelling unit be paying 40% or more of their income for rent. Because low-income households are less likely than very low-income households to be paying an excessive amount of their income for rent it is more difficult for them to enter the program on this basis. In fact, most of the low-income households that enter the Section 8 Existing Program in New York City do so because they are presently living in substandard units. Knowing this, however, does not alter the conclusion that low-income households benefit from the program in terms of improved housing conditions and it does not alter the conclusion that these needs exist.

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Table 1

Reason Given for Entering the
Section 8 Existing Program in New York City

Recipient Category	Substandard Housing	Rent Hardship	Other	Total
	Reason Given			
Household Type				
Single Non-Elderly	35.4%	62.1%	2.5%	100.0%
Single Elderly	21.9	74.3	3.7	100.0
One Adult w/Children	51.9	46.7	1.4	100.0
Two Adults w/Children	55.1	41.9	3.0	100.0
Two Elderly	23.6	72.2	4.2	100.0
Two Non-Elderly	37.8	59.5	2.7	100.0
Income				
Low Income	67.5	29.8	2.7	100.0
Very Low Income	27.6	69.3	3.1	100.0
Race/Ethnic Group				
White	20.0	76.9	3.1	100.0
Black	49.6	47.7	2.7	100.0
Puerto Rican and Other Hispanic	50.2	44.3	5.5	100.0
Other	35.3	61.6	3.1	100.0
Number of Bedrooms Required				
0	14.6	81.9	3.5	100.0
1	27.3	69.3	3.4	100.0
2	50.6	46.9	2.5	100.0
3	59.0	39.5	1.5	100.0
4	61.5	37.3	1.2	100.0
Total	33.9	63.0	3.1	100.0

Source: New York City Housing Authority Records

Moreover, low-income households are more than three times as likely as their very low-income counterparts to have been living in overcrowded dwelling units.

It is also evident from the information available on recipients that particular household types more typically enter the program to obtain better housing. Approximately 75% of all low-income recipient households with children (thus, the larger households) entered the program living in substandard units.[1] These larger households were also more likely to be living in overcrowded dwelling units.

It is further evident from this information that Black and Puerto Rican and other Hispanic households are fairly evenly distributed between seeking relief from substandard housing or rent hardship as the reason for entering the proram. That is, approximately half of these households indicated substandard housing as their reason for entering the program. For white households, however, over 75% identified rent hardship as the reason.

The distinction is greater when low-income and very low-income households are compared by race. Over 70% of low-income Black, Puerto Rican and other Hispanic households indicated substandard housing as their reason for entering the program, compared to 54% of the white households. At the same time, over 78% of very low-income white households indicated they entered the program for rent hardship reasons, compared to 50% for Puerto Ricans, 58% for Blacks and 65% for other Hispanics.

Thus, it is apparent from this data that the incomes of the low-income households apparently are not sufficient to allow them to obtain quality space without rent subsidies. Moreover, larger households and minority households have an even more difficult time finding adequate accommodations which they can afford at their income level.

<u>Reducing the eligibility limit to very low-incomes will not just reduce the proportion of households served but will exclude certain sectors of the "housing poor" population from receiving assistance.</u>

A high proportion of the households in public housing and using Section 8 Existing certificates in New York City are classified as very low income according to the Section 8 Program standards. Nearly 85% of public housing and Section 8 units in New York City serve very low-income households. For the nation as a whole, this figure is 80%.[2]

Very low-income households are also served by welfare assistance. More than 200,000 households receive welfare in New York City. Yet, these households typically occupy some of the worst housing in the City. Welfare recipients are far more poorly housed than non-welfare residents. The reasons for this are not clear: discrimination undoubtedly explains some of it. However, there has been a general decline in the quality of lower cost rental housing as maintenance and operating costs have risen at faster rates than the rent-paying abilities of poorer tenants.

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1 Approximately 53% of all recipient households with children entered the program to improve their housing conditions.

2 The data for the U.S. were obtained from Khadduri and Struyk, (1980)

Public housing serves over 170,000 households (at least 500,000 people) in New York City. Nearly 85% of these households are minority. Over 50% of the households living in public housing have three or more persons in the households. Over 25% of the households in public housing receive welfare.

The Section 8 Existing Housing Program serves 30,188 households in New York City. Of these, nearly 48% are minority households. Less than 25% are households with three or more persons. Targeting to the very low-income household is very apparent in the Section 8 Existing Housing Program in New York City. Since January of 1979, of all households issued certificates, nearly 79% went to very low-income households.

But to understand who really benefits from the Section 8 Existing Program in New York City, it is necessary to identify who actually uses the certificate once issued. Even though a family may receive a certificate, they may not eventually use that certificate, for any number of reasons, and therefore do not benefit from the program.[1]

For both New York City and the nation as a whole, the proportion of very low-income households benefitting from the Section 8 Existing Program is even higher when only those households actually using their certificates are counted. For New York City, approximately 84% of Section 8 Existing recipient households are very low-income, for the nation as a whole, the figure is 89%.[2]

In New York City, of the total eligible population (that is, all households with incomes below 80% of the median income for the area), two-thirds are very low income and one-third is low income. Thus, the proportion of very low-income households participating in the Section 8 Existing program is much greater than their representation in the total eligible population.

Characteristics of the low-income population and of the very low-income population participating in the Section 8 Existing Program in New York City reveal some interesting distinctions.

The low-income recipient households have the following characteristics:

> A large proportion are minority (65.8% are Black, and 15.2% are Puerto Rican and other Hispanic);
>
> A predominance of households with children (51.7% of the households have one parent with children and 24.6% of the households have two parents with children);
>
> Approximately 19% need at least three bedroom apartments, while only 23.6% need apartments with one or less bedrooms;
>
> A large proportion wanted or were required to move to receive benefit from the Section 8 Existing program (72.7%) (This characteristic remained even when controlling for the number of bedrooms, for racial and ethnic group, and for household type);

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1. Households who are issued certificates but who do not use those certificates, regardless of the reason, are referred to as non-recipients.

2. Khadduri and Struyk, 1980.

All non-elderly households are predominantly minority and this is particularly true for households with children (94% of households of one adult with children and 84% of households of two adults with children are minority);

A large proportion of elderly households are white; and

A majority (52.3%) live in units who gross rents are equal to or greater than Fair Market Rents and large majority (82.1%) live in units who gross rents are equal to or greater than 90% of the Fair Market Rents.

In contrast, the very low-income recipient households have the following characteristics:

A majority are white (58.3%);

A predominance of elderly households (60.3%) and only 22.1% had children in the household;

A large proportion need one or less bedroom apartments (67.6%);

A low proportion wanted or were required to move to receive benefit from the Section 8 Existing Program (35.6%);

Only single non-elderly and one adult with children households are predominantly minority (the latter is 82.0%);

A large proportion of elderly households are white and households of two adults with children are also predominantly white (55.0%); and

Some 26.1% live in units who gross rents are equal to or greater than Fair Market Rents while 52.9% live in units whose gross rents are equal to or greater than 90% of the Fair Market Rents.

Characteristics of the low-income population make it quite clear that a housing voucher program that limits eligibility to the very low-income households will affect certain sectors of the population unfairly.

To begin with, Federal regulations which would limit eligibility for assisted housing to households with incomes below 50% of the median income for the area would result in nearly one-third (32.3% or 267,761 households) of the presently eligible renter population becoming ineligible in New York City. Similarly. 15.2% of those presently served by public housing and Section 8 Existing units (30,722 households) may no longer be able to receive benefits when present contractual agreements expire.

Of all currently eligible renter households in New York City, those of two adults with children and of two non-elderly persons have the highest proportion with low incomes as opposed to very low incomes. These household types will be hurt at a disproportionantly greater rate than other households by the change in income eligibility requirements.

We can learn more about the households that will be hurt by the income eligibility change by observing those households that have a difficult time participating in the Section 8 Existing Housing Program in New York City.

Overall, low-income households were more than twice as likely as very low-income households to be unable or to select not to use their certificates in New York City.

In addition, Three types of households appear to have an especially difficult time using the Section 8 Existing certificates. These are households of one adult with children, two adults with children, and two non-elderly persons. Over 40% of these households become non-recipients in the Section 8 Existing program.

Over 52% of the non-recipient households are Black while only 36% of the recipient households are Black. In contrast, nearly 29% of the non-recipient households are white yet 52% of the participating households are white. The large proportion of whites among Section 8 recipients is due in large part to the over-representation of elderly households (most of whom are white) in the program.

While expired certificates are more prevalent among all low-income household groups than among their very low-income counterparts, the low-income households of two adults with children and two non-elderly persons have particularly high proportions of expired certificates.

Households of two adults with children also represent a large proportion (24.6%) of the low-income households served by the Section 8 Existing Program. This again indicates that this group will also be particularly hurt by a program that eliminates from eligibility the low-income population.

The fact that low-income households, and particularly the larger families and minority households, would suffer most from a change in the income eligibility for housing is especially distressing since low-income households, and particularly the larger families and minority households, enter housing assistance programs to find better quality housing.

II. RELIANCE ON A HOUSING VOUCHER PROGRAM AS THE PRIMARY LOW-INCOME HOUSING PROGRAM CREATES PROBLEMS IN TIGHT HOUSING MARKETS

INTRODUCTION

The President's Commission on Housing has taken the position that the major housing problem confronting lower-income households is no longer the shortage of rental housing or the prevalence of physically deficient units but the inability of lower-income households to obtain decent accommodations at affordable prices. They reach this conclusion after an analysis of trends for the nation as a whole which reveals that, indeed, the floor area per person in households has more than doubled in the last 30 years, overcrowding has declined by approximately 400% since 1940, and the percentage of dilapidated housing has declined from 50% in 1940 to less than 3% in 1979.[1] Approximately 7.5% of all housing units are rated as physically deficient in 1977 using an indicator of housing quality developed by the Congressional Budget Office. This represents a decline from 8.1% in 1975.

Contrasted to this decline in overcrowded and substandard housing conditions is the continuing increase in the proportion of households spending more than 25% of their income for housing. Approximately 51% of renters paid more than 25% of their income for rent in 1979, compared to 32% of the renters in 1950. Although it is clear that the inability to obtain decent accommodations without spending an inordinately high fraction of income is a serious and growing problem for lower-income households, it is difficult to accept the argument that inadequate housing is no longer a serious problem deserving public attention. The Commission's own analysis reveals that deficient housing is still very prevalent among renters (13.3%), rural Southerners (12.8%), residents of large cities (9.6%), Blacks (19.1%), Puerto Ricans (12.3%), and female headed households (10.1%).[2] Physically deficient housing may not appear to be a large problem when viewed in the aggregate. When viewed in distributional terms, however, poor quality housing constitutes a major problem for certain groups of households and for certain areas of the country.

Although the Commission's report recognizes that some groups or areas are characterized by a greater concentration of inadequate housing than the nation as a whole, it nonetheless advocates the termination of housing production subsidies. Instead, the Commission report presents preliminary, tentative recommendations that shortages of rental housing or the prevalence of poor quality housing, where they exist, be addressed by other means. These include adding new construction as an eligible activity under the CDBG program; providing options for State and local agency financing of housing through tax-exempt or taxable bonds; changing federal tax policy to provide a tax credit for rehabilitation of residential buildings and encouraging private groups at the local level to sponsor and/or finance housing programs.

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1 This analysis is presented in Chapter 2 of the Commission's interim report.

2 The numbers in parentheses indicate the percentage of households in each group or area living in inadequate housing.

At this time, it appears unlikely that much new construction or substantial rehabilitation would be generated through the CDBG program or the issuance of municipal bonds. Substantial amounts of new construction or substantial rehabilitation are not likely to be produced with the CDBG program for a number of reasons. First, the cost per dwelling unit of new construction/substantial rehabilitation is relatively high,[1] production of enough units to make a difference would absorb too large a share of a locality's community development budget. Second, the proposed continuation of the five year funding cycle for CDBG is likely to limit the amount of new construction or substantial rehabilitation, since localities would be unwilling to incur long term financial obligations without assurance of continued federal support for a longer time period. Third, community development funds are being reduced at the same time that activities previously funded under HUD categorical programs are being folded into the program. With this increased competition for a reduced pot of funds, it is unlikely that new construction will receive a large allocation.

It also seems unlikely, at least for the present, that municipalities will construct a significant volume of new units for lower-income households by issuing tax-exempt or taxable bonds. Conditions in the tax-exempt bond market and mortgage market currently are very unfavorable, with interest rates at the highest level in years, and municipal tax-exempt bonds are becoming less attractive investments to wealthy individuals because of the reduction in the maximum income tax rate. Furthermore, municipalities increasingly are recognizing the need to devote a larger share of the money raised through municipal bonds to intrastructure repair. Finally, the reduced costs to the developer produced by tax-exempt financing may not be adequate to lower the rents to a level where they are affordable to lower-income households without further subsidy.

If these recommended solutions are not likely to eliminate a shortage of rental housing or rehabilitate physically deficient housing, is it likely that a housing voucher alone could do so? The answer, recognized in the Commission's First Interim Report, is no.

> These programs (Section 8 Existing and EHAP) are less successful in reaching the poor who live in physically inadequate housing, and do not stimulate new construction or substantial rehabilitation.[2]

Evidence presented in evaluations of the Section 8 Existing Program[3] support this conclusion. In the Existing Section 8 Program, approximately 50% of the units that initially failed inspections were repaired; the percentage of rental units repaired after failing the initial inspection in the two supply sites of the Experimental Housing Allowance was somewhat higher - 59% and 57%. In both programs, the repairs made were very modest. The housing analysts evaluating the performance of these

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1 A briefing paper prepared by HUD for The President's Commission estimates that a unit of Section 8 new construction costs approximately $100,000 to build.

2 The President's Commission on Housing, First Interim Report, 1981, p.4-1.

3 U.S. Department of Housing and Urban Development, 1978; Abt Associates, Inc. 1981

programs concluded that the major impact of the programs on the housing stock is to promote maintenance and minor repairs, thus preventing deterioration but not increasing substantially the number of standard units through major rehabilitation.

The additional rent-paying ability of households in these programs also did not stimulate new construction, since the average rents of newly-constructed units are generally much greater than the average rents of existing units. For example, the median gross rent of units constructed between 1970-1976 in central cities in the U.S. was 1.22 times greater than the median gross rents for units existing prior to 1970 ($202 vs. $165).[1] This disparity between the rent of existing and new units is reflected in the dramatically different Fair Market Rent Schedules for existing units and new construction/substantial rehabilitation units.

The foregoing analysis suggests that the supply of adequate housing is not likely to be increased substantially in localities if the housing production subsidy programs are eliminated. In this situation, households issued rent certificates or housing vouchers in tight housing markets or markets containing substanial amounts of deteriorated housing may experience great difficulty finding housing meeting program standards.

Insight into the difficulties likely to be encountered by households issued housing vouchers in a tight housing market can be obtained by examining the experiences of households issued Section 8 certificates in New York City during a period--January 1, 1979 to June, 1981--when the number of vacant units of standard quality was shrinking.

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1 Data presented in George Sternleib and James W. Hughes America's Housing: Prospects and Problems, (1980), p. 39.

BACKGROUND DATA ON NEW YORK CITY HOUSING MARKET

Households in search of rental units in New York City are confronted with an extremely difficult and unenviable task - locating a unit of acceptable quality when the number of units vacant and available for rent represents only 2.13% of all occupied and vacant units and where those units that are available remain vacant for less than two months at the median.[1] This task is made even more difficult when the prospective renter is severely restricted in the amount of money that he or she can offer for a unit. Minority households face the added disadvantage of living in neighborhoods with the worst housing conditions and the likelihood of discrimination when they move.

Clearly, the housing market in New York City is a very "tight" one, a market in which renters have a very restricted choice of housing available to them. This choice has become even more limited during part of the time period covered by this study, as the vacancy rate has dropped from 2.95% in 1978 to its current level of 2.13%.[2] The competition for this dwindling supply of available rental units has increased during this period, as the median time that a vacant unit remained unclaimed decreased from 2.29 months in 1978 to 1.90 months in 1981. Not unexpectedly, rents increased at the same time that the supply of adequate housing available for rent became more scarce. Median gross rents for all renter-occupied units increased by approximately 26% since 1978.[3]

FINDINGS

Households Are More Likely to Become Non-recipients If They Have to Move to Receive Assistance

Against this backdrop of an incredibly tight housing market, it is not surprising to find that a substantial percentage (27%) of the households issued certificates did not eventually receive rental

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1 The data identifying the number of units vacant and available for rent are taken from the 1981 New York City Housing and Vacancy Survey conducted for New York City by the U.S. Bureau of the Census. The count of vacant units includes only those year-round rental units that are not dilapidated and are available for rent. The denominator used to calculate the vacancy rate includes all renter-occupied units plus the units that are vacant and available for rent. In February, 1981, there were 42, 157 units vacant and available for rent and 1,933,887 renter occupied units.

2 The vacancy rate in 1975 was 2.77. See Marcuse, Rental Housing in the City of New York, Supply and Condition 1975-1978 (1970) for discussion of changes in the rental housing market between 1975 and 1978.

3 Data for 1981 were obtained from the 1981 New York City Housing and Vacancy Survey. The 1978 data were taken from the 1979 Marcuse study.

assistance.[1] Households who wanted to move or who were required to move to receive assistance were substantially more likely to become non-recipients than were households who wanted to receive the subsidy in-place. Since the beginning of 1979, 80% of the non-recipients had to or wanted to move, compared to only 39% of the recipients. Looked at another way, approximately 54% of the certificate holders who wanted to or had to move did not receive assistance, compared to only 15% of the certificate holders who were eligible to remain in-place.[2]

Findings discussed in a previous section of this study indicate that certain types of households - low-income, minority groups, households with children and two non-elderly adults - experienced noticeably greater difficulty than other groups in converting their certificates into subsidies. The common theme linking these groups is that their members, recipients and non-recipients alike, were substantially more likely than other households to live in substandard units when they applied for entry into the program. As a consequence, their participation in the program, to a much greater degree than other groups, was contingent on their moving to a physically sound dwelling unit. Once this determination was made, the likelihood that any of these households would receive the subsidy was reduced substantially, since, as we have seen, more than half the households who preferred to or were required to move did not rent a unit under the Section 8 Existing Program. The connection between having to move and not using the certificate is revealed very clearly in Table 2. Those types of households apparently experiencing the most difficulty in using their certificates to obtain the subsidy - households with children and two non-elderly adults - also were more likely than other types of households to have to move to receive the subsidy.

Possible Reasons Why Households May Not Have Received Assistance

Why is the need to move to receive program benefits so closely linked with not receiving assistance?[3] Households may not receive the subsidy because it is extremely difficult to locate an acceptable unit in the supply of vacant housing. Very few adequate units may be available; those that are vacant may have rents in excess of the Fair Market Rents or may be too small for the household. Households may become non-recipients after making a thorough, but unsuccessful, search for a unit or they may not look very seriously or at all because they anticipate that they will not be able to locate a unit meeting the

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1 Thirty-six percent of households issued certificates after January 1, 1979 did not receive a subsidy.

2 Estimates of the characteristics of certificate holders were obtained by merging the sample of non-recipients with the data for recipients. See the Note on Data and Methodology at the end of this study for a discussion of this methodology.

3 See U.S. Dept. of Housing and Urban Development, Lower Income Housing Assistance Program (Section 8): Nationwide Evaluation of the Existing Housing Program (1978), pp 45-55. for a discussion of reasons why households may not use their certificates.

Table 2

Proportion of Non-Recipients Among
Existing Section 8 Certificate Holders, 1979-1981

Household Group	Percent of All Certificate Holders Having to Move	Proportion of Certificate Holders that are Non-Recipients
Single Non-Elderly	55.9%	33.5%
Single Elderly	39.6	30.0
One Adult w/Children	70.6	44.2
Two Adults w/Children	72.3	49.6
Two Elderly	39.8	18.5
Two Non-Elderly	62.6	51.0
Overall	53.7	36.0

Source: New York City Public Housing Authority Records

program standards. Minorities may not obtain an adequate unit because of discrimination or the expectation that they will be discriminated against.

On the other hand, households may not receive assistance for a variety of personal reasons having nothing to do with the supply of housing. They may not want to move, behond the boundaries of their present neighborhood and its attendant support networks, they may not be able to mount an effective search or they may not understand the program well enough to explain it to the landlord, or they may decide that the benefits offered by the program are not sufficiently large to offset the cost and inconvenience of moving.

<u>Non-recipient Households Had Strong Incentives to Find Adequate Housing</u>

The available data do not allow us to examine whether or not non-recipient households looked for a unit. However, we can try to ascertain whether a household determination that the costs of moving outweigh the the potential rent savings or the gain in housing quality offered by the program or the existence of a tight housing market is the most reasonable explanation for the relatively large fraction of non-recipients among specific types of households.

Data presented in column 2 of Table 3 provide tentative support for the first interpretation. Households with children experience the smallest reduction of all households in their out-of-pocket expenses for rent upon signing a lease for a unit under the Section 8 Program. It is conceivable that non-recipient households with children faced with similar potential savings, may have decided that the rent savings were not large enough to offset the costs of moving, both financial and psychological. This explanation has been offered to account for the higher non-participation rates of households with incomes in the upper end of the eligibility bracket in Experimental Housing Allowance Program (EHAP) and the Existing Section 8 Program. However, these households in EHAP tended to live in higher quality units prior to applying for participation in the program.[1] Consequently, their only primary incentive to relocate would have been to reduce their rent contribution, a reduction which may not have been very large because their incomes were in the high end of the eligibility range.

A similar situation does not exist in New York City. More than 50% of households containing children lived in substandard conditions prior to entering the Section 8 Program. More than 80% of the recipient mover households left a substandard unit when they moved into their subsidized apartment. Furthermore, more than 90% of the non-recipient households with children either wanted to or were required to leave their unit to receive the Section 8 subsidy. If we assume that the percentage of non-recipient mover households living in substandard conditions is similar to that of the recipient mover households, then approximately 80% of the non-recipient movers also occuped substandard quarters at the time of their application to the program. Certainly the poor physical quality of the housing of these households could have provided an alternative to large rent reductions as motivation for households to use their certificates.

[1] See U.S. Department of Housing and Urban Development, 1978, p. 18

Table 3

Change in Rents for Households Receiving Section 8 Existing Assistance

Household Group		Pre-Program Rent/Income Ratio	Decrease in Tenant Rent Cost	Percentage Decrease in Tenant Rent Cost	Increase in Gross Rent of Unit	Percentage Increase in Gross Rent of Unit
Single Non-Elderly	Move	.579	$ 84	53.1%	$104	66.1%
	In-Place	.685	118	61.3%	11	5.7%
Single Elderly	Move	.472	58	43.3%	120	86.2%
	In-Place	.599	100	54.6%	20	8.5%
One adult w/children	Move	.288	37	19.6%	119	61.2%
	In-Place	.532	151	56.8%	1	.5%
Two adults w/children	Move	.276	31	16.0%	131	68.4%
	In-Place	.483	138	52.3%	6	2.4%
Two Elderly	Move	.432	76	40.7%	87	44.7%
	In-Place	.526	110	51.0%	14	5.9%
Two Non-Elderly	Move	.384	54	32.5%	97	56.2%
	In-Place	.530	114	51.8%	4	1.7%

Source: New York City Public Housing Authority Records

That nearly half of the households with children issued certificates did not ultimately receive assistance, even though many lived in physically deficient units, strongly suggests that these households could not find units that met program standards.

Many Households May Not Have Received Benefits Due to an Inadequate Supply of Housing Meeting Program Standards

The conclusion that non-recipient households could not find units that met program standards is further supported by the data presented in Table 4.[1] The data presented in the second column indicate that households moving into the larger units, presumably families with children, experience the smallest savings in the amount of money they actually pay for rent. From Table 1, we know that households moving into these larger units tended to live in physically deficient housing prior to the move.[2] As indicated by the rent/income ratios, these households paid slightly more than 25% of their income to rent these substandard units. The major point to be learned from the table, though, is that these large households who paid a relatively low portion of their income to rent substandard units appear to have benefitted substantially from the program. These households moved into large units that rented for considerably more than their previous unit. For example, households moving into three bedroom units occupied units that, at the median, rented for $145 more per month than their previous unit. Even though these households paid a relatively low fraction of their income for rent in their previous unit and did not reduce their out-of-pocket rent expenses very much by participating in the program, the prospect of obtaining a better quality or less crowded unit by u using their certificate was an important enough lure to convince these households to move. These households may have been unable to rent standard quality units without a subsidy because they have less discretionary income to spend on housing and are therefore forced to live in substandard and overcrowded units.

Evidence presented earlier suggests that recipient and non-recipient households both tended to occupy substandard housing prior to applying for the program. If we assume that the recipient and non-recipient mover households are similar in other ways (and we have no reason to suspect this is not the case), then the non-recipient

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[1] Data describing rent changes for households obtaining various size units are presented for two reasons. First, the possible effect of housing supply factors on household participation in the program are easier to see when focusing on unit size, And, second, households with children generally require the largest units.

[2] The data presented in the sixth column supports this conclusion. The ratio of the gross rent paid at the unit they left to the Fair Market Rent for a unit of similar size is an indirect and somewhat imperfect measure, of housing quality. It indicates how much below the median rent for a standard but not "top" quality unit the rent of the previous unit was. The smaller the ratio, presumably the greater the difference in quality between the previous unit and units meeting program standards. The weakness in the measure is the assumption that the FMR is a reasonable approximation of a unit just meeting Section 8 standards and that the rent of the previous unit is a reasonable indication of the quality of that unit.

Table 4

Change in Rents for Households Receiving Section 8 Existing Assistance by Number of Bedrooms in Section 8 Unit

Number of Bedrooms		Median Pre-Program Rent/Income Ratio	Median Decrease in Tenant Rent Cost	Median Percentage Decrease in Tenant Rent Cost	Median Increase in Gross Rent of Unit	Median Percentage Increase in Gross Rent of Unit	Median Ratio of Pre-Program Rent to Fair Market Rent
0	Move	.469	$57	44.1%	$88	66.6%	.569
	In-Place	.579	97	55.8	30	1.7	.789
1	Move	.484	68	45.2	111	72.1	.594
	In-Place	.596	108	54.2	21	9.1	.8
2	Move	.286	33	18.0	121	65.8	.600
	In-Place	.517	141	53.9	4	1.3	.872
3	Move	.273	36	17.3	145	71.2	.563
	In-Place	.493	170	55.9	2	6.8	.860
4	Move	.254	38	20.0	166	79.0	.496
	In-Place	.463	183	59.0	9	2.4	.832

Source: New York City Public Housing Authority Records

movers did not lack for incentives to use their certificates. The pattern of results - that large households are most likely to live in substandard housing prior to enrolling in the program, regardless of income, that these same households are more likely than other groups to be required to move to receive the subsidy, that they generally obtain units renting for substantially more than their previous inadequate unit when they do locate a unit, yet are the least likely of all groups to secure assistance under the program - leads to the conclusion that these large households, especially those with children, were not able to obtain units meeting Section 8 standards.

Two final pieces of evidence support this conclusion. First, even among certificate holders that are required to move to receive the subsidy, households with children have the highest proportion of failed certificates. And second, the vacancy rate is somewhat lower among units containing two or more bedrooms (2.04%) than among units with less than two bedrooms (2.34%).

In summary, many households experienced difficulties obtaining rental assistance under the Sectin 8 Existing Program in New York City's tight housing market. Some types of households - especially minorities and those with children - have substantially less success than others converting their certificates into better housing. The evidence that the problems faced by these households in participating in the program are due to the scarcity of adequate housing meeting program standards is quite convincing. These households would face similar, if not worse problems, finding acceptable housing under a voucher program without some form of housing production subsidy.

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III. EFFECTS OF LOWERING RENT CEILINGS ON PROPORTION OF INCOME DEVOTED TO RENT BY PROGRAM PARTICIPATANTS

INTRODUCTION

Under the Section 8 Existing housing program, households are permitted to live in standard quality units of their choosing as long as the unit rent does not exceed a maximum rent, called a Fair Market Rent, which varies by unit size. The household can not participate in the program if it rents a unit whose rent exceeds the FMR for a unit of that size. In contrast, households in the field trials of the housing allowance experiment were permitted to rent units in excess of the FMR. In that situation, the rent contributions of households were determined by calculating the difference between the FMR and 25% of the household's adjusted income, with the household paying the portion of the rent in excess of the FMR. The schedule of maximum rents in the Section 8 Program was originally set by HUD for each SMSA in the country so that the rents of half of the units in the SMSA meeting the program quality standards would fall below the FMR schedule. Locals PHAs were given the authority to approve rents within 110% of the FMR for a maximum of 20% of the households receiving Section 8 assistance. In addition, the PHAs could petition HUD for permission to rent a greater percentage of units at 110% of the FMR or could seek upward revisions in the entire schedule. The schedule of FMRs have been revised a number of times since the program's inception in 1975.

The effect of the FMRs on restraining or increasing program costs has been debated since the start of the program.[1] The disagreement has centered on four questions. Does the FMR restrict households' choices to a limited range of neighborhood and housing types? Second, does the rent ceiling embodied in the FMR schedule encourage landlords to raise their rents to the maximum allowed rent? Third, are the FMRs set at a level which is higher than the rent required to obtain a unit just meeting the Section 8 quality standards? And fourth, have the increases made in the FMR since 1975 exceeded the rate of increase in market rents during the same period.

Evidence addressing the last three questions is available at the national level. A comparison the the rent increases of households participating in the Section 8 Existing Program and the Experimental Housing Allowance Program suggests that landlords were encouraged by the Fair Market Rents to raise their rents. Households using the Section 8 certificates to lower their rent/income ratio in their already standard unit experienced a 26% rent increase in the Section 8 program, compared to a 4% increase in the supply experiment part of

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[1] For an excellent discussion of the issues involved, see Jill Khadduri and Raymond J. Struyk, "Improving Section 8 Rental Assistance." Evaluation Review, Vol. 5, 1981; Edgar O. Olsen and David W. Rasmussen "Section 8 Existing: A Program Evaluation." Dept. of Housing and Urban Development. Occasional Papers in Housing and Community Affairs, Volume 6, 1980

EHAP. Movers experienced a 52% increase in rents in the Section 8 Program and a slightly lower 34% to 45% increase in EHAP.[1] According to the study conducted by Olsen and Rasmussen, Fair Market Rents have been set somewhat higher than the average rent of units just meeting Section 8 standards and have increased at a greater rate thån the market rents in most SMSAs.[2]

Possibly because of these findings, suggestions have been made that the standard used to calculate the household's rent contribution under a voucher program be changed. The President's Commission has recommended that an approach similar to that used in the EHAP be adopted. A household would be free to occupy a unit renting for more than the standard used to calculate the tenant's contribution, with the tenant required to pay the entire amount of the difference between the rent and the standard. In other words, the voucher recipient would pay more than 30% of his/her income for housing if the unit rent exceeded the payment standard.

Since specific recommendations have not been made regarding the nature of the payment standard to be adopted for use in the voucher program, it is not possible to identify how such a payment standard would compare to the current Fair Market Rent schedules. However, given the findings described above, and the Administration's general goal of reducing the cost of its assistance programs, there is general concern that the payment standard adopted will be lower than the Fair Market Rents. This section of the study estimates the effect on the current Section 8 recipients of adopting a payment standard which is 10% lower than the current Fair Market Rents. The proportion of recipients who would have to pay a greater fraction of their income for rent under such a standard is identified. Estimates also are made of the proportion of income that program recipients would have to pay for rent in their Section 8 unit if the housing voucher payment standard is 10% below that of the Fair Market Rent for their unit.

FINDINGS

Many of the households (30%) who have received assistance under the Section 8 program moved into units whose gross rent under the initial lease was equal to or in excess of the Fair Market Rent (plus utilities) for a unit of that size (See Table 5).[3]

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[1] Khadduri and Struyk, 1980, p. 197

[2] See Olsen and Rasmussen (1980)

[3] The gross rent and Fair Market Rent maintained in the New York Housing Authority's files for each household receiving assistance in the Section 8 Program is the gross rent for the unit agreed upon in the lease and the Housing Assistance Payments Contract and the Fair Market Rent for that size unit listed on the Section 8 certificates. The analysis assumes that the Fair Market Rents for various size units have not increased faster than the gross rents paid by the tenant in their apartments. This does not appear to be an unreasonable assumption.

Table 5

Percent of Very Low and Low Income Recipient Households by the Ratio of Contract Rent in Section 8 Unit to Fair Market Rent

Ratio of Contract Rent to Fair Market Rent	Very Low Income	Low Income	Total
.001 - .399	.01%	0.0%	0.0%
.4 - .699	9.0	1.0	7.7
.70 - .799	16.4	3.1	14.3
.80 - .899	21.6	13.9	20.4
.90 - .999	26.8	29.8	27.2
1.0 - 1.0499	11.9	25.4	14.1
1.05 - 1.099	11.4	23.6	13.3
1.10 and over	2.8	3.3	2.9
Total	100.0	100.0	100.0

Source: New York City Public Housing Authority Records

Approximately 43% of the recipients live in units with gross rents less than 90% of the Fair Market Rent. Although we cannot address the issue directly, the situation in New York City suggests that landlords have not raised their rents to meet the Fair Market Rent. Under the rent stabilization and rent control regulations, this could only happen if a unit were vacated prior to occupancy by the Section 8 recipients, since the amount of rent increases for tenants receiving the subsidy in their pre-program unit is governed by the rent regulations.[1]

Recipients who used the Section 8 certificate to move occupied units with rents more than 60% greater than those of the units they vacated. Although this increase is greater than those reported in the EHAP sites or for the Section 8 program nationally, much of the jump in rent undoubtedly occurred because the households moved from substandard units into decent quality units. This increase in rent to obtain a better quality unit does not appear very large when compared to the 55% gain in median rents in New York City between 1975 and 1981. This pattern of results suggests that landlords did not raise their rents to the Fair Market limits.

The role of the rent regulations in limiting the rent increases experienced by households who use the Section 8 certificate to stay in place and reduce their rent burden is evident in Table 3. Rents for units occupied by in-place recipients increased far less in New York City than for in-place recipients in the Section 8 program nationwide. For example, the median percentage increase for in-place residents in New York City is comparable to the 4% increase observed for in-place recipients in the EHAP, and far less than the 26% increase in the Section 8 Existing Program nationwide.

The analysis presented above suggests very strongly that Section 8 recipients in New York City are paying rents very similar to those paid by residents in non-assisted housing. Dropping the payment standard 10% below Fair Market Rents would force a substantial number of Section 8 recipients to pay more of their income for rent (See Table 5). This change would fall rather hard on these households, since their rent contribution has already been increased from 25% to 30% of their income. The 30% of the recipients living in units already renting at or above the Fair Market Rent clearly would have to pay more than 30% of their income for rent. In addition, some portion of the 27% of the recipients whose unit rents are between 90% and 100% of the Fair Market Rent would be affected by this change.

Estimates of the median rent-to-income ratio likely to be paid by households receiving Section 8 assistance if the payment standard is lowered 10% are presented in Table 6. The impact on all household groups is quite dramatic. For example, 50% of very low-income single elderly households would have to pay more than 34% of their income for rent; 25% of these same households would have to pay more than 39% of

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[1] Only if a tenant lived in a decontrolled unit could the landlord raise the rents in an unrestricted fashion.

Table 6

Estimated Rent/Income Ratio of Households Receiving Section 8 Assistance if Payment Standard is set at 90% of Current Fair Market Rent Schedule, by Household Group and Income Level.[a]

Household Type	Very Low Income: Median Rent/ Income Ratio	Very Low Income: Rent/Income Ratio at 75 Percentile	Low Income: Median Rent/ Income Ratio	Low Income: Rent/Income Ratio at 75 Percentile
Single non-elderly	.355	.422	.343	.387
Single elderly	.346	.390	.345	.385
One adult w/children	.343	.393	.345	.372
Two adults w/children	.346	.382	.340	.360
Two elderly	.333	.374	.356	.394
Two non-elderly	.334	.375	.345	.386

a. Calculations are based on the assumption that households would be required to pay 30% of their income for rent in the absence of a reduction in the payment standard.

Source: New York City Public Housing Authority Records

their income for rent. [1] The impact would be equally as severe for very low-income households containing one adult and children.

The data presented in Tables 5 and 6 document quite clearly that, at least in New York City, and probably many other large cities, even a 10% reduction in the payment standard would exacerbate the very problem - housing affordability - that housing vouchers are designed to alleviate. If the change in payment standards is not applied to current recipients, the impact obviously would be less. However, households issued certificates or vouchers after the reduction in the payment standard undoubtedly would find it very difficult to locate standard quality housing renting below the payment standard in New York City's tight housing market. Of course, they would be free to secure a unit whose rent exceeds the payment standard, not so much out of choice but for lack of less costly alternatives. In such a situation, the voucher again would have failed to achieve its major purpose - alleviating the rent burdens faced by many lower-income households.

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[1] The 75th percentile indicates that 25% of this group would have rent-to-income ratios greater than the value fo the 75th percentile.

IV. A HOUSING VOUCHER PROGRAM THAT IS NOT FLEXIBLE ENOUGH TO TAKE ADVANTAGE OF ALL OPPORTUNITIES TO MEET THE NEEDS OF THE HOUSING POOR WILL RESULT IN SOME NEGATIVE IMPACTS ON THAT POPULATION.

INTRODUCTION

One of the most popular aspects of a housing voucher program, and of the Section 8 Existing Housing program, is the flexibility offered to recipient households. Presumably, households with a housing voucher can generally exercise the choice to stay where they are or move to a different, better, or larger unit. Also, if they want to move to a different neighborhood, again, hopefully they can exercise that choice.

It has been suggested that the Section 8 Existing Housing Program could contribute to neighborhood instability in at least two ways. The first is the increase in demand for housing as a result of the improvements taking place in the neighborhood. This could cause displacement among eligible households who are unable to obtain certificates because of limited program funds. The second is that program subsidies could induce recipients to move out of the worst housing and neighborhoods, causing their accelerated abandonment and decline.[1]

Evidence has been presented from the EHAP demonstrations that the Section 8 Existing program is not likely to have either of these effects, even though there is a slight tendency for recipients to move from the poorest areas.[2] Moreover, it has been suggested that, at worst, the Section 8 Existing Program contributes to neighborhood instability only in the long-term through increased movement from distressed neighborhoods. The program, however, is currently small enough, that few have suggested this potential impact will be significant.

Neighborhood groups have observed that the Section 8 Existing Program contributes to the displacement of households from neighborhoods within New York City and other cities throughout the country. As we have seen from the information gathered about the Section 8 Existing Housing Program in New York City, choice is not possible in all situations. Indeed, some households found it <u>necessary</u> to move in order to receive benefits from the Section 8 Existing Program. This is particularly true when the predominant housing types fails to meet program standards. There is additional concern that economic and recial segregation is fostered as minorities are limited to low rent neighborhoods. Other circumstances described here give additional support to the conclusion that flexibility is not a guaranteed result of a voucher program.

Previous sections of this report have dealt specifically with the potential impact of program changes on the housing poor. Data were collected and analyzed to determine effects on the potential benefit population of changes in eligibility criteria and rent ceilings, among

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[1] Edgar O. Olsen and David W. Rasmussen, "Section 8 Existing: A Program Evaluation," <u>Occassional Papers in Housing and Community Affairs</u>, (Washington, D.C. HUD, December 1979), Vol. 6, pp. 1-32.

[2] Olsen and Rasmussen, p.9

others. In this section the focus turns to the impact on neighborhoods and on broader issues than are reflected in specific program changes discussed to date.

The data relied upon here comes from interviews with representatives of neighborhood organizations in New York City who work with the housing poor and have observed the impact of the Section 8 Existing housing program on their neighborhoods. This section discusses ways in which the Section 8 Existing Program has not been flexible and explores ways that a housing voucher program would avoid these negative impacts and reap greater benefits for the housing poor.

FINDINGS

Not all of the housing poor population have had equal access to the Section 8 Existing Housing Program.

Easily the most disheartening stories revealed in interviews with neighborhood housing groups of eligible and needy individuals that might otherwise be able to benefit from the Existing Section 8 Program in New York City are about those, who for a variety of reasons, cannot adequately go through the process of successfully applying for or participating in the program. Sadly, the Existing Section 8 Program either does not have adequate funds, staff, or is not designed in such a way as to make it possible for all eligible individuals to do so.

When there are already waiting lists that seem unending, it may seem unnecessary or even imprudent to discuss making it easier to apply for housing assistance or taking steps to get information about the availability of assistance out on the street. Yet it is inequitable to keep the program beyond the reach of some of those in need, because the need so greatly outstrips the commitment to meet those needs.

Ensuring that public assistance programs are truly accessible to potential and eligible recipients is not a new problem. However, evidence from neighborhood groups working with housing poor populations indicates that many people in need of housing assistance never hear about the Section 8 Existing Program. One person interviewed stated that this was the case because "the Existing Section 8 Program is one form of federal assistance that isn't talked about on the street, not like food stamps or public housing where what's going on is passed on by word of mouth."

Many people who probably are eligible for participation in the Existing Section 8 Program, and who would undoubtedly benefit from it, do not participate because the system is too awesome. Administration of the Section 8 Existing Program has not resulted in communicating sufficiently to potential recipients what they must do and what they can expect from the program. And, still, it is too often the case that not speaking English, creates an additional barrier to gaining benefits from the program.

Interviews with neighborhood groups also made it clear, however, that once a potential recipient decides to apply the process itself can be incomprehensible and discouraging, at best. To survive the system, one must be able to fill out forms and be willing to answer questions which may seem personal; one must be able and willing to gather rent receipts and wage statements to prove what may seem obvious; one must be able to assimilate a host of regulations and responsibilities which they must undertake to benefit from the program, not the least of which may be moving and finding an acceptable apartment within the fair market rent; and one must wait.

An extremely worthwhile aspect of the Clinton Housing Development Corporation and its 510 Demonstration Program in New York City, which has utilized the Section 8 Program, is the results gained from working with the tenants in obtaining Section 8 certificates. The Clinton group conducts mock procedures that take the prospective Section 8 applicant through all the steps and questions they will be faced with in applying to the City Housing Authority. When they are faced with the actual application process, they have in hand the necessary receipts and papers, they know what questions they will be asked, and they understand how the program will work and what they can expect. The City Housing Authority has, of course, welcomed this assistance on the part of the neighborhood group. The tenants, in turn, are not nearly so frustrated by the procedures and understand how they can more easily participate in that process.

Unwillingness on the part of the landlord to cooperate also makes it difficult for certain households to benefit from the Section 8 Existing Program.

Since the beginning of the Section 8 program, there have been landlords that have refused to agree to rent their apartments under the program. Most often they complain that they do not want to get involved in the red tape and bureaucracy of federal programs. In fact, their apartments must be inspected and meet the quality standards, they must agree to a standard lease form, and they receive payments from the federal government for the difference between the rent and 25% of the tenant's income (now 30%). The tenant pays the portion of the rent that represents 30% of their income. The landlord must agree to a Fair Market Rent established by the federal government which differs by geographic regions and according to the number of bedrooms in the apartment.

However, the landlord receives the benefits of being assured that the rent is paid over the term of the agreement and they receive some payment to cover the loss of income due to a vacancy within the program. However, there is approximately a four month period at the beginning of participation before the landlord will receive the first payment. While this initial period usually creates a hardship for tenant, landlord, or both, after the first four months the landlords get all of the payment due them at that point.

New York City has worked to encourage the participation of landlords in the Section 8 Existing Program. So have many neighborhood organizations. But in a tight market, where maximum and exhorbitant rents are the rule and where most even minimally habitable apartments are in demand, there is very little incentive to participate in a federal program with any restrictions at all.

The prospect of having to meet quality standards may discourage an otherwise willing landlord. Virtually no funds exist to assist him or her to make the needed improvements and unless the Section 8 Existing Program offers substantially higher rents, the economic incentive may not be there. It is also reportedly true that many landlords do not know about the program and do not understand it when an eager tenant approaches them with the idea. Again, language can be a barrier, but, too often, they never receive adequate explanations about the program.

In such a program the potential recipient must gain cooperation from a landlord. This places a series of restrictions in the program that would otherwise be non-existent. One restriction, that the tenant and landlord have to be on relatively good terms, may eliminate many buildings that may be in trouble with maintenance and upkeep. This reuqirement further allows a landlord not to participate in any instance where the tenant in question is viewed as undesirable. This invites discrimination and exacerbates the problems special households, such as single parent households and other households with children, minority households and welfare households, have in finding suitable apartments.

<u>The Section 8 Existing Program has both "redlined" and "triaged" certain neighborhoods by requiring households to move from their neighborhoods to benefit.</u>

One characteristic of the Section 8 Existing Program that has made it so appealing to cities and Congress alike is that participating tenants could either stay where they live presently or move to a different apartment and receive benefits of the program.

This otherwise desirable aspect of the program can be administered in such a way that buildings and neighborhoods are "redlined" and virtual triage results as a result of households being required to move in order to meet program standards. According to interviews with neighborhood groups in New York City, those neighborhoods which have a predominance of substandard buildings, or which exhibit other evidence of deterioration, or which generally have low rent apartments are likely to suffer as a result of the Section 8 Existing Program.

Households eligible for Section 8 Existing certificates living in substandard apartments must move to benefit. Families eligible and living in a standard unit may be required to move because they live in a neighborhood that does not meet the quality standards (e.g., in New York City: a burned out building on the block usually makes any apartment on that block ineligible).

Interviews with neighborhood groups in New York City revealed that each of these situations could be remedied in a housing voucher program, or in the Section 8 Existing Program, if the program were designed to permit, in as many situations as possible, a family to receive assistance and stay in place, if that were their choice. Most believed that no aspect of the Section 8 Existing Program was directed to reinforcing the desire to stay in a particular building and a particular neighborhood.

The issue of restricted locational choice is on its face, troubling. Concern was expressed about a program providing housing assistance that would require a family to move in order to receive the benefits of that program if they did not want to move. Unfortunately, this has been the case in instances with the Section 8 Existing Program. As we have seen from the data presented in earlier sections of this report, there is a high correlation between households that drop out of the program, that is, that do not use their certificates, and those who must move in order to participate in the program. Undoubtedly, many of these cannot find suitable or acceptable units within the Fair Market Rents. But it is also undoubtedly true, that some of those households elect not to receive benefits from the program if it means that they must leave their neighborhoods or their building in order to do so.

Representatives of neighborhood groups in New York City felt that too many potential recipients were required to move and that particular neighborhoods suffered as a result.

No one interviewed expressed an interest in devising a program that would enable otherwise ineligible families to participate in the program. And the individual situations identified above may not be as important as the understanding that the Section 8 Existing Program has been designed in such a way that the stability and cohesiveness of a neighborhood is not taken into account in the issuance of certificates.

Many reasons for desiring to stay in an apartment and in a neighborhood are not only valid ones, but important values to protect. Much of what keeps a neighborhood together—safe and secure—is the stability of families who have lived there for years and identify with that neighborhood and the neighborhood with them. It is often these very people that run the stores and commercial businesses that keep the neighborhood alive and provide it with the special needs and interests it is accustomed to and that have helped maintain its character. This fabric of the neighborhood is what has kept blocks secure from crime and vandalism. It is irreplacable.

Representatives of neighborhood groups in New York City felt that too much emphasis has been placed in the Section 8 Existing Program on the quality and price of a unit and virtually no attention has been given to reinforcing the desire to keep a neighborhood together and stay in place.

<u>The housing poor are not allowed to utilize innovative means to meet their housing needs through the Section 8 Existing Program.</u>

Perhaps the most troubling aspect of the Section 8 Existing housing program in New York City has to do with the inability to match program requirements with particular circumstances that offer unique means for meeting housing needs of the poor.

Presently, requirements within the Section 8 Existing Program determine that an eligible household must select a dwelling unit that meets certain quality standards. If the unit does not meet these standards, and is not altered to meet them, the household cannot live there and receive benefits from the Section 8 Existing Program.

Not all households who can benefit from a housing voucher live in the same kind of situation. As we have seen, many households need assistance in reducing the proportion of their income they pay out for housing costs, others need larger housing units, and some live in otherwise substandard units and need a better quality unit.

Within these broad circumstances exists a wide variety of living conditions that can be used to meet the housing need of lower income households. Throughout the country, and indeed in New York City, there are substantial efforts to utilize conversions, sweat equity programs, other rehabilitation efforts and alternative management schemes, to increase housing opportunities for lower-income households.

Clearly it is important to impose standards of health, safety and livability for housing units receiving assistance to serve lower-income families. No one interviewed endorsed the possibility of slum-landlords receiving Section 8 payments while renting substandard apartments to lower income families unable to afford a decent place to live.

However, those interviewed indicated that many apartments are important and unique housing opportunities for lower income families and do not meet the standards required for approval in the Section 8 program. These units seem to fall primarily into two categories.

The first are the old-law tenements that exist predominantly in certain sections of the City. The Lower East Side and Clinton for instance, have vast numbers of these pre-1901 five story walk-ups. These tenements serve, by and large, lower income families. There exist generations of families that have lived in these neighborhoods and residents who have never left their immediate neighborhood, finding within a few blocks all that is necessary to sustain them.

Most old-law tenements do not have three piece bathrooms (a sink, toilet, and bathtub) all within the apartment. This violates the Section 8 program quality standards. Most old-law tenements have some rooms without windows. Windowless rooms cannot be counted toward the total room count, thus these apartments can only qualify for a Fair Market Rent set for a smaller apartment than their total room number represents. The structural and lay-out alterations required to provide each apartment with a three piece bathroom instead of a toilet down the hall and to remove walls to rid an apartment of its windowless rooms are substantial and costly.

Yet many, although certainly not all, of these apartments are otherwise suitable in terms of health, safety and livability. They are clearly providing much needed housing for lower income families in New York City. At best, the situation presents a two-edge sword. It was felt by some of those interviewed that the Section 8 Existing program standards could be altered to accommodate those old-law tenements which are suitable in all respects except the structural characteristics presently making it impossible for their occupants to participate in the Section 8 Existing program. Yet, simultaneously, commitment was registered for the objective of ensuring the housing poor decent and suitable housing.

The second type of unit not meeting the standards required for approval in the Section 8 program are many of the apartment buildings that are in receivership and are being managed and operated by alternative managing agents or the tenants living in the building. By the time these units are abandoned they are, in most instances, in such poor condition that they cannot qualify for the Section 8 Existing Program.

In these instances, it is indeed true that the units do not meet standards of health, safety and livability. With a restructured rent-roll, the tenants nonetheless are willing to make the necessary repairs and maintain the building. However, because the apartments do not qualify for the Section 8 Existing program, the tenants cannot presently afford the rents required to allow them to make such repairs and operate the building adequately. Thus, in these instances, the building and its tenants are not really given a chance to turn the building around.

The widely applauded neighborhood group called the Renigades, who work primarily in East Harlem, has saved many buildings and helped tenants in troubled neighborhoods. They have encountered situations where the tenants of an abandoned building were willing to assume the responsibility of managing and renovating the building only to discover that they were ineligible for Section 8 because the apartments did not yet meet the quality standards.

One suggestion offered was that in those circumstances where tenants are managing and operating an otherwise abandoned building, they be allowed to benefit from the Section 8 Existing program with the conditions required to bring the apartment up to standard program requirements within an agreed upon time period.

This point is closely tied to the need for flexibility in the administration of the Section 8 Existing programs for cities and their entities. The ability to target Section 8 Existing certificates to support other funded housing and community development activities is an important mechanism for ensuring that the poor residents benefit from these programs and are not displaced.

Primarily through the use of Community Development Block Grant funds, some cities and neighborhood organizations have developed rehabilitation programs and other programs directed to specific neighborhoods or income groups. Ideally, the availability of the Section 8 Existing certificates could ensure that lower income households would benefit from those funds and would not be displaced by the improvements occuring in their neighborhoods.

Cities and neighborhood organizations could guarantee security and support for lower income households that desire to stay in their neighborhoods as rehabilitation and development activities are undertaken within targetted neighborhoods or buildings. Moreover, cities and neighborhood organizations can utilize housing vouchers to achieve selected objectives in neighborhood revitalization efforts, such as economic integration, in-place rehabilitation assistance, or neighborhood stability, by directing a set-aside number of vouchers in tandem with other program activities.

In New York City, the Department of Housing Preservation and Development has successfully set aside 2,853 Section 8 certificates for use in enabling continued occupancy by lower income tenants faced with restructured rents as a result of rehabilitation. These set aside Section 8 Existing certificates have been used primarily with the Participation Loan Program (PLP) which uses CDBG funds, at 1% interest, to leverage market rate institutional mortgage loans for the rehabilitation of multiple dwellings. The set-aside certificates are also used in conjunction with the Article 8A Loan Program, which provides loans at 3% to private owners of multiple dwellings occupied by low-income tenants. This program is directed to the correction of substandard and/or unsanitary conditions.[1]

In addition, a major component of New York City's sucessful attempts to convert its tax forclosed occupied housing stock into low-income tenant/cooperatives, is the utilization of Section 8 Existing Housing Payments to enable tenants in place to pay the economic rents necessary to put these buildings on a self sufficient footing after they leave public ownership. This approach called "Alternative Management" is in wide use in many marginal or transitional neighborhoods throughout the City and has great potential for achieving some measure of economic integration in these rapidly changing neighborhoods.

Finally, there are examples where tenants should be allowed to exercise greater flexibility in their use of Section 8 Existing certificates so that they do not forfeit housing opportunities that they desire. Two examples of such circumstances are: instances where a private building is converted into cooperatives or condominiums and instances where tenants are placing rents in escrow for use in financing required repairs or in negotiating with the landlord for repairs. Presently, under the Section 8 Existing program, a tenant is unable to use a certificate in either of these circumstances. However, in both instances, the situation may represent important housing opportunities and a means by which housing needs can be met.

[1] City of New York, Department of Planning, "Proposed Seventh Year Community Development Program: Housing Assistance Plan", May 1981, pp.24-26.)

Glossary of Terms

Population Groups

Eligible population - all households in New York in 1976 whose gross income was less than or equal to 80% of the New York SMSA median income. The income level used to determine eligibility is adjusted for household size.

Low Income Households - all households in New York City in 1976 whose gross income was greater than 50% and less than 80% of the SMSA median income.

Very Low Income Households - all households in New York City in 1976 whose gross income was less than or equal to 50% of the SMSA median income.

Single Elderly Households - households which contain one adult 62 years of age or older. These households may contain children.

Single Non-Elderly Households - households comprised of one adult less than 62 years of age. These households do not contain children.

One Adult with Children - households which consist of one adult less than 62 years of age and one or more children.

Two Adults with Children - households which consist of two adults less than 62 years of age and one or more children.

Two Elderly Adults - households comprised of two adults, both 62 years of age or older. Children may be present in these households.

Two Non-Elderly Adults - households consisting of two adults both less than 62 years of age. These households do not contain children.

Existing Section 8 Program Participants

Certificate Holders - households certified eligible for the Existing Section 8 Program and issued a certificate authorizing them to search for a unit.

Recipient - households that: (1) have been certified by the Housing Authority as eligible to participate in the program; (2) have an acceptable unit meeting program rent requirements and housing quality standards; and (3) have Section 8 funds paid to their landlords to assist with rent payments.

Non-recipients households issued certificates authorizing them to search for a unit but who did not locate units meeting program standards. Consequently, these households receive no rent assistance from the program. These households were given a minimum of 60 days, and often as much as 120 days to locate a unit meeting program standards.

Movers - among recipients, households which moved to receive the rental assistance, either because they wanted to or because they were required to in order to receive the assistance. Among non-recipients, households for whom a determination was made, based on their rent/income ratio, that they could receive rent assistance in the unit they lived in at the time they received the certificate, providing the landlord was agreeable and the unit met the quality standards.

Rent Variables

Fair Market Rent - The rent ceiling, set by HUD, for subsidized housing units of specific sizes in the New York SMSA. The fair market rents, which are updated periodically based on changes in local rent levels, include allowances for utilities if they are not included in the unit rent. Certificate holders cannot receive rent assistance if they live in units who rents exceed the fair market rent for units of corresponding size.

Previous rent - Gross rent (contract rent plus utilities) paid by recipients immediately prior to enrolling in the program.

Decrease in Tenant Rent Cost - Difference in dollars between the recipients' previous gross rent and their share of the gross rent paid in the Section 8 Program.

Percentage Decrease in Tenant Rent Cost - Percentage change in recipients' actual payments for rent. Computed as follows:

$$\frac{\text{Previous rent - tenant share of gross rent in program}}{\text{previous rent}}$$

Gross Rent in Program Unit - Gross rent for unit occupied by household receiving rent assistance in the Existing Section 8 Program. Sum of the tenant's share of rent and the Public Housing Authority's rent contribution.

Increase of Gross Rent of Unit - Differences in dollars between the gross rent paid by households immediately prior to enrolling in the program and the initial gross rent for the unit in which they received the Section 8 rent assistance.

Percentage Increase in Unit Gross Rent - Percentage difference in the initial gross rent for the unit in which the household received the Section 8 assistance and the gross rent paid by the household at their previous

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address. Computed as follows:

$$\frac{\text{Initial gross rent in Section 8 unit} - \text{Previous gross rent}}{\text{Previous gross rent}}$$

<u>Ratio of Previous Gross Rent to Fair Market Rent</u> - Previous gross rent divided by the fair market rent for a unit of comparable size.

<u>Ratio of Program Gross Rent to Fair Market Rent</u> - Initial gross rent for unit in which Section 8 assistance was received divided by fair market rent for a unit of that size.

Notes on Data and Methodology

The data analyzed was obtained from three sources:

1. 1976 Annual Housing Survey - The Annual Housing Survey, conducted every four years in New York City for HUD by the U.S. Bureau of the Census, interviewed approximately 6,150 households in New York City in 1976.

2. Characteristics of Existing Section 8 Recipients - The New York City Housing Authority records some of the information obtained from recipients at the certification interview and some of the characteristics of the unit rented on a move-in transcript. These data are key-punched and stored on a computer tape. Data for every household which received Existing Section 8 assistance through May 1981 are contained on this tape.

3. Systematic Random Sample of Non-recipients - Basic demographic characteristics and a summary description of why the certificate holder did not use the certificate is maintained for every non-recipient on a 5x7 card in a file cabinet in the Housing Authority. A systematic random sample of 487 non-recipients was drawn. Information was recorded on data collection forms for the 309 non-recipients in the sample issued certificates starting on January 1, 1979. The data collection was restricted to the non-recipients issued certificates on or after 1/1/79 for two reasons. First, it was felt that the experience of households in the most recent past would be most similar or relevant to the situation of households under a housing voucher program. Second, it was important to collect and process the data in as short a period of time as possible.

Since the sample of non-recipients was selected in a scientific manner with a known probability of selection, it was possible to derive estimates of the characteristics of the total population of non-recipients from the sample. These population estimates were combined with the characteristics of the recipients to estimate the percentage of all certificate holders who did not use their certificates.

4. Interviews with Representatives of Neighborhood Housing Organizations - Unstructured personal interviews were conducted with representatives of neighborhood housing groups active in developing programs in low-income neighborhoods in New York City. The persons interviewed were selected because they were very knowledgeable about the kinds of problems encountered by low-income households in participating in the Section 8 Existing Housing Program.

Background Data

1981 Fair Market Rents for New York City Applicable to the Section 8 Existing Program

Number of Bedrooms	Monthly Rent with Gas and Electric	Utility Allowance
0	$280.	$22.
1	341.	26.
2	407.	32.
3	471.	36.
4	535	40.

1981 Section 8 Income Limits

Number of Persons in Family	Very low Income Limits	Low Income Limits
1	$7,350	$13,950
2	8,400	15,950
3	9,450	17.950
4	10,500	19,950
5	11,350	21,200
6	12,200	22,450
7	13,000	23,700
8 or more	13,850	24,950

Income Standards

# of Persons	Section 8 Very Low Income Per Capita	Low Income Per Capita	BLS Lower Standard	Poverty Level
1	$7,350	$13,950	$ 5,180	$ 4,310
2	4,200	7,975	8,490	5,690
3	3,150	5,983	11,660	7,070
4	2,625	4,988	14,390	8,450
5	2,270	4,240	16,980	9,830
6	2,033	3,742	19,860	11,210
7	1,857	3,386	22,740	
8+	1,731	3,119	25,620	

APPENDIX

Table A-1 -- Comparison of New York City and National Very Low Income Population Served by Public Housing and Section 8 Units

	New York City	National
Number of Very Low Income Households	771,041	9,100,000
Percent Sérved by Section 8 and Public Housing	22.2% (a)	26.4% (b)
Number of Section 8 Units	30,188 (a)	1,700,000(b)
Percent Serving Very Low Income Households	84.1%	82.4%
Number of Public Housing Units	171,585	1,300,000
Percent Serving Very Low Income Households	84.9%	76.9%
Total Percent of Section 8 and Public Housing Units Serving Very Low Income Households	84.8%	80.0%

(a) Includes only Section 8 Existing units.

(b) Includes Section 8 Existing, New Construction, and Substantial Rehabilitation.

Source: New York City Housing Authority Records

Table A-2 -- Estimates of Total New York City Population Served by Assisted Housing Programs

Population Category	Number of Households		Very Low Income		Low Income	
	Number	% of Total	Number	% of Total	Number	% of Total
Total Eligible	1,138,802	100.0%	771,041	67.7%	367,761	32.3%
Served by Section 8 Existing	30,188(a)	2.7%	25,375	84.1%	4,813	15.9%
Served by Public Housing	171,585	15.1%	145,676(b)	84.9%	25,909	15.1%
Served by Section 8 New Construction and Subst. Rehab.	45,000(c)	4.0%	na	na	na	na
Total Served	246,773	21.7%	----	----	----	----

(a) Total households on tape = 30,188. Total recipients listed by the Section 8 Existing office = 33,682.

(b) Total includes 149,729 in Federal projects, 21,856 in City and State projects. Only Federal projects provide data on % of households by income categories. Estimates for City and State projects are based on % in Federal projects.

(c) Occupancy breakdowns are not available by income categories for Section 8 new construction or substantial rehabilitation projects.

Table A-3

Percent of Very Low and Low Income 'Recipient Households by Race

Race	Very Low Income	Low Income
White	58.3%	18.2%
Black	29.9	65.8
Puerto Rican	7.5	10.7
Other Hispanic	3.6	4.5
Oriental	.5	.4
Other	.3	.4
Total	100.0	100.0

Source: New York City Public Housing Authority Records

Table A-4

Percent of Very Low and Low Income Recipient Households by Household Group

Household Group	Very Low Income	Low Income
Single Non-Elderly	14.3%	1.5%
Single Elderly	49.8	8.9
1 Adult w/Children	13.2	51.7
2 Adults w/Children	8.9	24.6
2 Elderly	10.5	7.7
2 Non-Elderly	3.3	5.6
Total	100.0	100.0

Source: New York City Public Housing Authority Records

Table A-5

Percent of Very Low and Low Income Recipient Households by Required Bedroom Size

Required Bedroom Size	Very Low Income	Low Income
0	14.3%	1.2%
1	62.4	22.4
2	16.9	57.8
3	5.6	17.0
4	.7	1.6
5	.05	.02
Total	100.0	100.0

Source: New York City Public Housing Authority Records

Table A-6

Percent of Recipient Households that Moved by Race and Income

Race	Very Low Income	Low Income
White	26.7%	48.6%
Black	48.1	78.9
Puerto Rican	50.3	75.6
Other Hispanic	45.4	73.3
Oriental	38.7	55.6
Other	50.0	83.3
Total	35.6	72.7

Source: New York City Public Housing Authority Records

Table A-7

Racial/Ethnic Composition of Low Income Recipient Households by Household Group

Household Group	Race						
	White	Black	Puerto Rican	Other Hispanic	Oriental	Other	Total
Single Non-Elderly	36.6%	53.5%	9.9%	0.0%	0.0%	0.0%	100.0%
Single Elderly	55.1	39.5	4.0	1.2	.2	0.0	100.0
1 Adult w/Children	6.1	83.9	7.2	2.7	0.0	.1	100.0
2 Adults w/Children	15.7	51.7	20.9	9.8	.8	1.1	100.0
2 Elderly	59.9	27.4	8.1	3.2	1.3	0.0	100.0
2 Non-Elderly	19.1	59.2	13.6	6.3	.7	1.1	100.0
Total	18.2	65.8	10.7	4.5	.4	.4	100.0

Source: New York City Housing Authority Records

Table A-8

Racial/Ethnic Composition of Very Low Income Recipient Households by Household Group

Household Group	Race: White	Black	Puerto Rican	Other Hispanic	Oriental	Other	Total
Single Non-Elderly	46.3%	38.4%	11.7%	3.3%	.1%	.2%	100.0%
Single Elderly	69.4	22.5	4.8	2.8	.3	.2	100.0
1 Adult w/Children	17.8	63.4	12.6	5.8	.2	.2	100.0
2 Adults w/Children	54.6	26.7	10.5	5.8	1.4	1.0	100.0
2 Elderly	74.0	15.2	5.5	3.7	1.3	.3	100.0
2 Non-Elderly	63.6	24.1	7.9	3.5	.1	.7	100.0
Total	58.3	29.9	7.5	3.6	.5	.3	100.0

Source: New York City Housing Authority Records

Table A-9

Prevalence of Income Problems Among Household Groups in New York City in 1976

Household Group	Percent of Household Group with Incomes Less than 80% of Area Median	% Very Low Income	% Low Income
Single Non-Elderly	47.9%	65.3%	34.7%
Single Elderly	85.7%	86.8%	13.2%
1 Adult with Children	91.9%	79.1%	20.9%
2 Adults with Children	58.9%	54.0%	46.0%
2 Elderly	62.7%	65.0%	35.0%
2 Non-Elderly	36.4%	54.0%	46.0%
Total Eligible Population	100.0%	67.7%	32.3%

Source: 1976 Annual Housing Survey

Table A-10

Proportion of Racial and Ethnic Groups
Among Certificate Holders, Recipients and Non-Recipients
1/79 - 6/81

Household Group	All Households w/Certificates	Recipients	Non-Recipients
White	43.4%	51.9%	28.8%
Black	40.7	35.6	52.1
Puerto Rican	10.8	8.0	14.2
Other Hispanic	4.5	3.8	4.5
Oriental	.4	.5	.3
Other	.2	.3	.0
Total	100%	100%	100%

Source: New York City Public Housing Authority Records

Table A-11

A Comparison of Non-Recipient Households in New York City by Race and Income

Percent of Group

Income Group	White	Black	Puerto Rican	Other Hispanic	Oriental	Total
Low Income	15.5%	61.8%	19.1%	3.6%	0.0%	100%
Very Low Income	34.2%	48.2%	11.6%	5.5%	0.5%	100%
Total	28.8%	52.1%	14.2%	4.5%	0.3%	100%

Source: New York City Public Housing Authority Records

Table A-12

Proportion of Household Groups with Expired Section 8 Existing Certificates in New York City 1/79 - 6/81

Household Group	All Households w/Certificates	Very Low Income w/Certificates	Low Income w/Certificates
Single non-elderly	33.5	33.2	46.6
Single Elderly	30.0	28.2	58.6
One adult w/children	44.2	36.6	53.4
Two adults w/children	49.6	32.8	69.6
Two Elderly	18.5	9.8	56.6
Two non-elderly	51.0	39.5	75.0
Overall	36.0	29.5	60.0

Source: New York City Public Housing Authority Records

Table A-13

Comparison of Households Receiving Section 8 Existing Assistance (1976-1981) with Eligible Population (1976) in New York City

Household Group	All Eligible Households		Very Low Income Households		Low Income Households	
	Popln.	Sec. 8 Tenants	Popln.	Sec. 8 Tenants	Popln.	Sec. 8 Tenants
Single non-elderly	16.9	12.3	16.3	14.3	18.1	1.5
Single elderly	19.3	43.2	24.7	49.8	7.9	8.9
One adult w/children	16.7	19.4	19.5	13.2	10.8	51.7
Two adults w/children	22.4	11.4	17.8	8.9	31.8	24.6
Two elderly	11.7	10.0	11.2	10.5	12.6	7.7
Two non-elderly	13.2	3.7	10.5	3.3	18.8	5.7
Total #	1,138,802	30,188	771,041	25,375	367,761	4,813
%	100%	100%	100%	100%	100%	100%

Source: New York City Public Housing Authority records and the 1976 Annual Housing Survey.

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Table A-14

Summary Data for New York City's Section 8 Existing Program
1976 - 1981

Approximate number of certificates issued 6/1976 - 6/81	50,748
Approximate number of households assisted	33,682
Approximate number of expired certificates	13,682

Program History Since 1/1/79 by Income Level

	Very Low Income	Low Income	Total
Households issued certificates	78.6%	21.4%	23,173 (100%)
Households assisted	86.7%	13.3%	14,830 (100%)
Households with expired certificates	64.4%	35.6%	8,343 (100%)
1976 Eligible population	67.7%	32.3%	(100%)

Source: New York City Public Housing Authority Records

Table A-15

Household Group	Percent Movers		Certificate Holders	
	Recipients	Non-Recipients	Percent of Movers that are Non-Recipients	Percent of In-Place that are Non-Recipients
Single Non-Elderly	46.7%	74.4%	44.6%	19.5%
Single Elderly	27.9	64.6	50.8	16.4
One Adult w/Children	55.1	90.2	56.5	14.7
Two Adults w/Children	54.3	90.6	62.2	16.9
Two Elderly	27.8	92.9	43.4	2.2
Two Non-Elderly	38.4	85.7	69.9	19.5
Overall	38.6	80.6	54.0	15.1

Source: New York City Public Housing Authority Records.

Table A-16

Reason Listed by Housing Authority Staff for Expiration of Section 8 Certificate, 1979 - 1981

Reason Coded by Housing Authority	Status of Household: Move	Status of Household: In-Place
Tenant could not find apartment in preferred location.	6.8%	0 %
Landlord refused to rent to tenant.	4.0	50.0
Apartments located did not meet rent, rent hardship, size or quality standards.	6.4	16.7
Household voluntarily dropped out.	17.7	16.7
Household could not find unit (no specific reason listed by Housing Authority).	24.9	10.0
Tenant unable to rent referrals offered.	38.2	1.6
Change in family eligibility status.	2.0	5.0
Total	100.0%	100.0%

Source: New York City Housing Authority files on expired certificates.

Table A-17

Proportion of Certificate Holders Having to Move
and Not Using Certificates, by Race/Ethnicity, 1979 - 1981

Household Group	Percent of All Certificate Holders Having to Move	Proportion of Certificate Holders that are Non-Recipients
White	35.3%	22.8%
Black	68.9	46.9
Puerto Rican	69.5	47.6
Other Hispanic	54.4	38.5
Oriental	58.5	32.9
Other	52.5	0.0
Overall	53.7%	36.0%

Source: New York City Public Housing Authority Records.

Table A-18

Estimated Rent/Income Ratio of Households Receiving Section 8 Assistance if Payment Standard is set at 90% of Current Fair Market Rent Schedule, by Number of Bedrooms in Section 8 Unit and Income Level

	Very Low Income		Low Income	
Number of Bedrooms	Median Rent/Income Ratio	Rent/Income Ratio at 75th Percentile	Median Rent/Income Ratio	Rent/Income Ratio at 75th Percentile
0	.299	.348	.335	.368
1	.356	.403	.352	.392
2	.348	.393	.345	.376
3	.337	.371	.334	.351
4	.307	.319	.329	.346

Source: New York City Public Housing Authority Records.

Table A-19

Estimated Rent/Income Ratio of Households Receiving Section 8 Assistance if Payment Standard is set at 90% of Current Fair Market Rent Schedule, by Racial/Ethnic Group and Income Level

	Very Low Income		Low Income	
Racial/Ethnic Group	Median Rent/Income Ratio	Rent/Income Ratio at 75th Percentile	Median Rent/Income Ratio	Rent/Income Ratio at 75th Percentile
White	.332	.381	.345	.375
Black	.361	.515	.344	.371
Puerto Rican	.348	.391	.343	.369
Other Hispanic	.331	.392	.343	.365
Other	.341	.388	.348	.373

Source: New York City Public Housing Authority Records.

Considerations for a Low-Income Homeownership Program for New York City

by Robert Schur

(Prepared for Pratt Institute Center for Community and Environmental Development, Transition Study)

October, 1981

Introduction - Why Homeownership for the Poor?

The private housing market traditionally excludes low-income households from homeownership. High costs of home acquisition, plus patterns of racial and ethnic segregation, deprive the vast majority of the poor and minorities from realizing the "Great American Dream" of a home of ones own. Fitful and sporadic government efforts to rectify this condition have been marked largely by failure and scandal. While the general "atmosphere" of the Reagan administration might be expected to be conducive to the idea of homeownership for everyone, overriding considerations of reductions in the federal budget for all social programs preclude any expectations of direct financial support to translate the hope into reality.

In New York City the idea of low-income homeownership appears at first blush to be even more tenuous and far-fetched. For all of its history as a great metropolis, New York City has housed its poor in rental tenements. Indeed, the ill-famed "old law tenement," built by the thousands expressly to house successive waves of destitute immigrants as cheaply as possible, has been the major contribution of New York's residential construction industry to the history of American architecture.

New York has always been a renter town. While the number of its owner-occupied units has been increasing, both absolutely and as a percentage of its total housing stock, it is still true that as recently as 1978, fully 72.6 percent of all occupied housing units in the City were rental.* But in recent years, the continuation of a rental housing market, especially at the lower end of the socio-economic scale, has become increasingly problematic. Renters in New York, as a whole, have lower incomes than homeowners. The median income for all New York City renter households in 1978 was only $8,979, compared to $15,528 for homeowners - a difference of more than 73 percent). 22.5 percent of renter households had incomes below the official Federal Poverty Level and over a million of those households had incomes low enough to qualify them for government low-income housing assistance programs of one sort or another.**

Owners of rental housing in New York City can no longer afford to provide shelter for this low-income population at rents which the latter can afford. Inflation has increased the cost of operating rental housing at a far faster rate than that of most renters' incomes. During the period 1974-1977, the median increase in renter

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*Between 1940 and 1978, the number of owner-occupied units in New York City increased by 125 percent, from 323,000 to 727,000, while the number of renter-occupied units grew from 1,725,000 to 1,930,000, an increase of less than 12 percent. In 1940, only 15.8 percent of New York City households were owner-occupants; by 1978, the percentage had risen to 27.4. It should be noted also, that during the 1970s most of the owner-occupant growth was in cooperatives and condominiums, rather than in conventional houses. (Peter Marcuse, Rental Housing in the City of New York, New York, The City Record, 1979, p. 77).

**U.S.Bureau of the Census, 1978 New York City Housing and Vacancy Survey.

incomes was only 7.0 percent, while the price index of rental housing operating and maintenance costs was increasing by 15.3 percent for buildings constructed after 1947 and 16.4 percent for older buildings (in which most of the poorer renters live).* Renters, as a whole, already pay more than 28 percent of their gross incomes for rent; 46 percent of them pay over 30 percent and 38 percent pay 35 percent or more. In dollar terms, the median gross monthly rent in 1978 was $210 per month which represented an increase of over 23 percent since 1975. Here, too, the heaviest burden is on the poor. 90 percent of all renter households earning less than $6,500 paid more than 25 percent of their incomes for rent, as did fully 69 percent of all renters with incomes below $10,000.**

The implications of these statistics are clear. Lower-income tenants simply cannot be squeezed much farther to pay higher rents. Yet, without additional increases in their incomes, landlords cannot afford to operate and maintain their buildings. The result has been and continues to be large-scale abandonment of rental housing units - concentrated, of course, in low- and moderate-income neighborhoods. This phenomenon only exacerbates the shortage of decent low-rent housing and compounds the shelter problems of the poor.

At the same time, and often in the same neighborhoods, an apparently contradictory phenomenon - called gentrification - is also taking place. Labelled "Brownstone Revival" and "Coop and Condo-Mania," this process sees middle-income and affluent families and individuals buying up and renovating older properties in inner-city neighborhoods which are newly-perceived as attractive because of

*Marcuse, op. cit., pp. 20, 204.

**id., pp. 202 ff.

their proximity to the Central Business Districts, their physical and cultural amenities and the new-found charm of their antique housing stock. Since these sought-after properties are the very structures which house the established poor of those neighborhoods, the latter are faced with a new source of competition for their housing, which, in the private real estate market, they cannot hope to win.

These twin spectres - of abandonment and gentrification - put New York City's lower-income residents in a double bind. Unless some sort of unlooked-for drastic change in the economics of rental housing should take place, and soon, the supply of affordable housing for the bulk of the renter population will continue to shrink, at accelerating rates, and this sector will be squeezed out of the City housing market altogether.

If there is a solution to this problem it would seem to lie, given the realities of governmental policy and fiscal priorities, in a change in housing tenure - from tenantcy to homeownership. As owners, whether in the conventional sense, or as cooperators or condominium occupants, lower-income households would at least be secure from displacement at the whims of others over whose decisions they have little or no control. Farfetched as it may seem, the possibilities of promoting and assisting such a change are worth examination.

The Conditions of Successful Low-Income Homeownership

Eight years ago, in 1973, the Pratt Institute Center for Community and Environmental Development (PICCED), completed a study of alternative housing choices for low-income residents of New York City. The study grew out of perceptions that changes were already taking place in the Fort Greene, Brooklyn neighborhood near Pratt Institute, which, on the one hand, boded ill for its low-income renter residents, but which also might open up opportunities for applying new techniques and mechanisms to enable those residents to remain in their neighborhoods, in more secure and affordable housing, The report of this investigation, entitled "Low Income Home Ownership Proposal," is noteworthy for its sentience and foresight in diagnosing the evolving problems and in its explication of the conditions necessary for any viable alternatives to conventional rental tenure for low-income households. Its explorations of possible alternatives, while less noteworthy, is commendable for its efforts to explore new and innovative techniques and methodologies. It provides, as far as it goes, an excellent starting point for re-examining the possibilities, paramaters and requirements for designing programs of homeownership for New York City's low-income renter population. Much of what follows in this paper is based on the insights and creative thinking which went into the 1973 PICCED Proposal.

One of the best parts of the PICCED Proposal is its explication of the conditions necessary for successful low-income homeownership. These conditions break down into two major categories, one of which might be termed purely financial and the other, support services.

On the financial side, the elements consist of: (i) the wherewithal to make the equity payments needed to acquire and, if necessary, rehabilitate the property; and (ii) the sources of borrowing the balance of the necessary initial capital investment; and (iii) the development of an operating and maintenance budget which is affordable by the homeowner.

Beyond solving the financial requirements, a number of other (support services) elements must be brought to bear. These include resources and appropriate mechanisms for

- Screening and selecting potential homeowners in terms of their commitments to project goals, capacity to operate and maintain a home, stability and cohesion as a family unit, and probable future earning capability.

- Counseling and training in the fiscal aspects of family budgeting and debt management.

- Training in home maintenanee and repair.

- Counseling or referral to agencies which can provide assistance in job training, vocational counseling and placement, child care, physical and mental health care.

Our examination of possible programs for low-income homeownership in the 1980s proceeds from the recognition that all of these requisites must be included as preconditions for success.

Before proceeding to examine the possible means for providing these requisites, it may be useful to define what we mean by the term "homeownership."

Our understanding of the term goes somewhat beyond the conventional understanding. Of course, it includes ownership-occupation of smaller (one-to-four family) homes. As well,it embraces cooperative and condominium occupancy in both smaller and larger buildings. Beyond this, however, we would also include ownership of rental housing (of all sizes) by non-profit, neighborhood-based housing organizations with the capacity to maintain and operate such housing, either as a transitional phase between private, or public (e.g. City or HUD) and individual or cooperative/condominium ownership, or permanently where the residents do not desire to assume any equity interest. The significant elements in "homeownership" as we see it, are long-term security of tenure and some greater degree of control or at least involvement by the residents in the making of decisions affecting the quality and costs of ones' shelter, beyond what is offered to the conventional renter.

Program Considerations for Low-Income Homeownership

A. Financial Mechanisms

1. Financing Acquisition and Rehabilitation

As the 1973 Pratt Proposal cogently points out, more affluent households can become homeowners because (a) they have accumulated savings or access to the savings of relatives or friends with which to make an initial equity investment in a home and (b) they have an on-going source or sources of income sufficient to establish them as good credit risks to financial institutions which will lend them the remaining funds necessary to purchase and rehabilitate the property. Poor people ordinarily lack both the savings and income needed for homeownership. How might the requisite equity and borrowing capacity be established? Several mechanisms may be mentioned as worthy of exploration.

a. Shared Equity. This is a device whereby a third party, instead of lending funds to the purchaser for acquisition and renovation, becomes in effect a partner with the owner-occupant. The individual or entity which has the funds, advances them on behalf of the would-be occupant under terms and conditions which are suited to the latter's financial situation. Basically, the occupant and the funding source would enter into an agreement whereby

(i) Title to the property is transferred to both parties.

(ii) The occupant agrees to live in and maintain the home and to pay all of the expenses of its operation and maintenance including the taxes and any debt services on mortgages held by third parties.

(iii) The occupant also agrees to pay to the funding source at least either

- an amount representing an established return (interest) on the sums advanced by the funding source and outstanding; or

- an amount based on a fair estimate of what the occupant can afford above and beyond the cost of normal operation and maintenance (this sum could be subject to annual or other periodic review and adjustment).

(iv) So long as the occupant performs the obligations described in items (ii) and (iii) above, he or she is entitled to occupy the property and to exercise all of the basic rights of ownership.

(v) On any sale of the property, or whenever the occupant ceases to live there, the proceeds are to be applied, first, to repay the funding source the balance of the latter's principal investment plus any return thereon, at the rate previously established, which has not been paid by the occupant; second, any surplus from the sale goes first, to repay the occupant for his or her payments, if any, above the payment of interest and any remaining balance is to be divided among the occupant and the funding source in accordance with and agreed formula.

This type of arrangement is most suitable for the purchase of smaller occupant-owner buildings (i.e. one-to-four family homes), where only one household is to have the status of owner and occupant; or where two, three or four households are to become condominium owners.

The assumption (which is the principal risk factor) is that the property will appreciate in market value. This is certainly reasonable where the building is located in a gentrifying neighborhood or one which is essentially stable. The risk can be mitigated where the occupant or occupants are able to make some cash down-payment and, even further, where he, she or they are willing and able to contribute some sweat equity to the renovation.

A simplified example can illustrate how the shared equity scheme might work:

Assume a single-family house which is vacant and owned by the City of New York through <u>in rem</u> tax foreclosure. The City sells it for its appraised, "as is" value of $ 5,000. The building requires an additional $25,000 to rehabilitate. The A family wants to purchase the builidng, but it has only $1,000 in savings to invest and the gross household income is only $12,000 per year. Mr. A and his family are willing to contribute, via sweat equity, $5,000 worth of the rehabilitation cost.

F, the funding source, therefore agrees to advance the following sums: $250 to cover the requisite 25 percent cash payment required by the City above the $1,000 which A can contribute (the balance of $3,750 of the purchase price is covered by a 10-year, 8½ percent mortgage), plus $20,000 for the rehabilitation.

A agrees to

(i) Pay the maintenance and operating costs - estimated to be $150 per month, or $1,800 per year (including real estate taxes and insurance).

(ii) Pay the debt service on the City's mortgage which amounts to $46.50 per month, or $558.00 per year.

(iii) Pay to F the lesser of 12 percent of F's cash advances of $250 (towards the purchase price) plus $20,000 towards the rehabilitation, which amounts to $2,430 per year, or the difference between 25 percent of A's income and the amounts expended for maintenance and operating and debt service costs - which in this case is $642.

This results in the development of a "negative equity" in A's position. By the time the City's purchase money mortgage is paid off (in 10 years), F will need to receive $18,720 in deferred interest payments plus its $20,250 of sach advances, or a total of $38,970 to come out "even." The house, however, was presumably "worth" $30,000 immediately after it was bought and rehabilitated. Thus, if it appreciates in market value at the rate of $1,970 per year, or just over 6 percent of its "original" value, F's investment is fully protected.

This example is a rather extreme case. The costs to our hypothetical A family could be considerably reduced if, instead of purchasing a single-family house, it acquired a 2- or 3-family building; or, if three families, A, B, and C, joined in the purchase of a 3-family home as cooperators or as a condominium. If, through rental income, or shared operating and maintenance costs, the expenses of maintenance and operation were reduced from $1,800 to $1,200 per year, per family, with the other elements remaining proportionately constant, the "negative equity" would be reduced from $1,872 to $1,272 per year, per family. After 10 years, the sales price, per unit, would have to be only $32,970 for F to come out whole plus 12 percent a year on its investment.

What kinds of entities or institutions could reasonably become involved in a shared equity scheme? The most obvious candidate would be New York City's own municipal employee pension funds, which hold some $12 billion in assets, have an obvious stake in the City's future and are presently earning far below 12 percent on their investments. Also, pension trusts, unlike banking institutions, are well able to defer immediate returns on their investments. Other institutions which are in roughly similar situations include insurance companies, private foundations and the City itself through use, or leveraging, of Community Development Block Grant Funds.

b. Section 810 Urban Homesteading. President Reagan's Committee on Federal Housing Programs and Alternatives is proposing major modifications in the feceral Section 810 Urban Homesteading Program. Among other things, these changes would expand the geographic locations of eligible buildings, allow the inclusion of multi-family as well as owner-occupant buildings, allow investors as well as occupants to participate and encourage localities to experiment with creative financing methods.

These new program initiatives, if they become law, could be used to assist, significantly, the acquisition and rehabilitation of housing for low-income homeownership. In the example given above, for instance, New York City might, instead of selling a City-owned tax-foreclosed building, use Section 810 funds to acquire a still privately-owned building and re-sell it to a low-income occupant for a nominal sum. Also, the City could, from its Community Development Block Grant funds, provide an interest subsidy to the funding source. Suppose that these two measures were adopted. Family A would pay only, say, the $1,000 it had saved, as the total purchase price of the building. The City would provide (as it does under its new Home Improvement Program) a write-down to a lending institution of the interest on a rehabilitation mortgage loan, so that A must pay, say, only 3 percent over a 30-year term. Thus, A's costs of owning the property become $1,800 per year for operation and maintenance plus $1,275 for debt service - a total sum which it can afford without the necessity for shared equity or other financing. Further to encourage traditional lending institutions to invest in rehabilitation loans, the City (by an expansion of its already existing Rehabilitation Mortgage Insurance Corporation) could provide insurance for repayment of the mortgage.

c. Tax Abatement. A compelling case could be made that, by extending the benefits of the present J-51 tax exemption and abatement statute to low-income owner-occupants of one- and two-family houses, which are purchased and rehabilitated, the City would realize quantifiable fiscal benefits beyond the cost of forborne real estate taxes. The consequent reduction in ownership costs would make financing that much easier and would enable even lower-income households to become homeowners.

d. Neighborhood Residents as Investors. Today, especially in gentrifying neighborhoods, middle-income homeowners and other residents, as well as local merchants might provide resources for the acquisition and rehabilitation of both smaller and larger residential structures. Due to inflationary "tax bracked creep," individuals and families in the $30-40,000 a year income range can benefit significantly from the tax advantages of accelerated depreciation and rehabilitation tax credits. Technical assistance providers and neighborhood housing organizations could help groups of such residents and business people form limited partnerships and other consortia to purchase and rehabilitate abandoned and occupied but deteriorated buildings to provide low-income housing via resale to occupants or to non-profit, locally-based entities. Such groups of middle-income investors would provide the equity capital and, with the assistance of local housing organizations, act as developers, much in the fashion of the professional private sector which has produced most of the Section 8 substantial rehabilitation to date. Such equity capital would be used to leverage loan funds under the City's Participation Loan or other low-interest programs.

One such project is currently being considered in the Prospect

Lefferts Gardens neighborhood in Brooklyn. This idea deserves to be encouraged and appropriate measures might be adopted to ease the process of forming neighborhood investor syndicates and avoid possible entanglement with State blue sky and securities registration laws, as well as to provide local and state tax incentives.

e. Tax Syndication Cooperatives. Another innovative project in under way in Fort Greene involving the acquisition, rehabilitation and cooperative conversion of a group of smaller rental buildings. Here, while the bulk of the equity money is being furnished by outside investors seeking income tax shelters, the proposed tenant cooperators are also joining in as limited partners. Their participation, albeit small in proportion to the total investment, will enable them to become "owners" as well as tenants of the housing into which they will move. This kind of development, perhaps combined with local investor participation, can insure both the benefits of homeownership and neighborhood support.

f. Utilization of New York State Surplus Mortgage Tax Funds. New York State has imposed a surtax on the recording of real property mortgages to raise funds for the New York State Mortgage Agency (known as Sunny Mae) to enable it to provide a secondary mortgage market for residential mortgages. The tax has yielded a sizeable surplus beyond the amounts Sunny Mae has been able to utilize. These surplus funds could be used to support low-income homeownership programs by way of shared equity investments, interest reduction subsidies or even via direct loans or grants. Since the application of the revenues from the surtax are already earmarked by the existing legislation in terms of the geographic areas in which they may be used, the share which is intended for New York City and which is not being used as originally intended, might well be applied to assist low-income homeownership.

2. Assisting Maintenance and Operating Costs

Various studies, of which the 1973 Pratt Proposal is an early example, have indicated the utility of supporting homeownership by making it easier and more certain for owners to meet the costs of operating and maintaining their properties. One way, suggested above, is to ease the real estate tax burden through extending the benefits of tax abatement to rehabilitated private dwellings owned and occupied by low-income households. Another is through helping to insure a stream of rental income to the owner-occupant of a two-, three- or four-family building.

One way of doing this would be to develop a series of programs roughly similar to the federal Section 23 leased housing program which, in New York City alone, provided housing in private-owned buildings for over 30,000 Public Housing Authority tenants. Essentially, under Section 23, the Housing Authority leased apartments in private buildings at the market rent and sublet them to public housing eligible tenants at the rent which would have been charged had those tenants moved into public housing projects.

While the Section 23 program is being phased out, its analogue might be a series of leasing arrangements with private and public institutions. Schools, hospitals, religious institutions and other private entities are often faced with the problem of finding adequate housing for their students and employees. Many of these institutions are located in low-income neighborhoods. Entering into fixed term (say 3 to 5 year) leases with owners of nearby housind would benefit all concerned. For the low-income homeowner, an assured stream of rental income helps to solve the problem of meeting recurring operating and maintenance costs and debt service; for the institution and its students or employees, it insures a supply of decent, affordable nearby housing. The benefits to the institutions might be of sufficient moment to attract them as providers of loan or shared equity funds to enable low-income people to acquire and rehabilitate the properties in the first place.

Another possible provider of assured rental income is the Department of Social Services. By developing a program which assures a supply of acceptable welfare recipient tenants, DOSS can help solve the thus-far intractable problem of welfare recipients' living in the worst housing the City has to offer. Indeed, in some cities, the public welfare agencies are able to help their clients to become homeowners - a program which may also be worthy of examination for New York.

B. Support Services for Low-Income Homeownership

By support services, we mean virtually every kind of assistance to low-income homeowners which help them to acquire and remain in their homes - other than direct financial help to acquire and renovate their properties. Such assistance therefore runs the gamut from providing housing management to home maintenance and repair to helping keep households intact and able to deal with all manner of crises and emergencies.

Low-income homeowners are different from other homeowning households in two ways. Many of them are likely to have had no previous experience in owning and operating their own homes - they lack the skills in managing their properties and keeping them in good order and repair which are part of the life experiences of those who are members of long-term homeowner families. Also, by definition, low-income households lack the financial means to overcome their own mistakes or to purchase their way out of the difficulties which face all kinds of people from time to time. Provisions must be made to supply the missing ingredients.

The problem, it is suggested, is not so much a lack of resources as it is their coordination and arranging for access to them by low-income homeowners. Within the public and non-profit private sectors, in New York City, there is an abundance of talent, capable of providing and training others to provide the necessary supports. There are fine examples of effective housing management and management training, tenant selection and education, family financial counseling, home repair and maintenance training, tool lending libraries to enable tenants and homeowners to effect home repairs, employment counseling, job training and referral services, community run and cooperative day care centers and nursery schools, health care facilities and family counseling centers.

Examples also exist of cooperative, self-help activities by local residents themselves to supply the needed resources. Neighborhood cooperation, from food buying to fuel purchasing; day care to community laundromats; skills-sharing banks to credit unions - is a largely untapped idea in New York City, but enough experience has been developed to demonstrate that, given effective leadership, advocacy and training, the devices can work.

What is needed is for neighborhood housing organizations (of which there is also no dearth around the City) to take stock of their own and their communities' skills and facilities, to develop or locate resources which are needed and to make known and available to low-income residents the services needed to assure successful transitions to homeownership.

Perhaps one or two City-wide non-profit organizations could take the lead in organizing such efforts and in developing programs to show neighborhood housing groups how to do likewise in their own areas.

The costs are relatively minimal compared to the resources needed to finance any significant conversion of our low-income housing stock to owner-occupation. But the job needs to be done if the investments we are asking to be made are to be safeguarded and made viable.

PROPOSAL FOR CONVERTING

HOMEOWNER DEDUCTIONS TO TAX CREDITS

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THE NEED TO LIMIT HOMEOWNER DEDUCTIONS

I recommend that the Advisory Committee consider proposing that homeowner deductions be converted to tax credits, with a limit (say, $5,000) placed on the total amount of the credit that can be claimed by any taxpayer in any one year. Doing this will reduce their skyrocketing cost, curb their most pernicious aspects, and benefit the majority of home owners (who now do not take these deductions). This paper will briefly describe the housing and equity problems created by the present system of unconstrained deductions for mortgage interest and property taxes.

Tax expenditures are far more important than direct expenditures in dealing with housing.

The primary focus of attention in limiting federal housing expenditures has been placed on programs serving people who can least afford housing: low and moderate income people living in housing subsidized through programs of the Department of Housing and Urban Development or the Farmers Home Administration. These programs have been declining: each year since 1976, fewer assisted units have been provided. A primary reason for this decline, in the face of rising need, is cost. Yet the cost of these programs is dwarfed by federal tax expenditures for housing, primarily homeowner deductions.

Home owner deductions constitute over 90% of all housing-related tax deductions. And by far the largest home-owner deductions are those for mortgage interest and property taxes. The contrast between the growth of these deductions and outlays for housing assistance is startling. The increase in homeowner deductions in any given year is generally higher than the total outlays for housing assistance. (See chart in the appendix.) Moreover, these are conservative estimates. The rate of increase beyond 1982 is 18% annually. The Congressional Budget Office projects a much higher rate of increase, about 25%, for mortgage interest deductions between 1980 and 1982.

Costing less, but still significant, are provisions providing for deferral or exclusion of capital gains on home sales. Not estimated is a major tax benefit for home owners, the imputed income for rent on owner-occupied homes. (See Table 1, appendix, for details of housing-related tax expenditures for 1980-82.)

Homeowner tax preferences create inequities in the tax system and are inefficient as a subsidy mechanism.

William F. Hellmuth, in a paper prepared for a Brookings Institution conference, has commented on the effects of homeowner tax preferences on the tax system and the economy, as follows:

-- They create horizontal inequities in the income tax system in that they provide tax savings for homeowners over tenants with comparable incomes, and differential savings between different homeowners with comparable incomes.

-- They cause vertical inequities in the tax system. Since homeownership rises with income, the values of homes purchased increase as a proportion of income as incomes rise (that is, are income elastic), and the value of homeowner preferences is directly related to the marginal tax rate of the homeowner, high-income recipients benefit more from these preferences than do low-income recipients.

-- They interfere with the allocation of resources between residential construction and other uses of resources. The tax expenditures favoring homeowners lower the cost of housing services and increase the after-tax rate of return on investment in homes, relative to other choices that consumers and individual investors have for the use of their funds. Tax incentives thus draw more resources into housing than would occur in the absence of such preferences.

-- They also distort the housing market choices in favor of residential construction suitable for homeowners, creating a demand for more single-family homes and apartments for purchase than for rental units.....

Further, these homeowner tax preferences are relatively inefficient and expensive if they are considered as incentives to promote homeownership and the construction of more homes. The incentives are most valuable to those with higher marginal tax rates, the income class that would find it easiest to buy homes in the absence of tax incentives. And the incentives for homeownership are much weaker for families in the lower tax brackets whose income levels also make homeownership more difficult. Tax incentives are, of course, of no value to those whose income is so low that they pay no federal income tax. And to the extent that the tax preferences increase the demand for owner-occupied homes, the price of such dwelling units rises and puts them further beyond the reach of low- and modest-income persons. The greater value of these preferences for persons with high incomes and high marginal tax rates is likely to draw more resources into the construction of large and expensive homes; on the other hand, income-neutral incentives would be likely to result in more dwelling units to meet the housing needs of more people.

William F. Hellmuth, "Homeowner Preferences," in Joseph A. Pechman, Comprehensive Income Taxation, Brookings Institution, 1977.

Most homeowners do not benefit from the deductions.

George Peterson of the Urban Institute finds the growing importance of homeowner preferences a major cause of the increased rate of homeownership since 1950, particularly for middle and upper income families. But changes in tax laws have led to a "bracket creep" for homeowner deductions: they are concentrated increasingly at the upper end of the income distribution:

> Without much fanfare, however, recent tax changes have worked to diminish the tax benefits of owner occupancy by making it more attractive for taxpayers to claim the standard deduction. The proportion of taxpayers itemizing their returns -- and thus gaining the full benefits of the tax advantages for homeownership -- fell from 58 percent in 1969 to 31 percent in 1975. After the recent tax revision of 1977, further increasing the standard deduction, it is estimated that only 20-25 percent of taxpayers will itemize their returns in 1978. Ironically, the tax code then will be restricted primarily to subsidizing the housing costs of the affluent, encouraging them to consume more expensive and larger housing without greatly affecting homeownership rates over the rest of the income distribution. This shift in the tax structure will also make it more difficult to apply federal tax benefits to any but the most lavish condominiums, since most households with earnings of less than $24,000 to $26,000 will find it to their advantage to claim the standard deduction." (George Peterson, "Federal Tax Policy and Urban Development," Testimony before Subcommittee on the City of the House Banking Committee, June 16, 1977.)

The federal government spends less on housing for low and moderate income households than for upper income people.

In 1979, the most recent year for which figures were available, mortgage interest or property taxes were deducted from 25.6% of all returns filed. Peterson's prediction was correct: at least 95% of the value of the deductions was received by taxpayers with incomes above the median, and almost 60% went to taxpayers with incomes in the top 10% of the income distribution.

Thus, the notion that the homeowner deductions go largely to middle income families is wrong. Moreover, homeowner deductions are entitlements: they may be taken by all who qualify, regardless either of need or of the cost to the federal government. In contrast, only one household in ten who qualifies for and needs low income housing assistance actually receives it.

Benefits from federal housing programs are so badly skewed that the total of all the assisted housing payments ever made under all HUD assisted housing programs, from the inception of public housing in 1937 through 1980, was less than the cost to the federal government of housing-related tax expenditures in 1980 alone. Assuming that the beneficiaries of direct and tax expenditures are arrayed, by income group, as they were in 1977, the latest year for which such an analysis is available, we would find that, for 1980:

- $4.2 billion, or 14.1%, of all direct and indirect housing expenditures went to people at the bottom of the income scale, those with household incomes below $5,000. Only one household in eight received housing assistance, and the average monthly expenditure, per recipient, was $132.

- $7.5 billion, or 25.5%, of all direct and indirect housing expenditures went to people with incomes above $50,000. More than four fifths of all households in this income bracket received tax benefits, and the average monthly amount per recipient was $309.

o $16.7 billion, or 56.4%% of all direct and indirect housing expenditures, went to people with incomes between $20,000 and $50,000. Two fifths of all households in this range received housing benefits and the average amount per recipient was $67 per month.

o Only $1.2 billion, or 4.0% of direct and indirect housing expenditures, went to households with incomes between $5,000 and $10,000. Fewer than one household in ten in this income range received housing benefits, and the average monthly amount, per recipient, was $60.

<u>Homeowner tax preferences contribute to inflation in the housing market.</u>

The tax system is a major factor in encouraging investment in housing. The tendency of people who are already adequately housed -- indeed, generously housed by the standards that are applied to lower income people -- to purchase bigger and more expensive houses drives up prices. Indeed, the widespread tendency to purchase housing more as an investment than as a necessity has led George Sternlieb to coin the term "post-shelter" society.

In a curious symbiotic relationship, not only do homeowner tax preferences contribute to inflation in housing, but they also make it possible for home owners to benefit from inflation.

In the words of Anthony Downs of the Brookings Institution, "investment in housing has become far more than a strategy for 'keeping up' with inflation: it helps millions of households <u>gain</u>

positive benefits from inflation." (Anthony Downs, "Are We Using Too Much Capital for Financing Housing?") Downs finds that the average house purchased with a 20 percent downpayment in 1976 had shown a 67.5% increase in initial equity by 1980. And, because the tax on capital gains from home ownership can be excluded or deferred, the profits are tax free.

The contrast with return from other types of investment is striking. Downs calculates, for example, that a $10,000 bond purchased in 1970 would have declined in real value by 53% by 1980. But, had the investment been made as a 20% down payment for a house costing $50,000 which increased in value at the national average rate, the gain over the decade would have been 891%. Small wonder that those who can afford to do so purchase their homes.

In addition, the costs of carrying a mortgage -- at least a conventional one -- decline with inflation. Since debt service often accounts for at least half the cost of living in a home, this means that real costs decline. And the deductability of mortgage interest means that after-tax rates of interest are considerably lower than nominal rates. Moreover, the reduction becomes larger as income rises. Thus, a purchaser with a 14% mortgage and taxable income of $12,000 actually pays 11% after taxes, but a purchaser with a $45,000 income pays 8% and one with a $60,000 income pays only 7%.

At these interest rates, there is a temptation to refinance and arbitrage the money by investing in other areas — or simply to trade up and use part of the profits for personal consumption. According to the U.S. League of Savings Associations, more than four fifths of the people who sold their homes in 1979 did not use all their proceeds for reinvestment in another home. About one third shifted more than half their equity out of housing. The average seller took out about one third. Because of this, Downs suggests that we may be investing too much capital in financing housing and that "much of the increased flow of mortgage funds has gone into raising the prices of existing homes, or even into non-housing consumption, rather than into expanding the housing stock to meet valid social needs."

All of this, of course, makes it harder for households who are left behind: young families and low income families, who need housing for shelter.

<u>The impact on rental housing</u>

The economic advantages of home ownership, fueled by tax preferences, are at the root of a crisis in rental housing production. With inflation, rents in unsubsidized new units have risen to unprecedented levels: $500 monthly or more. At $500, a rent-income ratio of 25% would require an income of $24,000. Yet, only one renter household in twenty at that income level spends as much as 25% of income for rent, including utilities. Assuming a marginal tax rate of 30%, the renter would have to earn $650, before taxes, for each $500 rent check. Contrasting that with the advantages of home ownership means that, in fact, tenure choice is no more real at the upper end of the income scale than it is for lower income people. Small wonder that very little rental housing is now being produced, except with federal subsidy.

Anthony Downs describes the impact of this situation as follows:

> One of the main reasons why so few new unsubsidized rental units are being built is the immense attraction of homeownership. Most households who can afford to pay a significant amount each month for housing prefer to own their own units rather than rent. This extremely widespread preference springs partly from the great financial advantages of investment in homeownership described earlier.
>
> In the past, the overall supply of unsubsidized rental housing was constantly supplemented through new construction of apartments by private developers. Most new apartments had monthly rents that the majority of renting households could not afford. But as these new units aged, many "trickled down" through the income distribution, eventually becoming available to less affluent households. Thus, the willingness of some households to pay relatively high rents for new apartments helped keep the total supply of rental units expanding. It also helped up-grade the rental inventory as these new units replaced the oldest, most deteriorated units removed through demolition and fires.
>
> But when rapid inflation greatly magnified the financial advantages of homeownership in the late 1970s, fewer relatively affluent households were willing to rent. Why should they, when they could enjoy the benefits of owning instead? Hence, production of new unsubsidized rental apartments fell drastically in the late 1970s. This reduced the high-quality inputs into the rental inventory that had kept raising its average quality level. There is now a sizable chance that this quality level will begin deteriorating through overly-prolonged use of older units....
>
> Thus, the outstanding success of public policies designed to increase the attractiveness of homeownership, plus the impacts of inflation, have undermined the market for new rental housing....
>
> This process distorts the entire rental housing market by cutting down the supply of new rental units. That will in turn ultimately cause overly-intensive use of older existing units. This is one important way in which public policies that make homeownership "over-attractive" have negative impacts upon some groups in society, partly offsetting their positive impacts upon homeowners." (Downs, _op. cit._)

Tax preferences create condominium conversions.

A major factor in investment in rental housing is the availability of tax shelters. Indeed, for most investors these shelters, rather than anticipated cash flow, are key. The nature of the shelter, however, forces owners to sell after a holding period: the shelter diminishes; cash flow increases, but is not substantial enough to offset the shelter loss; and the recapture period ends. The process of investment and sale to another investor has been going on for years. But now, all too often, the sale is not to an investor in rental housing but to a condominium converter. The result: a diminution of rental housing, displacement, and rising housing costs.

The two sides of the internal revenue code come together here: not only do the incentives to invest in rental housing force its sale, but the homeowner preferences mean that there is a strong demand for converted units. This demand has strengthened as the cost of new single-family houses has risen and household size has declined, so that over half the households in the U.S. now consist of only one or two people. (For further information on the manner in which tax provisions affect condominium conversions, see E. Richard Bourdon, "Condominium Conversions: Possible Changes in Federal Tax Laws to Discourage Conversions and Assist Rental Housing," Congressional Research Service, Report No. 80-71 E, April 1980.)

For all of the above reasons, the unrestrained growth of homeowner deductions cannot be allowed to continue.

The Congressional Budget Office has suggested that a $5,000 cap on the mortgage interest deduction would save $4.3 billion in 1982 and $35.6 billion by 1986. Moreover, this change would affect only one taxpayer in twenty. Converting the deduction to a 25% tax credit would increase revenues by about $3.5 billion in 1982. Moreover, this approach would make the deduction less regressive.

The Urban Institute recently studied the impact of converting homeowner deductions to a 25% tax credit. The shift would cause highest income owners to lose both the price and income subsidies they now receive. They would have no real incentive to consume more housing, since this would increase their taxes. But middle and lower-middle income owners would have lower taxes and an incentive to consume more housing of higher value. New construction would be stimulated. This, in turn, would relieve some of the pressures on the lower end of the housing market, thus making the lot of low income households easier. (Michael W. Andreassi, C. Duncan MacRae, and David I. Rosenbaum, Metropolitan Housing and the Income Tax: Stack Algorithm Sensitivity Analysis, The Urban Institute, February 1980.)

Moreover, if a tax credit limited, say, to a maximum of $5,000, were introduced simultaneously with a cut in individual tax rates, it could be designed so as to have little or no adverse impact. It would increase the tax reductions given to low and middle income people, while the higher tax for a limited number of affluent people could be offset by the reduction in marginal tax rates. If necessary, a "hold harmless" provision could be introduced for the principal residence, until it is sold or the owner moves out.

Justice and equity demand that low income people not be asked to bear the brunt of reducing federal housing expenditures. Moreover, a limit on homeowner deductions can again make production of unsubsidized rental housing financially feasible. And, given the other advantages and attractions of home ownership and the high rate of household formation, converting homeowner deductions to a tax credit need not have a negative impact on construction of single family housing for middle income people and younger families.

HOUSING-RELATED TAX EXPENDITURES, 1980, 1981, and 1982
(Dollars in millions)

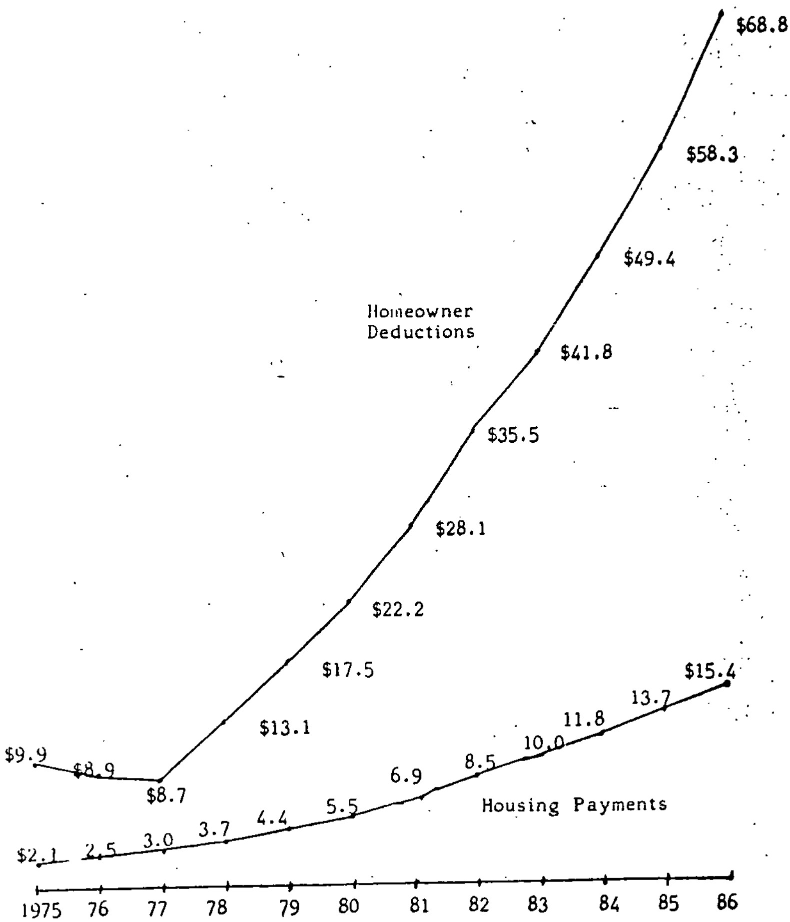
Home Owner Deductions	1980	1981	1982	Change 1981-82	Percent Change
Mortgage interest on owner-occupied homes	$15,615	$19,805	$25,295	+$5,490	+21.7%
Property tax on owner-occupied homes	7,310	8,915	10,920	+2,005	+22.5%
Subtotal (gross)	(22,170)	(28,065)	(35,465)	(+7,495)	(+26.1%)
Subtotal (net)[a]	22,170	28,065	35,465	+7,400	+26.4%
Residential energy credits	485	540	615	+75	+13.9%
Deferral of capital gains on home sales	1,010	1,100	1,220	+120	+10.9%
Exclusion of capital gains on home sales	535	590	650	+60	+10.2%
TOTAL	24,200	30,295	37,950	+7,655	+20.2%
Investor Deductions					
Expensing of construction period interest and taxes	659	745	775	+30	+4.0%
Depreciation on rental housing in excess of straight line	385	410	430	+20	+4.9%
Five-year amortization for rental housing rehabilitation	15	25	35	+10	+40%
Exclusion of interest on state and local housing bonds	447	840	1,220	+380	+45.2%
TOTAL	1,506	2,020	2,460	+440	+21.8%
GRAND TOTAL	$25,706	$32,315	$40,410	+$8,095	+25.0%

Note: Tax expenditures are defined in the budget as "losses of tax revenue attributable to provisions of the Federal income tax laws that allow a special exclusion, exemption, or deduction from gross income or provide a special credit, preferential rate of tax, or a deferral of tax liability affecting individual or corporate income tax liabilities."

Source: Compiled by LIHIS from Special Analyses, Budget of the United States Government, 1982.

HOMEOWNER DEDUCTIONS AND HOUSING PAYMENTS, 1975 THROUGH 1986

Amount of assisted housing payments (housing subfunction of function 600) in billions of dollars, compared with estimated cost of homeowner mortgage interest and property tax deduction, also in billions. (Source: Relevant volumes of Budget of the United States and Special Analyses, with homeowner deductions projected beyond 1982 at rate of 18% per year.)



Representative RICHMOND. Mr. Shiffman, I'm in 100-percent agreement and I certainly want to thank you for your statement. Mr. Golden.

Mr. GOLDEN. Thank you, Mr. Shiffman.

Representative RICHMOND. Thank you, Mr. Shiffman, Mr. Patton, and Mr. Gliedman. You have certainly added a great deal to our meeting this morning.

Our next panel is on local development corporations. We have George Patterson, Local Initiative Support Corp.; Curtis Wood, Bedford-Stuyvesant Restoration Corp.; Gary Sam Hattem, St. Nicholas Housing Rehabilitation Corp.; and Maurice Phillips, Broadway Merchants Chamber of Commerce, Greater Broadway Brooklyn LDC.

Everything will be part of the record and all of this will be gone over in great detail by members of the Joint Economic Committee because our mission is to advise Congress what to do next. We are clearly in severe trouble in housing, in local development, in education, in business—everywhere, and our job is to advise the Congress on policy. So everything you say will be given to our full committee and then, of course, it will go on to other Members of Congress.

STATEMENT OF GEORGE PATTERSON, REPRESENTATIVE, LOCAL INITIATIVE SUPPORT CORP.

Mr. PATTERSON. It's certainly a pleasure to see you again and I thank you for inviting me and also my thanks to the Brooklyn Borough president, Mr. Howard Golden.

I'm here today as a representative of the Local Initiative Support Corp. which is a corporation that is capitalized by the Ford Foundation and six private sector corporations, including Prudential Insurance Co., Aetna Casualty & Life, Atlantic Richfield, Levi Strauss, International Harvester, and Continental Illinois Bank in Chicago.

The initial $10 million that was in that capitalization has been used to support the efforts nationally of local development corporations in their efforts to build housing and maintain commercial strips and generally improve the environment in which they operate. With the budget cuts that have occurred, what we are seeing in the projects that we are working with right across the country—and we are working with 60 on a national basis, three of which are located here in Brooklyn—is that those budget cuts are threatening the existence of those organizations and their ability to continue with the efforts that they have been making over the last 10 years.

These budget cuts are going right to the heart of destroying a national effort, a national movement of local development corporations that have been in existence for at least 10 to 12 years.

I would like to say that the organizations in Brooklyn that we are working with—the Flatbush Development Corp., the Southern Brooklyn Community Organization, and the Sunset Park Rehabilitation Committee—have done outstanding work in the area of community development, but without additional money from the Government as well as money from the private sector, those organizations are going to be hard-pressed to continue their work.

In terms of what Congress can do, I'm not really sure what they can do. Obviously, we would like to see the cuts restored. This seems to be highly unlikely at this point. Perhaps there is some way in which

Congress can begin to provide additional incentives to the private sector in terms of encouraging them to be more supportive than they are at present. Presently, there is a growing sense of responsibility to make an investment in local development corporations that are engaged primarily in entrepreneurial type of activities. There needs to be broader support for organizations that may not be as sophisticated as organizations that are presently at that stage where they are able to operate entrepreneurial type projects.

Beyond those kinds of incentives, I have to confess I'm not really sure what the Government can do. Certainly these efforts that we are engaged in are primarily because of the feeling that there was a need for a partnership that included the private sector, the foundation sector, and the public sector. If the public sector dollars are now going to be reduced, as they obviously are, in housing and commerical development opportunities, then that partnership is going to be wrecked and the victims of that wrecking are going to be the people that we are all most concerned about in our community, people who by and large are not able to help themselves in terms of housing and jobs. That kind of support is very necessary if we're going to continue the kind of work that is going to serve all the citizens of not only Brooklyn but this country, and I will stop now and pass it on to Mr. Wood.

Representative RICHMOND. It's a pleasure to see you here this morning.

STATEMENT OF CURTIS WOOD, PRESIDENT, BEDFORD-STUYVESANT RESTORATION CORP.

Mr. WOOD. Thank you very much, Congressman Richmond, and Borough President Howard Golden. I'm glad to have been invited to present my views on how the current economic conditions and policy are affecting our ability to do development work in Bedford-Stuyvesant.

Representative RICHMOND. Are you the single largest developer in Brooklyn?

Mr. WOOD. Probably the single largest community developer in the country. The Bedford-Stuyvesant Corp. of which I'm president, is a community development corporation which was started back in 1967 to design and implement programs and generate investments for the betterment of the Bedford-Stuyvesant community in Central Brooklyn. Ours is a comprehensive approach that includes physical development where we are concerned with building housing and commercial structures, business development where we are concerned with starting new businesses, and joint ventures as well as attracting established businesses into Bedford-Stuyvesant; and we also have a wide range of community programs including programs for employment, training, health care, and culture. Time doesn't permit me to give the details of all our various programs.

The point I would like to make today is our organization started out with the basic philosophy that in order to bring about significant and lasting changes in a community that had undergone substantial decline over a period of several decades it would require a partnership on the part of government and the private sector and the local community. All three working together is what we know to be important.

It is our firm belief that to the extent we have been successful at the restoration corporation it has been because we have been able to forge and maintain that kind of partnership.

The Federal Government has provided our basic funding which is made available through the Community Services Administration and its predecessor, the Office of Economic Opportunity. Over the years we have been able to leverage that basic funding into over a quarter of a billion dollars for investment in Bedford-Stuyvesant.

The private sector has played a key role through contributions and investments. For example, the banks have provided loans. Other companies have opened stores. The IBM Corp has even built a brand new $13 million plant in Bedford-Stuyvesant, which I'm certain you know about, and I'm sure the borough president knows about.

Finally, the local community has been important in providing human resources and capital.

So indeed, we have had a working partnership in Bedford-Stuyvesant.

But now it seems that the administration in Washington would like to have one of our partners drop out of the partnership. On September 30, our basic funding source, the Community Services Administration, was eliminated, causing us to have to cut our staff in half. The Reagan administration proposes to simply terminate or drastically curtail many social and community development programs rather than to attempt to eliminate weak programs and restructure others.

To indiscriminately wield an axe rather than carefully manipulate a scalpel will cause immediate harm to millions of poor Americans and to blindly place one's confidence in the private sector alone is either to be unconcerned about or unknowledgeable about complex urban realities.

The private sector is still in partnership with us, but only if we or the Government reduce the inherent risk of doing business in our community. Competitive American businesses invest according to the relative risk and profitability of available alteratives.

Even though the needs of the Bedford-Stuyvesant 300,000 residents are great, their effective demand in terms of their personal incomes is relatively low. This, combined with the environmental risks compels private capital to flow into other locations. Urban enterprise zones are the Reagan administration's attempt to deal with this problem in the context of its unbridled free market economics. However, such zones will probably be of very little value to Bedford-Stuyvesant or similar communities.

The tax and regulatory barriers that would be lowered are not the primary impediments of economic development in low income communities. Most studies show that labor costs, adequate public infrastructure and services are all more important than taxes and regulatory barriers in business success. The enterprise zone concept would not address these barriers.

To meet the economic and physical development needs of poor people, it is vitally important to foster the return of private capital to low income communities. Restoration Corp. has been successful in attracting such capital, but in every instance substantial loan guarantees have been required to sharply reduce private sector risks. Risk reduction mechanisms have included section 8 subsidy agreements, FHA mortgage insurance, EDA and SBA loan guarantees, Ford Foundation loan guarantees, and our own escrow accounts and loan guarantees supported by Federal grants.

Without these things capital will not flow into low income neighborhoods regardless of other program initiatives such as enterprise zones.

Everybody applauds the current administration's attempt to eliminate wasteful and inefficient government programs and regulations, but I cannot support the indiscriminate destruction of virtually all the domestic social initiatives designed to aid local development corporations and needy individuals.

The tax cut has been implemented which immediately and disproportionately enriches the wealthy, while budget cuts have been proposed that will immediately and disproportionately hurt the poor. The poor have been told to endure certain pain now in exchange for uncertain economic salvation in the future and, Congressman, I think that's a very poor bargain.

Representative RICHMOND. I agree with you, Mr. Wood. Bedford-Stuyvesant, as you said, has a population of 300,000 and obviously we have an awful lot of low income people there. Have you noticed any sort of development in Bedford-Stuyvesant these last few years? Are more and more people moving in, middle income people buying the wonderful housing stock there and rehabilitating it?

Mr. WOOD. We do have some of that happening and I think that's very fortunate.

Representative RICHMOND. What percent would you say?

Mr. WOOD. It would be difficult for me to actually pick a percentage of how that's happening. If you know—and I know you know our community, which is just east of Fort Green and Clinton Hill——

Representative RICHMOND. I have the honor of representing two-thirds of it, as you know.

Mr. WOOD. I know you do and you have an office right in our complex. But the trend has started on the western end of Bedford-Stuyvesant and has moved slowly eastward, but I could not actually say what percentage.

Representative RICHMOND. Is it moving and are people of substance moving into Bedford-Stuyvesant?

Mr. WOOD. There is some small trend to that effect, I think.

Representative RICHMOND. Certainly, not strong enough, I take it?

Mr. WOOD. Not at all. I mean, we actually go out year to year and count the number of buildings that we have in Bedford-Stuyvesant—count the number of abandoned buildings, and we've got about 3,000 abandoned buildings in Bedford-Stuyvesant today. You were asking how many city-owned buildings were vacant and there are 2,500 at least abandoned in Bedford-Stuyvesant. So, we have a huge problem in terms of our housing.

Representative RICHMOND. Are there people who would buy the buildings from the city to rehabilitate them?

Mr. WOOD. If the financing were available to make it a viable project. The big problem is not so much the acquisition of the property but the financing costs.

Representative RICHMOND. The lack of interest of developers to tie up that much capital on rehabilitation, I suppose, at high interest rates?

Mr. WOOD. That's right, and what we have found, as a developer of renovated property in Bedford-Stuyvesant—and of course, this all relates back to Commissioner Gliedman's testimony—is that the cost of renovating housing is such that you don't—you're not able to really create a viable market for the people who live in Bedford-Stuyvesant to afford the housing. We have had that very clear experience in rehabilitating housing and spending the costs necessary to bring it up to some reasonable standard and finding that it's just not viable economically. And so what we have to do and what I think government has to recognize is that those costs have to be underwritten in some way.

Representative RICHMOND. Absolutely. Where do you stand now your own rehabilitation program? How many apartments have you rehabilitated? How many do you have in stock that you plan to rehabilitate?

Mr. WOOD. All together, we have done about 1,000 units of housing. That includes some new construction and some rehabilitation. We have some that are to be under construction shortly.

Representative RICHMOND. Do you have financing for that?

Mr. WOOD. Yes. We are using the section 8 program exclusively for that. We found that that's the only thing that's available that works for us in Bedford-Stuyvesant. We have been fortunate to get the involvement of the banks in the past. We have been able to do some rehabilitation work using conventional financing which I think was great when we got it. Then the interest rates were much lower. We were talking about 8 or 9 percent. But what we found was that did not produce economically viable housing. It did produce viable housing at the time we were developing it, but this was the middle 1970's and we were looking at the prospect of an Arab oil embargo and greatly excalating costs throughout the housing sector and those costs have risen even at a much faster rate than the incomes of the people who live in communities like Bedford-Stuyvesant. So you've got a built-in situation that just does not work economically and it has been our misfortune to have to administer that kind of situation, but what we hope is that our experience will be made known, as certainly we try to make it known to government, and that government will be responsive to our needs and come up with the right kind of programs.

Representative RICHMOND. I wish we could help you, Mr. Wood, but, as I said before, we have an administration that really isn't interested in Bedford-Stuyvesant. That's your basic problem.

Mr. WOOD. That I know.

Representative RICHMOND. We're going to do everything we can. Mr. Hattem, of St. Nicholas Housing Restoration.

STATEMENT OF GARY SAM HATTEM, EXECUTIVE DIRECTOR, ST. NICHOLAS NEIGHBORHOOD PRESERVATION AND HOUSING REHABILITATION CORP.

Mr. HATTEM. My name is Gary Hattem and I am the executive director of the St. Nicholas Neighborhood Preservation and Housing Rehabilitation Corp. We are more easily referred to as St. Nicks and if things continue as they are, we may not be referred to at all. You see, St. Nicks is a local development corporation and as such is an endangered species. I've been asked to testify today as a representative of Brooklyn's weakening herd of LDC's.

I'll start by sharing with you the history of my own group. When St. Nicks was founded in 1975, its central Williamsburg neighborhood was experiencing those all too familiar symptoms of urban decline. Our housing was deteriorating with landlords walking, then running, away from their buildings; shops and businesses were moving out taking with them jobs; banks were continuing to give away toasters but stopped offering mortgages; and the city itself egged on the Godzilla of urban blight by pulling out services and shutting down facilities.

Many Williamsburg residents picked up and ran too; others held up their hands and asked why; and a very special few asked why not? At first this special group spent a lot of time screaming then before long they started scheming and thus was born St. Nicks. By the spring of 1975, with the help of neighborhood CETA workers, layed off factory workers and the like, St. Nicks was certainly strong enough to raise hell against that Godzilla of urban blight.

Today, 6 years later, the beast is not dead, but he's certainly real sick and Williamsburg itself is growing strong and healthy. You see, over those years St. Nicks has been able to build and upgrade over 500 units of housing. From projects as big as a 150-unit senior citizen housing development to as small as a 6-unit moderate income co-op, St. Nicks has nurtured growth. Clearly, St. Nicks did not do it alone, through picket lines and the refusal of toasters, we built partnerships with government and the banks.

Although I like to think there's a special magic in St. Nicks story, it really is not all that unique. Throughout this amazing borough of Brooklyn, LDC's are at work and on the job rebuilding neighborhoods. LDC's have become the focus of neighborhoods; they challenge people to collectively confront and solve problems, not ignore or escape them.

The past several years may come to be known as the "go-go years" of the neighborhood development movement. As grass roots groups, to everyone's surprise, actually succeeded in their mission, new programs and opportunities came their way. Although the resources were never quite adequate, LDC's leveraged them to form ongoing and sustained efforts to successfully stabilize and rebuild neighborhoods. From at first being the new kids on the street, LDC's soon gained legitimacy and respect as effective innovators in distressed communities.

As encouraging and as supportive as this past has been, LDC's are being confronted with an equally dramatic and eventful period of loss. Although no meaningful urban policy existed within the past administration, LDC's did gain access to a variety of programs that proved workable on the home front. Programs like section 8 have been used by LDC's to target substantial rehabilitation of near dead housing and section 312 to stimulate homeowner reinvestment. CETA and VISTA have been relied on as that all-important staff to secure and manage resources as well as to undertake labor intensive activities like tenant organizing and counting abandoned buildings. Other categorical grant programs like UDAG and EDA programs were beginning to be demystified and tapped by LDC's as a means to attract greater private investment into low income communities as an alternative investment to shopping malls and luxury hotels. Of great practical and symbolic value was the neighborhood self-help program out of HUD which provided direct project specific grants to LDC's and for the first time made us feel we were part of a government which recognized and valued what we are doing.

Although New York City has programed its community development block grant, with much grass root pressure, of course, to serve as an important resource for LDC's it is doubtful that this will continue with the block grant program budget shrinking, and more and diverse interest groups like those hotels and malls relying on it for support.

In addition to the budget cuts, times have been made even rougher by spiraling interest rates. With financing near 20 percent, and no subsidies available to bring debt service within a carriable rate, we can only look forward to greater abandonment and disinvestment. The housing voucher program proposed as the primary housing tool of the new administration, offers no opportunities for development and reinvestment in transitional neighborhoods.

Clearly, and dramatically, the Federal budget cuts as executed and planned have ruled out a viable future for LDC's and have destined our neighborhoods to a new and dramatic era of decline. If you are at all concerned with the problem of urban blight, unemployment and the survival of the Northeast, you will surely appreciate the irony of our predicament.

Representative RICHMOND. Thank you, Mr. Hattem.

Maurice Phillips, Broadway Merchants Chamber of Commerce, and the Greater Broadway Brooklyn LDC.

STATEMENT OF MAURICE L. PHILLIPS, PRESIDENT, BROADWAY MERCHANTS CHAMBER OF COMMERCE, INC.; AND GREATER BROADWAY BROOKLYN LOCAL DEVELOPMENT CORP.

Mr. PHILLIPS. Greetings. I consider it a privilege and honor in being elected to the position of representing the Borough of Brooklyn Local Development Corp. for the purpose of addressing this distinguished committee.

I personally wish to thank our borough president, Hon. Howard Golden, Hon. Frederick W. Richmond, the Joint Economic Committee, fellow panelists, all community representatives, visitors, friends and foe, alike. I wish to thank all of you for making this hearing meaningful, significant and productive for that grand body in the White House usage, in selecting an alternative strategy, where necessary, in order that we preserve our local development corporations so that they may assist in pulling the local economies up from their present state of despair.

At this point, I wish to give high recognition to the special visitor among us, my grandmother, Mrs. Mary Mickens, visiting from Vicksburg, Miss., an active senior citizen, who is endowed with the spirit of God. I hope that here prayer to our Creator will help us to achieve our duty and responsibility to God's creation.

It was asked that I address this committee on the issue of high interest rates and their effect on local development corporations. This point won't take too much time to cover. It is common knowledge that the more it costs to borrow will make it difficult for the small business person to enter into a loan agreement with any lending institution, therefore whatever needs to be done in order to reduce the negative effects of high interest rates, it should be done immediately by Congress.

Initially, I was asked to speak on the basic needs of local development corporations, the impact of the Federal cuts, and how they are affecting local development corporations in the Borough of Brooklyn, and more specifically speak on the issues of commercial and industrial development.

Due to time constraints, I will begin by setting forth our first recommendation:

I. Reestablish Washington's central coordinating office: It is recommended that Washington's central coordinating office be reestablished to serve as advocate and liaison for the committee and local development corporations, to be monitored on a quarterly basis with accountability to the public in terms of actions taken by them and its impact on local employment, physical development, economic profitability and prudence over the long and short term.

At this point, I wish to give a brief history of Brooklyn's local development corporation structure. There are approximately 20 local development corporations established in this borough. They represent the interest of 100 merchants associations, boroughwide numbering 1,300 business establishments. Our borough, the fourth largest city within the United States, contributing sizable tax revenue into our government, therefore we do have a vested interest in the prevailing economic climate and future of Federal programs that impact on our local neighborhoods.

Historically, commercial and industrial interest of local development corporations evolved from the efforts of neighborhood business organizations, such as the Greater Broadway Brooklyn Local Development Corp., which was organized by the Broadway Merchants Chamber of Commerce, Inc. The latter was conceived in the year 1933 as a result of a merger of the then two existing merchant associations, Broadway Merchants Association of Brooklyn, Inc., and the Broadway Chamber of Commerce, Inc.

From its inception in 1933, the Broadway Merchants Chamber of Commerce functioned like many other merchants associations. Primarily, their focus was on sales promotions and business development along the Broadway corridor. Their civic consciousness, however, was evidenced by their support of community social services programs and church sponsored events. In the late 1960's, the impact of years of neglect and disinvestment by public and private sectors manifested itself in the form of urban blight and deterioration. Our problems didn't start with this administration. The future of our businesses were and continue to be tied to the future of the entire neighborhood.

Our merchants association began seeking assistance from the public sector directly, in order to ebb the encroaching decay of the Bushwick/Bedford-Stuyvesant and adjacent communities and encouraged many of the area's businesses and residents to remain. Although the merchants lobbied diligently, their organizational framework rendered them incapable of stemming the ensuant acts of disinvestment from the public sector, banking community, insurance companies and other large private interests. The apparent disinterest of government and large private institution alienated residents and small businesses. In the shadow of hopelessness and frustration, the Broadway corridor was ravaged in the aftermath of a 1977 power blackout.

After regrouping, the association was advised to form an entity whereby lical businesses and community residents would pool their resources and talents to channel pulbic sector investment into Bushwick/Bedford-Stuyvesant and leverage private capital for the economic redevelopment of the Broadway corridor.

However, we found that the implementation of the mandated congressional function of the local development corporation was seriously impeded by: (1) bureaucratic redtape; and (2) despicable actions of those in government and government agencies.

How does one justify an economic venture being placed on the backs of local residents and businesses with some paid agency staff and some elected officials manipulating the mandated local development process whereby 5 years have passed since the blackout of 1977 and millions of dollars have bypassed Broadway, and we still do not have a spade in the ground. In order to avoid the above, my second recommendation is as follows:

II. Direct Federal funding to local development corporation: Funds set aside to be channeled directly to local development corporations from the Federal Government to be monitored by the Washington Central Coordinating Office and local municipalities to guarantee that the approved ventures have adequate government start-up equity for leveraging private sector investments.

Traditional commercial financing has always stopped short of meeting the needs of the small business entrepreneur. Small businesses need financing in order to expand, increase their labor force, replace depreciated machinery and equipment, and rehabilitate deteriorated facilities. Although many small businesses are credit worthy, they are not afforded the treatment of Lockheed and Chrysler Corp. Small businesses require long-term, low-interest, minimum equity financing and these needs are not acknowledged in our present policy. Federal business financing programs were to be designed to enable the small business entrepreneur—to realize the economic potential on his operation—to take a chance on viable business ventures that contribute to the local economic base and employs residents—in short, to fill the void left by the banking community.

Representative RICHMOND. Excuse me, Mr. Phillips. We can only allocate 40 minutes to each witness. Your total prepared statement will appear in the record. We are treating you no different than any other witness we have had today.

[The prepared statement of Mr. Phillips follows:]

PREPARED STATEMENT OF MAURICE L. PHILLIPS

Greetings: I consider it a privilege and honor in being elected to the position of representing the Borough of Brooklyn Local Development Corporations for the purpose of addressing this distinguished Joint Congressional and Senatorial Economic Policy Committee.

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Due to time constraints, I will begin by setting forth our first recommendation.

I. REESTABLISH WASHINGTON'S CENTRAL COORDINATION OFFICE

It is recommended that the Washington's Central Coordination Office be reestablished to serve as advocate and liaison for the committee and local development corporations, to be monitored on a quarterly basis with accountability to the public in terms of actions taken by them and its impact on local employment, physical development, economic profitability and prudence over the long and short term.

At this point, I wish to give a brief history of Brooklyn's local development corporation structure. There are approximately twenty (20) local development corporations established in this Borough. They represent the interest of one hundred (100) merchants associations, Borough wide numbering 1,300 business establishments. Our Borough, one of the largest counties within the United States, contributing a sizeable tax revenue into our Government, therefore we do have a vested interest in the prevailing economic climate and future of Federal programs that impact on our local neighborhoods.

Historically, commerical and industrial interest of local development corporations evolved from the efforts of neighborhood business organizations, such as the Greater Broadway Brooklyn Local Development Corporation, which was organized by the Broadway Merchants Chamber of Commerce, Inc. The latter was conceived in the year 1933, as a result of a merger of the then two existing merchant Associations, Broadway Merchants Association of Brooklyn, Inc. and the Broadway Chamber of Commerce, Inc. From its inception in 1933, the Broadway Merchants Chamber of Commerce function like many other merchants associations. Primarily, their focus was on sales promotions and business development along the Broadway corridor. Their civic consciouness, however, was evidenced by their support of community social services programs and church sponsored events. In the late 1960's the impact of years of neglect and disvestment by public and private sectors manifested itself in the form of urban blight and deterioration. The future of our businesses were and continued to be tied to the future of the entire neighborhood. Our merchants association began seeking assistance.

From the public sector directly, in order to ebb the encroaching decay of the Bushwick/Bedford Stuyvesant communities and encouraged many of the area's businesses and residents to remain. Although the merchants lobbied diligently, their organizational framework rendered them incapable of stemming the ensuant acts of disinvestment from the public sector, the banking community, insurance companies and other large private interest. The apparent disinterest of Government and large private institution alienated residents and small businesses. In the shadow of hopelessness and frustration, the Broadway corridor was ravaged in the aftermath of a 1977 power blackout.

After regrouping, the association was advised to form an entity whereby local businesses and community residents would pool their resources and talents to channel public sector investment into Bushwick/Bedford-Stuyvesant and leverage private capital for the economic redevelopment of the Broadway corridor.

However, we found that the implementation of the mandated congressional function of the local development corporation was seriously impeded by (1) bureaucratic redtape and (2) despicable actions of those in Government and Government agencies.

How does one justify an economic venture being placed on the backs of local residents and businesses with some paid agency staff and some elected officials who maniuplate the local development process whereby five (5) years have past since the blackout of 1977 and millions of dollars have by-passed Broadway. And we still do not have a spade in the ground.

II. DIRECT FEDERAL FUNDING TO LOCAL DEVELOPMENT CORPORATION

Funds set aside to be channeled directly to local development corporation from the Federal Government to be monitored by the city and State government, in order to guarantee that the approved ventures have adequate Government start up equity for leverageing private sector investments. Traditional commercial financing has always stopped short of meeting the needs of the small business entrepreneur. Small businesses need financing in order to expand, increase their labor force, replace depreciated machinery and equipment and rehabilitate deteriorated facilities. Although many small businesses are credit worthy, they are not afforded the treatment of Lockheed and Chrysler Corporations. Small businesses require long term low interest, minimum equity financing and these needs are not acknowledged in our present policy. Federal business financing programs were to be designed to enable the small business entrepreneur—to realize the economic potential of his operation—to take a chance on viable business ventures that contribute to the local economic base and employs residents—in short to fill the void left by the banking community.

III. MERCHANT AND RESIDENT REVOLVING LOAN FUND

Merchant and resident revolving loan fund need to be more accessible for the constituents of local development corporation in order to make the local banks more competitive for our constituents savings and investments. Given the high interest rates of Government guaranteed/assisted funds (Small Business Administration, for example) prevailing in the capital marketplace, it is virtually impossible for small businesses to survive if they require borrowed funds to conduct their enterprises. Moreover, the high cost of interim financing through line of credit is rising above the ability of the small business to repay. Although, Government assisted financing is long-term, the need for low down payment formulas are negated by the high personal equity requirements of SBA programs. Middle-aged and older business people are left without needed security for retirement.

Planned cuts in financing programs have a debilitating impact on transitional and distressed communities. Small businesses located in the areas not only face decreasing opportunities to secure working capital and fixed asset financing, they must also battle disinvestment, high unemployment and all the spillover effects of neighborhood deterioration.

Local development corporations can intervene between traditional bank financiers, the Government and the prevailing socio-economic conditions impacting upon our small businesses, if seriously allowed to do so.

WHY WE NEED LOCAL DEVELOPMENT CORPORATIONS

Local development corporations play a role in the ecomomic revitalization process that cannot be substituted by either the public or the private profit-making sectors independently. Local development corporations embody the capability to: provide an organizational framework for the overall coordination of development activities geared specifically for their target area; serve as the legal entity for development, ownership and management of real property; structure financial packages for area commercial and industrial establishments; and disseminate vital information impacting upon the economic future of the business and residential communities.

Cómmercial and industrial local development corporations can acquire and develop vacant land and rehabilitate abandoned city-owned properties. They can employ economic development professionals to attract new businesses, manage and promote commercial strips, package loans which allow existing businesses to remain and expand, contributing to increased sales. These programs fight neighborhood decline in concrete ways: they encourage and finance expansion which creates jobs, they generate sales volume which increases sales taxes paid to government, the rehabilitation raises the property values and they reduce vacancies which improves security for neighborhood residents.

Market forces and demographic trends spur (changes) in the economic health of a neighborhood. Many of the neighborhoods throughout Brooklyn have experienced significant transitions of income groups and racial composition. Bushwick is at a critical point in its economic life cycle. Unless local development corporations receive support from the Federal Government, area businesses will lose their financing advocates, flee and the surrounding residential population migrate to other areas, leaving Bushwick a wasteland in a sea of defeat. But where does that leave healthier sections of Brooklyn?

The impact on stronger neighborhoods is equally significant. These stronger neighborhoods are up the road on the same continuum as distressed areas. Without the efforts of local development corporations, they too are prey to deterioration and blight, which left unchecked, kills neighborhoods and shrinks the city's economic base. Moreover community services administration, Small Business Administration and Economic Development Administration's programs should assist local development corporations to develop income producing projects that can enable local development corporations to become on-going self sufficient neighborhood resources. Many cuts in Federal funding have killed viable programs before they have gotten off the ground. The HUD 312 program, designated for Belmont Avenue in Brooklyn, evaporated before the area's businesses were able to complete their loan applications. Major private investment in one of the borough's most distressed areas may be lost.

We cannot expect the municipalities nor the private sector to assume the gaps left by Federal cuts. What we need is a Federal action plan aimed at the economic development needs of neighborhoods and the small businesses located within them.

Therefore our final request would be that this committee seriously review our recommendations and assure us that they will meet with us in a timely expeditious manner in order that we begin to reshape Federal policies, to assure the existence and viability of our most needed local development corporations.

Representative RICHMOND. What we would really like to hear from you is the nuts and bolts of what you're doing, how the Government policy is affecting your organization.

Mr. PHILLIPS. OK.

Representative RICHMOND. Tell us your problems, Mr. Phillips.

Mr. PHILLIPS. Basically, we have a problem with implementing the mandates of local development corporations in the Bushwick/Bedford-Stuyvesant community. We were advised to set up a local development corporation in order to be the vehicle to set forth the revitalization of an area that had not received a fair portion of the recycling of its tax contributions over the last 20 years which was paid by the businesses and the residents of these communities.

We were told and instructed to form the LDC and we went and did this, and then we found ourselves in the quandary after 5 years where we still don't have a spade in the ground. We are being jerked around by political hacks and people in paid agencies keeping this community from rebuilding, while millions and millions of dollars have passed that were there, and now we're talking about there's no more money because of the budget cutback. But in the interim, for 5 years prior to the Reagan administration we didn't get a dime when there was an abundance of money. So now we want accountability and advocacy from the Congress and the legislators who put these laws for grants in effect, and without such representation the weight falls totally on the local businesses and local residents to go and do a job without furnishing us with the tools that are necessary from the public sector, for leveraging the proper private sector investment into LDC campaigns.

We're not asking for giveaways. We're not asking for——

Representative RICHMOND. Mr. Phillips, do you have any options on any property? Are you negotiating?

Mr. PHILLIPS. We stated earlier here that there's so many thousands of properties owned by the city which are laying dormant. We have difficulty in getting approval of our request for these properties.

Representative RICHMOND. It was also stated that Bedford-Stuyvesant actually has 400 units now. Do you have any units under construction?

Mr. PHILLIPS. We have one model block that's under construction at this point that may or may not be. The private sector—the landlords—who entered into the agreement with the city of New York through the LDC agreed 4 years ago when the interest rates were 6 and 7 percent. Today they are 19 percent. The agreement may need a budget modification so it will not take another 2 years to do the same model block. We're talking about if we're serious about business. Government can insure expediting a project which has met all necessary local approval.

Representative RICHMOND. How many units in that block?

Mr. PHILLIPS. Five units that we're talking about developing.

Representative RICHMOND. I see.

Mr. PHILLIPS. If you're talking about business, I'm a businessman—I'm 14 years on that block as a business person. I started with a $600 investment. But I know we have a lot of businesses there for 30 years or better who have their investments there who are willing to invest more, but if they see the bureaucracy with the redtape, which did not deliver when the money is in place, how can we expect and have confidence that the money will be delivered when there's a minimum amount of dollars available? We need an advocate in Congress to come out—if you're serious about mandating LDC's of this nature to do the job—to insure us and to protect us from misdeeds that are done that keep this type of development from coming into reality.

Representative RICHMOND. Mr. President, I think perhaps using your good offices, we might be able to see why this whole organization hasn't been able to get off the ground.

Mr. GOLDEN. They work very closely with us.

Mr. PHILLIPS. The Borough President has been very good with us, but he can't do the job by himself. We've got different levels of government, as you know, but the Feds, where we have our trust, where we pay real estate or employment taxes or whatever, they have an obligation to come out and assist us, and we don't see you guys.

Representative RICHMOND. Have you discussed this matter with your Member of Congress? I believe it's Mrs. Chisholm. I don't represent Bushwick.

Mr. PHILLIPS. We're Bedford-Stuyvesant, Bushwick, Oceanville, and Brownsville.

Representative RICHMOND. That would be Mrs. Chisholm.

Mr. HATTEM. That would be both of you I think.

Mr. GOLDEN. I think we should schedule a meeting perhaps at Borough Hall and Maurice can bring down a few people and speak in detail to them about it.

Mr. PHILLIPS. There's one other point I want to state on the banking.

Representative RICHMOND. Let me say this. Certainly Mrs. Chisholm and I will do everything possible now that I know you need some help. This is the first time I've heard about it. It is Mrs. Chisholm's district and she and I work very closely together, and the president will organize a meeting so we can get something started for you.

Mr. PHILLIPS. I'll accept that. OK. I'll accept that.

Representative RICHMOND. Thank you, Mr. Phillips.

Our next panel is Lou Rosenberg, Sherilu Construction Co.; Bill Merkent, Merkent Meat Co.; and Richard Raskin, Dean Products

Corp. We'll hear from Mr. Rosenberg first, and then Mr. Raskin and Mr. Merkent.

STATEMENT OF LOUIS L. ROSENBERG, PRESIDENT, SHERILU CONSTRUCTION, INC.

Mr. ROSENBERG. I'm Lou Rosenberg, president of Sherilu Construction Co. general contractor and developer. I have been in the construction business over 40 years, primarily in the commercial and industrial field. A large percentage of our work has been in the Borough of Brooklyn.

Our projects range in size from approximately 40,000 square feet to 75,000 square feet and in the past 6 or 7 years 90 percent of our work has been confined to shopping centers which contain a supermarket for a major tenant and in some cases retail stores of approximately 10,000 to 20,000 square feet.

I believe that we are the only developer building at the present time this type of project in the city of New York. Until 3 years ago, we had no difficulty in financing any project in a conventional manner with a mutual savings bank. Since that time, no savings bank has been in a position or has been willing to issue a commitment for permanent financing for projects of this type.

The only financing available to developers today is being made by an insurance company or a pension fund. These commitments are for projects in excess of $20 million. They're not interested in projects of our size which range under $10 million. The only hope that we have for financing is through the availability of government aid in the form of UDAG grants and similar programs of this type.

We are presently developing a shopping center in Brooklyn which consists of an extension and alteration to an existing building.

Representative RICHMOND. Where?

Mr. ROSENBERG. This is on Hamilton Avenue and 12th Street. I think you're familiar with the area. This project, when completed, will employ over 400 people and revitalize a depressed area. It is being financed by a first mortgage to be made by the Prudential Insurance Co. of America through their special limited fund for social improvement projects and a second mortgage in the form of a UDAG grant made by the city of New York.

If it were not for this specific program of the Prudential Insurance Co. of America seeking to aid and upgrade depressed areas, this project would not be feasible. Likewise, without the UDAG commitment through the city of New York, this project would be impossible.

I believe that the Federal Government should continue to initiate programs which will encourage construction of commercial and industrial buildings. Projects of this type employ workers in the construction industry and when occupied create permanent jobs for local residents, many of which are unskilled.

There is no question that the Government benefits in many ways. As stated before, as jobs are created and people employed, welfare rolls decrease, taxes are generated, and the community prospers.

We have recently been designated as developers for a 30,000 square foot shopping center on 5th Avenue and Baltic Street in Brooklyn. This project is a cornerstone in the redevelopment of the entire area, both commercial and residential. This particular area has been depressed for the last 5 years with most of the structures being demolished or abandoned.

This project, along with 150 residential units, will revitalize the entire area and reverse the trend which has seen major businesses and the surrounding area become devastated. This is one of many areas in the city of New York which has experienced this recent trend of abandonment and without a program for financial aid from the Government this trend will continue.

I urge you to initiate and implement programs which will encourge private development and preserve communities in the city.

I did wish to comment on other matters that were brought up by Ken Patton and Tony Gliedman and several of the other people who have spoken before me, but I don't think it would be proper to take your time to repeat them.

What you said to the last gentleman who spoke was, "State your problem and what can we do to help." Our problem is financing. Many people look at industrial and commercial development as a secondary thing, but as far as I'm concerned it's a matter of which came first—the chicken or the egg? It is nice to have housing and a good place for people to live, but if they don't have a job, they can't afford to pay whatever the upkeep is for that establishment. And we are interested in creating jobs.

For many years, until the last 10 years, our construction was strictly industrial—building factories mainly in the Borough of Brooklyn. With the high interest rates that are in place today, it has become impossible to do any industrial or commercial building. We have been fortunate in that the last project completed in Canarsie was financed close to 3 years ago by a pension fund. We were able to convince them it was creating jobs and, being a construction pension fund, it made the commitment for the mortgage on that project. This project, as you know, has been in the works for about 5 years and if it wasn't for the UDAG grant which has been made by the Federal Government under their program to the city of New York who in turn is loaning us the funds, which is 25 percent of the permanent mortgage—and if it wasn't for the fact that the Prudential Insurance Co. of America has this particular program and a certain amount of money set aside to see areas upgraded, this project would never get off the ground.

That's our problem. What we are looking for is reduced interest rates and, of course, I don't want to get political, but it seems very strange that after nearly a year of this administration they have finally realized that the high interest rate is the cause or one of the major causes of our bad economy at this time.

As stated before by many others every time the prime rate goes up one point, it costs billions of dollars to the Federal Government because they're the biggest borrower in the world.

And the other item that I would like to stress is that UDAG is still in place but is running out, and there have been threats by the Federal Government to disband the program entirely. In order for us to plan an industrial building or a commercial building in the city, especially in Brooklyn, you have to go through UDAG procedures, et cetera, and you have to plan at least 2 years ahead of time, and if we can't be assured that the funds are going to be there, there's no way we can look forward to other projects.

Representative RICHMOND. Mr. Rosenberg, I can tell you that New York's coalition of Members of Congress will do everything possible to continue the UDAG program, but, as you know, we are now outnumbered. We also have a Senate which really doesn't care much about urban development and we are faced with a problem of a man in the White House who doesn't particularly like us to start with, and a group of people in the House of Representatives who feel they can do well without us, and then this great idea that private enterprise ought to take over everything when we know for a fact that nowhere in the world can private enterprise build any type of structure without some type of government assistance and come out at any reasonable price.

Sure, you can build a luxury hotel but you can't build a shopping center for modest income people. You can't build housing for modest income people. You can't build a factory that you're going to rent out. Sure, IBM can build a factory, but a little fellow can't without government assistance, and it's recognized all over the world and the administration refuses to believe it. It's going to take them some time to come around and obviously Mr. Stockman's statements of yesterday don't hurt our cause one bit.

We should never have had the individual tax reduction. Congressman Reuss and I did everything possible to convince the Democrats in Congress of that, I think the tax bill was the worst mistake we could have made. The American people didn't want the tax reduction. They wanted an inflation reduction. If we had been able to do that, we would have reduced the interest rate and reduced inflation. Now we've got to go back and repeal what we did and develop instruments to reduce inflation and reduce interest rates.

Again, I think we ought to look at the Japanese system where people get tax exemptions for saving money for building houses. Certainly we will do everything we can for you, Mr. Rosenberg, but I'm not very optimistic until we get the people on the other side to understand there will be no progress in this country without a little pump-priming from the Government.

Look at the revitalization that's taken place. We never could have had it without UDAG grants, and UDAG is responsible for only 25 percent of the financing, yet it makes the other 75 percent possible.

Mr. ROSENBERG. And it's not as if the private sector is looking for any windfall.

Representative RICHMOND. Of course not.

Mr. ROSENBERG. We're willing and always have put our own capital into every job we've ever done.

Representative RICHMOND. We understand that. Thank you very much, Mr. Rosenberg.

Mr. ROSENBERG. Thank you for the opportunity.

Representative RICHMOND. We will continue helping you, Mr. Rosenberg. We certainly want to develop Brooklyn, but we have to develop it with people like you, people who are interested in Brooklyn and understand Brooklyn and are willing to put your money where your mouth is.

Mr. Richard Raskin, Dean Products Corp.

STATEMENT OF RICHARD RASKIN, DEAN PRODUCTS CORP.

Mr. RASKIN. Thank you very much for inviting me here to share my thoughts.

I head up two manufacturing companies employing 275 people in the Bedford-Stuyvesant Crown High section of Brooklyn. I'm also president and founder of the 77th Precinct Businessmen's Association, an organization representing 60 businesses and employing close to 6,000 people in that same community.

I'm going to try and tell you what our problems are. Our problems are primarily not the things you're concentrating on here today. The problems of doing business in Brooklyn have to do with crime and fear of crime, the kinds of things that Mr. Wood hit on when he spoke about the infrastructure and maintaining the infrastructure.

It's certainly appropriate I think to have a balanced Federal budget and I think that not having a balanced Federal budget impacts inflation dramatically. When we pass laws which encourage investment in urban communities, I think those are constructive things. I think when we pass laws which encourage the revitalization of the country, those are constructive things. When we set up the enterprise zones, if they are done in a constructive way, in a real way, that's good for the urban areas. But many of these programs get sidetracked.

I agree with you absolutely that the tax cut thing was a "me tooism." It got totally out of hand. We cut taxes. We did not cut expenses and we now are looking at Federal deficits that are bigger than they would have been otherwise.

Let's get back to crime and fear of crime. Right now it is very, very difficult to get people to come into Brooklyn to work if they don't live there. I'm in the process of trying to hire people right now. They hear "Brooklyn," and they say, "I won't go to Brooklyn," period.

One of the programs that's in place there is a program to help manufacturers better secure their facilities. It pays for alarm systems, bars, and things of that nature. It is so complicated and so cumbersome that my company is the only company in planning ward 8 that has made application and is about to be awarded money. The other companies are small. We're dealing with small businesses. We're not IBM.

Representative RICHMOND. You're the ones that need protection.

Mr. RASKIN. Exactly, but we don't have the manpower and followthrough to see it through.

Representative RICHMOND. Tell us what's cumbersome about it.

Mr. RASKIN. What's cumbersome? My God. I think the biggest deterrent in the process was we had to have a survey done by the police department and that had to be approved. We had to go out for bids. The contractors had to guarantee to be audited and to pay Bacon-Davis rates—things of that nature. It was a program where we originally understood that our approval would come through in 3 or 4 months is taking 6 months and 9 months.

I'm convinced, too, that the actual expenditures, even though the Government will pay half of the expenditures— the cost of doing the work, because of the Bacon-Davis requirement, because of the concerns about auditing and so on, are probably doubling the cost of the work that we are doing and we're going to end up paying—we're not going to benefit from the program.

Representative RICHMOND. In other words, if each business would do it on their own——

Mr. RASKIN. They knew what they needed and if they had gotten a subsidy for doing business in a high crime area, it would be very constructive. The reduction in funding the the Economic Development Administration I think has hurt the Borough of Brooklyn. We were in the middle of getting ready to get some money and that's been cut, and I think that that money which would have been available in the form of loans to businesses would have been constructive.

The infrastructure is important—Federal support of our transportation system, the subway system, the MTA. I know these aren't directly your concern here today, but I say that there will be no economic development unless those things are maintained.

Representative RICHMOND. As you know, Secretary Lewis, the Secretary of Transportation, announced that the administration policy is there are no further subsidies of anybody's mass transportation system. As a result, the mass transit system in Youngstown, Ohio was closed down yesterday. In Youngstown now, there are no buses.

Mr. RASKIN. Those things are hurting cities. I know you know it, but the message—if the Franklin Avenue shuttle is closed in the middle of Brooklyn, it's going to hurt business. I was glad to see the Federal Government support the continuation, through your office, of the Brooklyn Jewish Hospital. It's a pillar of the community. It's not economic development, but without it, the economic base and the residential base and the cultural base will continue to deteriorate.

Representative RICHMOND. Mr. Raskin, let's say we're keeping our fingers crossed. The last man in the White House, President Carter, helped save the hospital. We're not sure what this administration is going to do. We're working on a day-to-day basis.

Mr. RASKIN. I just wanted the committee to know that that hospital was important to economic development beyond its payroll.

Representative RICHMOND. Absolutely.

Mr. RASKIN. I want to get back to crime and fear of crime.

Representative RICHMOND. You know what crime and fear of crime means—unemployment.

Mr. RASKIN. Absolutely.

Representative RICHMOND. School dropouts. I lectured a class at Pratt Institute last night. At Pratt Institute there wasn't one of them that had any time for crime. Everybody was going to school at day and working besides. These kids aren't criminals. Who commit the crimes in New York City? The school dropouts, people who are unemployable and people without hope, without direction, without strong family background, newcomers to the city.

I'm trying to get this administration to recognize some of the basic problems we have and not insist on cutting back on job training programs and on education programs because the only way we will ever rectify crime is to put people to work. And the horrible fact is that in this city we have just as many open jobs as we have unemployed people. We have 300,000 open jobs and we have 300,000 unemployed people. If we could only match the two, just think what a garden of Eden this city would be.

Mr. RASKIN. I absolutely agree with you. I think these problems are difficult and long run, but in the short run we have to help the police do their job and the criminal justice system has to do its job, and you're not going to have economic development in the Borough of Brooklyn, at least in a community such as Bedford-Stuyvesant, until we get a handle on crime.

I want to talk to you about some of the programs you referred to. Our company 3 years ago started a capital investment program to upgrade our machinery and equipment. It was going to be $1 million over 3 years. We went to JDA. We went to EDA. We went to IDA. There was no public money available to help us with that program. Zero. And when I went to the mayor's office for economic development. When I went to Borough President Golden's office—wherever I went, everybody was shocked that there was no money available. The bottom line was there was no money available. If there was going to be money available, it would have been six to nine months to get it.

When you're in business—I know you were a businessman and you know you can't wait for those kind of things to happen. We went to the bank. We paid the outrageous rates and upgraded our equipment.

Until there are programs which address themselves to those kind of things you encumber the ability of business to help itself and you make more difficult the revitalization of Brooklyn.

Representative RICHMOND. And the rest of the United States. We all know that every large business was orginally a small business and if we don't have that SBA functioning properly there's no way many of these small businesses will ever be able to grow.

Mr. RASKIN. We found with the SBA, if we were a credit worthy company, as we were, they would have nothing to offer us. When we went to some of the State and city agencies which are set up under Federal legislation, unless we were building a new building, there was nothing that could be done.

Our basic problem is crime and fear of crime. I must tell you that the high interest rates, although they are difficult to work with, business can accommodate themselves, at least manufacturing businesses can, because it is a relatively small component of costs unless you're building new buildings. And I also agree very much with your concept of the tax exemption and the creation of capital under the Japanese system that you keep referring to. It certainly sounds like a constructive thing to do. Thank you.

Representative RICHMOND. Thank you, Mr. Raskin.

Mr. GOLDEN. Congressman, before Mr. Merkent speaks, I wonder if the Chair would be good enough to let me direct certain questions to him and then he can make his statement.

Representative RICHMOND. With pleasure, Mr. President.

Mr. GOLDEN. Bill, we're concerned about the financing aspect today and how difficult it is to obtain financing by merchants, and so I'd like to ask you directly how you financed your business and start out by asking you what was your experience with the banking institutions when you started out?

Mr. MERKENT. All right, Howard. I have just a little bit written down here that I would like to read and it would give just a little background of our business, which is a family business that has grown from my grandfather, to my father, to myself, and now to my three sons.

Representative RICHMOND. Please proceed.

STATEMENT OF BILL MERKENT, MERKENT MEAT CO.

Mr. MERKENT. Before I discuss the problems, I'd like to present the background of our company which is namely Merkent Meats and was established in Manhattan in 1885 by my grandfather and then moved to Flatbush in 1912, and we have been in business continuously without interruption in this present day under the management of the fourth generation Merkents, our name.

We have also been an active member of the Flatbush Chamber of Commerce since 1917. Merkent's Meats was a retail operation of meat markets most of this time on Flatbush Avenue. In 1952, we expanded to include serving restaurants, banks, kitchens, and other institutions like hospitals. In 1969, when we started to grow and expand into larger volume areas; we started to phase out of the retail stores and concentrate on portion-controlled meats for hospitals and restaurants.

We also started building, under the U.S. Department of Agriculture inspection program and was awarded the inspection No. 7819 and under this program we started cooking and packaging meats, an entirely different area now—processing. One of the finest provision houses we have here in Brooklyn contracted with us for us to cook their meats under their labels, which included raw beef as well. Why don't they do it? They're basically a pork operation. The two, under the Department of Agriculture, do not mix.

We have been doing business with them since 1970, by the way, so we have a background, and our business has increased dramatically in the last few years and we are anticipating to double our sales in the next 2 years. Our present sales are $10 million—not big, not small.

This was brought about by advertising and merchandising in other States, which is continuing, and this is part of our problem. We are growing and growing quickly and why are we growing? We employ presently 32 employees and with the anticipated volume in the next year or year and a half we should have an additional 20 employees at least. We now operate in 12,000 square feet—very important; 12,000 square feet doesn't sound like much, but if it's processing it's a lot. We need more space and equipment to continue this program of extra volume. The success of our company depends upon the expansion. Without it, we would be forced to curtail and perhaps lose our business. All of this is mentioned to point out our present needs.

In the past, we have financed our needs by reinvesting our own earnings, our family earnings, with little help from bands because the conditions then and the conditions now, if you want $10 you must have $10. This is a fact again. At least I have found that over the years that financing has always been a problem. We have always managed our problem.

We are now to a point where we have in 1980 on our properties that we own on Flatbush Avenue—that does not border on the Avenue but into the rear where the property is properly maintained and taken care of in a blighted area may I also say—taken care of some of the problems that the gentleman next to me pointed out.

Now we are in a position that I must find—we financed our two buildings that we needed for this volume. We are now in phase 3 of our organization. I came upon a stone wall. I went to my local bank where I have been banking, Chemical Bank by name. I went to the local president or manager. I asked him what we could do.

"Can you give me money?" He said, "Why, sure, Mr. Merkent. What do you need?" I told him what our needs were and at that time for the first building it was $200,000 and by the time we got back with everything he asked me—the building had to be put up. We put it up. We found the money. We reinvested more money. My dad and myself, we're not in a position now where we want to keep reinvesting our money. We're beyond that we feel. However, if something should happen to my business now, my money is invested in that business and I'll have to divest myself of my entire finances because of the situation we're in.

Why can't I go to a bank if there are moneys available in a bank? Why do I have to go to a bank with my hat in my hand? We're a a successful business. We're in phase 3 of this. I need desperately an alteration in an existing building that I own that would be upward of $600,000. This is a minimum. I want to the bank and they said, "well, fine. Well, try SBA." That was 3 months ago. They offered us the money through SBA at 2½ or 2¾ or about 3 points over prime. We're talking about 24 percent. Sir, I could not successfully continue my business with this kind of an interest rate.

Representative RICHMOND. Not in the meat business, you can't.

Mr. MERKENT. I can't and still compete with other States who operate with less taxes than New York City, with less employment costs because of certain regulations and unions and other companies not having the benefit of unions. I could not live with that. If I accepted it, which I could have, I would have been a very poor businessman and I probably would not have been able to continue.

From there, I said, well, where do we go? He said, "Well, I don't know." So I had to go back to my office and think for a while, and through my organizations—and I've always been in touch with YMCA Flatbush Boys Club— I've got citations from past borough presidents—and all these things I'm throwing in quickly—where do I go? I have my life invested in this business.

And finally, because I have a big mouth occasionally, people from the Flatbush economic development organization said, "Why are you so worried? There's money available. There are places to go." I said, "Where?" They said, "Well, just come to my office." They gave me a list of offices.

My first was the Industrial Development Agency [IDA]. We sat down with Rick Albert. He gave me all of the conditions. I fulfilled all those conditions. I filed an application. I filed a letter with the history. I've given them my statements and cooperated—my income tax forms. It's in their hands. I'm asking for $600,000 to continue our business. They said, "Fine. We're going to go along with that."

Representative RICHMOND. Of course, as you know, IDA would be more within the area of the borough president.

Mr. MERKENT. This is the last place I went for financing and I have a question on it.

Representative RICHMOND. What happened with your IDA application?

Mr. MERKENT. The IDA application is pending, pending on the fact that I can sell the bonds after they have been floated—if I can sell them. I think if I could sell bonds I could probably borrow the money from these people. I don't have these kind of friends that kind of money to afford bonds.

So I went back to Chemical and they said they do not finance a company with less than $1 million worth. That was at the local level. It used to be that you don't need to be a $1 million concern. They changed that rule. But at the local level it wasn't available to me. I should have quit then. The bank has my application and IDA has my application. We'll see what happens.

How do I conclude this? I don't know, except we are dependent on some of these areas that should be available to us under the circumstances and does it have any bearing on this meeting today, my testimony? I don't know. That's for you to determine.

Representative RICHMOND. Mr. President, what can we do to help Mr. Merkent?

Mr. GOLDEN. I think Mr. Merkent has already indicated that what could be done from the standpoint of the city and the borough president's office is being done. Beth Goldberg has assisted him through our economic development office and has given him advice and help in filling out the papers. He's been to IDA. A very distinguished representative, Commissioner Sam Plotkin, is here and I'm sure he will have testimony as well to explain what the process is.

What Mr. Merkent is trying to say in all of this, aside from his frustrations which are understandable, is that there is really no mechanism to speed up the process which really depends on speed. In other words, a person owns a business on which he depends not only for a livelihood but has employees who depend on it for a livelihood, and should they close or not get the financing required to do whatever has to be done within a specified time, time becomes crucial. The opportunity is there for the place to have to fold because the funding is not forthcoming on time. I think that's really the basic concern other than the other concerns that were exhibited such as crime and security.

Mr. MERKENT. All of which we can handle.

Representative RICHMOND. You know, Mr. Merkent, you're so representative of many small businesses in the United States. Here you are the fourth generation, a business founded in 1885, a good solid, honest business, and with interest rates at what they are today you can't expand. You can't modernize. You can't even begin to function. And it's wrong.

Mr. MERKENT. Up to this point we have, but from this point on we need help. One more point I want to make. You know, I would have had to look elsewhere to continue my business. I don't want to go into that because I had an offer that funds were available other ways out of State. Why, after 100 years, do I have to leave the State? If it hadn't been for the Flatbush and the Brooklyn development organization to pick me up and show me there is a way—and I think that's basically what we're talking about now—these organizations are important. Maybe I didn't know it a year ago. I know it now.

Representative RICHMOND. Unfortunately, most of these organizations get their funding from the Federal Government and the intention of the Federal Government is to do away with the funding. So that's our major problem.

Mr. MERKENT. Let me be on the record that it shouldn't happen.

Mr. GOLDEN. I think there's another lesson to learn from what Mr. Merkent is saying also. In some instances we can't blame government altogether all the time. There are these mechanisms available and sometimes the business sector does not take the time or trouble to acquaint themselves with the fact that these are available, and I'm sure that when IDA is finished speaking you will find additional information that you were not aware of at the particular time because that happens to be a mechanism that's well in place. My concern with IDA is not that they don't function well; it's that I'd like to see a little more functioning happening in Brooklyn, but that's a different ballgame.

Representative RICHMOND. Mr. Plotkin, obviously this would be a great time for you to come and tell us about IDA.

Mr. PLOTKIN. I'd be pleased to.

Representative RICHMOND. Commissioner Plotkin.

Mr. GOLDEN. Do you want to bring up sombody else?

Mr. PLOTKIN. Yes. Deborah Ferolito. She is the deputy executive director of IDA.

STATEMENT OF SAM PLOTKIN, COMMISSIONER, NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY (IDA), ACCOMPANIED BY DEBORAH P. FEROLITO, DEPUTY EXECUTIVE DIRECTOR

Mr. PLOTKIN. I'm a member of the board, secretary to the board, and chairman of the loan review committee.

Representative RICHMOND. Can you just briefly review what you do because I think we are all interested in it?

Mr. PLOTKIN. Congressman, Borough President Golden, I should like to make you aware of the fact of the existence of IDA because we have found in our travels that there aren't too many people who know of the existence of IDA and what it does.

I want you to know as far as Brooklyn is concerned that the record indicates we have helped finance 27 projects amounting to $26 million and that we have been responsible in our programs for the retention of 2,920 jobs with estimated future jobs resulting from these financial arrangements of an additional 1,1745 jobs. This is just for Brooklyn.

And if I could take a moment to give you our overall city activity, we have financed 149 projects, 12 supplements, to the amount of $223 million, and have retained 16,412 jobs and estimate additionally 9,400 jobs as a result of these programs.

So this basically gives you an idea that IDA is not standing still, and we're trying to be as helpful as we possibly can.

Representative RICHMOND. Where does IDA get its funds from?

Mr. PLOTKIN. IDA issues industrial development bonds. These bonds are subsequently picked up by insurance companies, banks, and in some cases private investors; or we have purchase money mortgage arrangements with people when they sell their properties.

Representative RICHMOND. Who guarantees the bonds?

Mr. PLOTKIN. The bonds are supported by the particular development or the building that the loan is being made against.

Representative RICHMOND. Also guaranteed by the city of New York or the State?

Mr. PLOTKIN. They are not guaranteed by the city or State.

Representative RICHMOND. But IDA is a public organization?

Mr. PLOTKIN. It's sort of a quasi-public organization.

Representative RICHMOND. IDA is an agency of the city?

Mr. PLOTKIN. No; not directly.

Representative RICHMOND. IDA is a private organization?

Mr. PLOTKIN. IDA might be—Deborah is prompting me to say it's a State organization. We were established by the State legislature.

Representative RICHMOND. That's what I'm trying to get at.

Mr. PLOTKIN. Yes; that is so.

Representative RICHMOND. Now the bonds that you issue are not guaranteed by the State, though?

Mr. PLOTKIN. No.

Representative RICHMOND. The bonds that you issue are only guaranteed by the——

Mr. PLOTKIN. By the particular property in which it's issued for.

Representative RICHMOND. Did IDA originally get its net worth from the State?

Mr. PLOTKIN. No. We got some initial money from the city in order to be organized, but since then there has been no money taken from the city. It doesn't cost the city anything.

Representative RICHMOND. So basically what you are is a financing organization for local businesses and then you market these bonds publicly?

Mr. PLOTKIN. Yes.

Representative RICHMOND. Are they tax-exempt bonds?

Mr. PLOTKIN. Yes, they are tax-exempt.

Representative RICHMOND. What rates are you selling these bonds for now?

Mr. PLOTKIN. Currently the arrangements we have been able to make as high as—70 percent of prime seems to be a basic structure right now. Going back 5 or 6 years ago, we were issuing bonds at 6 percent interest. So that our spread hasn't been that terrific as far as businessmen are concerned. Also, some of these loans carry tax abatements in the city.

Representative RICHMOND. Well, you have certainly done a fine job so far. I hope you can help Merkent Meats.

Mr. PLOTKIN. We are going to try help Merkent. I want to meet with him. I know he's had preliminary conversations with some of the staff at IDA and we're here to help him.

Would you mind if Ms. Ferolito added to what I said?

Ms. FEROLITO. Congressman Richmond, I'd just like to bring to your attention the fact that right now pending in the House there is a bill before the Ways and Means Committee to severely restrict the use of tax-exempt bonds for industrial development. In addition, the administration, as part of its $3 billion revenue raising proposal, had included the abolition of industrial revenue bonds as part of a a way to increase revenue. Presently in the Senate there are negotiations between the Treasury and Senator D'Amato on the Small Business Committee to develop or draft legislation which would again, in some ways, limit the use of tax-exempt bonds.

I think the important thing here is that after hearing all of the testimony today, the usefulness of tax-exempt bonds in providing that much needed source of capital to small businessmen for expansion is urgently needed in today's environment and if you could help in any way to keep this program in some way alive, it would be to the benefit of Brooklyn and all the small businesses around the country, and I really think when a lot of the other programs are being eliminated, where EDA is being phased out and UDAG is in trouble, that the continuation of this as a source of cheap capital to small businesses is crucial to our survival.

Representative RICHMOND. Thank you, and if you would, please stop in our office and talk to Bill Thompson.

Mr. PLOTKIN. We need lots more IDA's.

Representative RICHMOND. Our last panel is the panel on higher education with Ms. Irene Impellizzeri, New York City Board of Education; Mr. Leon Goldstein, acting deputy chancellor, City University of New York; Mr. Oscar Lee; and Mr. Edward Clark, Long Island University, Brooklyn Center.

I'm all primed for you folks. I spent last evening listening to the problems at Pratt Institute. It's absolutely overwhelming, the problems the students have trying to attend a private institution under the student loan program.

STATEMENT OF IRENE IMPELLIZZERI, MEMBER, NEW YORK CITY BOARD OF EDUCATION

Ms. IMPELLIZZERI. I am Irene Impellizzeri, member of the New York City Board of Education, and I wish to thank you for this opportunity to testify in the matter of financial assistance for college eligible students graduated annually by New York City's public school system.

Since the early days of the Republic it has been the American dream to offer equal educational opportunity to all. From its inception, the Federal Government has engaged in two types of educational activities; financing and administering its own educational programs and aiding the States to finance and promote local education. Federal activities in both of these categories antedate the Constitution. As early as 1787, the Northwest Ordinance stated a clear declaration of policy that:

> Religion, morality, and knowledge being necessary to good government and the happiness of mankind, the schools and the means of education shall forever be encouraged.

With the adoption of the Constitution, under its powers to tax and appropriate for the general welfare, the Federal Government has played an increasingly important role in education. Since 1785, Congress has passed almost 200 Federal aid-to-education laws. Strengthening quality education for national survival has become a basic commitment of government and national leaders from all parts of the political spectrum have voiced this priority. A generation ago, the conservative, Robert Taft, wrote:

> It does not have the glamour that other things have, but it seems to me we must go forward in that field to any substantial degree without providing federal financial assistance.
>
> The late President John F. Kennedy wrote several years later that: The human mind is our fundamental national resource. The Federal Government's responsibility in this area has been established since the earliest days of the Republic and it is time now to act decisively to fulfill that responsibility.

For too long a period, since elementary and secondary education were the most urgent educational priorities, post-secondary education was confined to upper income families. This provided little or no opportunity for the poor, the handicapped and those in the middle income brackets to reap the benefits of a program of higher education and to improve the quality of life throughout the nation. Therefore, the role of Federal Government in providing student aid for a majority of college students is quite recent.

Until 1978, Federal student aid contained no general commitment to support higher education but was usually directed to specific segments of the student population in accordance with Federal priorities and objectives. These included assistance to veterans, dependents or survivors of social security beneficiaries or members of disadvantaged and/or minority groups. The GI bill of 1944 was the first major Federal student aid program, later extended to include veterans of other conflicts and various ROTC programs. The second wave of Federal aid for college students was the result of the cold war shock of Sputnik in 1957. The National Defense Education Act of 1957 provided loans and fellowships with a particular focus on mathematics, science, and foreign area studies.

In the mid 1960's, the direction of Federal assistance shifted to providing opportunities for the poor to improve their position through a college education. The Economic Opportunity Act of 1964 established the college work-study program. In 1965, the first grant program aimed directly at "exceptionally needy undergraduates," was established by Congress and is now known as the supplemental economic opportunity grants. The basic educational opportunity grants program was begun in 1973–74 and was the first of the "entitlement" programs which made awards directly to students on the basis of a financial need analysis of income and educational costs.

The Middle-Income Student Assistance Act of 1978 significantly broadened the base of Federal entitlement aid by changing the family contribution schedule from $12,000 to $25,000 income level. In addition, income limits for students receiving subsidized and guaranteed loans under the guaranteed student loan program were removed. It is clear that, while the Federal Government was accepting the burden of higher education costs for the poor, a decade of severe inflation was pricing the middle-class out of college.

Representative RICHMOND. Excuse me, Ms. Impellizzeri, your statement is marvelous, but I'm interested in the future. Taking me back to 1955 is not going to help either the Joint Economic Committee or the students who really need student aid. So if you could take us to the present and tell us what we need, I think it would help us an awful lot. I think we'd better forget ancient history and realize we're in a critical situation right now.

Ms. IMPELLIZZERI. I do hope this can be entered in the record.

Representative RICHMOND. Your entire prepared statement will be part of the official record, but I think in the remaining few minutes we have together let's talk about what we can do for the young people in New York City to get them educated.

[The prepared statement of Ms. Impellizzeri follows:]

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PREPARED STATEMENT OF IRENE IMPELLIZZERI

Good Morning

I am Dr. Irene Impellizzeri, Member of the New York City Board of Education, and I wish to thank you for this opportunity to testify in the matter of financial assistance for college eligible students graduated annually by New York City's public school system.

Since the early days of the Republic it has been the American dream to offer equal educational opportunity to all. From its inception, the Federal government has engaged in two types of educational activities; financing and administering its own educational programs and aiding the states to finance and promote local education. Federal activities in both of these categories antedate the Constitution. As early as 1787, the Northwest Ordinance stated a clear declaration of policy that:

> "Religion, morality, and knowledge being necessary to good government and the happiness of mankind, the schools and the means of education shall forever be encouraged."

With the adoption of the Constitution, under its powers to tax and appropriate for the general welfare, the Federal government has played an increasingly important role in education. Since 1785, Congress has passed almost two hundred Federal aid-to-education laws. Strengthening quality education for national survival has become a basic commitment of government and national leaders from all parts of the political spectrum have voiced this priority. A generation ago, the Conservative, Robert Taft wrote:

> "It does not have the glamour that other things have; but it seems to me we must go forward in that field to any substantial degree without providing Federal financial assistance."

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For too long a period, since elementary and secondary education were the most urgent educational priorities, post-secondary education was confined to upper income families. This provided little or no opportunity for the poor, the handicapped and those in the middle income brackets to reap the benefits of a program of higher education and to improve the quality of life throughout the nation. Therefore, the role of Federal government in providing student aid for a majority of college students is quite recent. Until 1978, Federal student aid contained no general commitment to support higher education but was usually directed to specific segments of the student population in accordance with Federal priorities and objectives. These included assistance to veterans, dependents or survivors of Social Security beneficiaries or members of disadvantaged and/or minority groups. The G.I. Bill of 1944 was the first major Federal student aid program, later extended to include veterans of other conflicts and various ROTC programs. The second wave of Federal aid for college students was the result of the Cold War shock of Sputnik in 1957. The National Defense Education Act of 1957 provided loans and fellowships with a particular focus on mathematics, science and foreign area studies.

In the mid 60's the direction of Federal assistance shifted to providing opportunities for the poor to improve their position through a college education. The Economic Opportunity Act of 1964 established the College Work-Study Program. In 1965, the first grant program aimed directly at "exceptionally needy undergraduates", was established by Congress and is now known as the Supplemental Economic Opportunity Grants (SEOG). The Basic Educational Opportunity Grants (BEOG) Program was begun in 1973-74 and was the first of the "entitlement" programs which made awards directly to students on the basis of a financial need analysis of income and educational costs.

The Middle-Income Student Assistance Act (MISAA) of 1978 significantly broadened the base of federal entitlement aid by changing the family contribution schedule from $12,000 to $25,000 income level. In addition, income limits for students receiving subsidized and guaranteed loans under the Guaranteed Student Loan Program (GSLP) were removed. It is clear that, while the Federal government was accepting the burden of higher education costs for the poor, a decade of severe inflation was pricing the middle-class out of college. A look at the increases in tuition rates in New York State during the period 1973 through 1980 show a 50% increase in costs for independent colleges from approximately $4,300.00

to $6,500.00. There has been an increase of 53% in tuition costs at State University colleges in New York during the same period, with an increase of 40% in costs at the community colleges. Perhaps the most startling fact of all is the increase in tuition costs in City University of New York of 63% from approximately $1,000.00 to almost $3,000.00. These increases are alarming to the outside observer but even more frightening for students and their families.

The consequences of the entitlement era of student aid are manifold; the most obvious is the number of students receiving financial assistance. In 1979-80, the Federal government allocated more than one billion dollars to students in New York State schools. Of that amount, 60% were Guaranteed Students Loans averaging $2,000.00 each to 312,000 students, representing one-third of the full and part-time students in the state. The Tuition Assistance Program (TAP) begun in 1974 reached 618,000 full-time students in New York State in 1979-80, with an average award of $73.00 per student. As a direct result of the active role assumed by the Federal government in providing loans and subsidies, the college population grew from 28% of 18 - 21 year olds in 1975 to a startling 50% of that age group in 1979.

As a result of the tremendous growth in college population and the recent rise in costs, due to the entitlement basis of financial assistance and the current inflation, the entire post-secondary assistance program is under intensive scrutiny in Washington at this time. Any major decrease in assistance would have tragic consequences for our New York City students, who are eligible for college admission by virtue of their abilities, achievements and aspirations. An examination of the 1981 New York City High School record reveals that approximately 90% of the 40,402 students who graduated applied for admission to a variety of colleges: state, city and private. This was clearly a result of a stronger High School Program in New York City schools and a concerted effort by teachers, counselors and supervisors to guide high school students into a solid program of post-secondary education. Also, New York City high school students demonstrated improved Scholastic Aptitude Test (SAT) scores although these scores continued to decline nationally. The scholarship achievements of New York City high school students are also outstanding. In 1981, 3,443 seniors received New York State Regents scholarships, 2,669 were awarded other types of scholarships and a final 274 students earned United Federation of Teachers scholarships. However, this means that the balance of our graduates will require other forms of assistance and will depend, in large measure, on education grants for that financial aid.

Since the early 1970's, with the exception of 1975-1976 (post budget crisis years) there has been a steady increase in the number of high school graduates going on to post secondary education.

The borough of Brooklyn, which I represent, has the largest population of all the boroughs, the most high schools, and the greatest number of high school graduates, with the largest percentage of these graduates going on to post secondary education. In June 1981, of a total number of 11,704 high school graduates, 10,635 were admitted to various colleges. More than 80% of these new admissions needed and applied for financial assistance of some kind.

The proposed reductions will work a special hardship on students from middle income families and is one of the reasons why "Student Aid and the Financing of Higher Education" is a subject this year, not only for Congressional review, but also for the Regents/Commissioner Regional Conferences in New York State.

In Brooklyn, an examination of ten schools with a predominantly middle income population: John Dewey, Canarsie Lafayette, James Madison, Edward R. Murrow, Midwood, New

Utrecht, Sheepshead Bay and South Shore High Schools, reveals that 4,184 students of a total 4,249 graduates, were admitted to post secondary educational institutions in June 1981. This is over 98% of the graduates, and their need for assistance is greater than ever.

All of this means there will be great pressure on student aid programs in the next few years, and hard choices to make over which students will get assistance and what amounts of aid.

In view of these facts, it is particularly alarming to note that some federal curbs are already in place, such as a four-year phase out of student benefits under Social Security and the reduction of the maximum Pell Grant from \$1,750 to \$1,650 (formerly BEOG).

Additional changes in the Guaranteed Student Loan Program will make it more difficult for middle income families to receive loans, with subsequent interest rates that are 5% higher than formerly.

Such reductions in government spending produce even greater anxiety because they come at a time when inflation is creating enormous pressures on college costs.

If college costs continue to increase as all observers expect they will and if inflation continues to be a virtual economic way of life, it becomes even more essential that students and their families be given the support they must have in order to survive educationally and socially in a college environment.

We would be destroying the fabric of our democratic society if we give the impression that we cannot provide for the needs of highly motivated and able students who yearn for a program of higher education. As a society, we would be denying ourselves the benefits that devolve from an enlightened, productive and educated citizenry. John Adams said it so succinctly:

> "The whole people must take
> upon themselves the education
> of all the people and be willing
> to bear the expense of it."

Ms. IMPELLIZZERI. And we do know there's been an increase of 53 percent in tuition costs at State University colleges in New York and an increase of 40 percent at the community colleges. Perhaps the most startling fact of all is the increase in tuition costs in City University of New York of 63 percent from approximately $1,000 to almost $3,000. I know that my colleagues will be talking about the general facts of the City University costs and I would like to speak for a moment about the Borough of Brooklyn which I represent and which has the largest population of all the boroughs and the most high schools and the greatest number of high school graduates, with the largest percentage of these graduates going on to post secondary education.

In June 1981, of a total number of 11,704 high school graduates, 10,635 were admitted to various colleges. More than 80 percent of these new admissions needed and applied for financial assistance of some kind.

In Brooklyn, an examination of ten schools reveals that 4,184 students of a total of 4,249 graduates, were admitted to post secondary educational institutions in June 1981. This is over 98 percent of the graduates, and their need for assistance is greater than ever.

Representative RICHMOND. Are you saying 98 percent of the graduates of all those high schools went on to post secondary education?

Ms. IMPELLIZZERI. That's right.

Representative RICHMOND. That's an amazing figure.

Ms. IMPELLIZZERI. Of course, what that means——

Representative RICHMOND. That is a select few high schools?

Ms. IMPELLIZZERI. These are in predominantly middle income areas, just these 10 high schools. Of course, there are graduates in large numbers form the other high schools in Brooklyn, but since we are focusing on the effects of the middle income population, we selected these 10 high schools for this particular report.

Representative RICHMOND. Now under the new eligibility rules, many of these students would not be eligible for student aid, I take it?

Ms. IMPELLIZZERI. That's true. That's the point.

Representative RICHMOND. What you're saying is that almost every student realized the need for post secondary education, was intellectually eligible for postsecondary education, and how many of them required student aid? Can you tell us that?

Ms. IMPELLIZZERI. Well, it would be very difficult to determine that. This is a middle income population and if one knows the neighborhood, the real estate situation there, I'd say the largest number of the graduates would need some assistance because so many of the others might be coming from the independent high schools. This is just the analysis of the graduates of the public high schools.

Representative RICHMOND. I see.

Ms. IMPELLIZZERI. And of course, what this means is there will be great pressure on student aid programs in the next few years and hard choices to make over which students will get assistance and what amounts of aid.

In view of these facts, it is particularly alarming to note that some Federal curbs are already in place, such as a 4 year phase out of student benefits under social security and the reduction of the maximum Pell grant from $1,750 to $1,650.

Additional changes in the guaranteed student loan program will make it more difficult for middle income families to receive loans, with subsequent interest rates that are 5 percent higher than formerly.

Such reductions in government spending produce even greater anxiety because they come at a time when inflation is creating enormous pressures on college costs.

If college costs continue to increase as all observers expect they will, and if inflation continues to be a virtual economic way of life, it becomes even more essential that students and their families be given the support they must have in order to survive educationally and socially in a college environment.

We would be destroying the fabric of our democratic society if we give the impression that we cannot provide for the needs of higher education. As a society, we would be denying ourselves the benefits that devolve from an enlightenee, productive, and educated citizenry. John Adams said it so succinctly:

> The whole people must take upon themselves the education of all the people and be willing to bear the expense of it.

I know, Congressman, that you will be interested in hearing that of the 1981 New York City high school records, approximately 90 percent of the 40,402 students who were graduated from the high schools applied for admission to a variety of colleges—States, city, and independent—and this was clearly a result of the stronger high school programs of New York City schools and a concerted effort by teachers, counselors, and supervisors to guide the students into a solid program of post secondary education. The high school students demonstrated imprived scholastic achievement in the SAT scores although these scores continued to decline nationally. In 1981, 3,433 seniors received New York State regents scholarships, 2,669 were awarded other types of scholarships, and a final 274 students earned United Federation of Teachers scholarships.

However, this means that the balance of our graduates will require other forms of assistance and will depend, in large measure, on education grants for that financial aid.

Representative RICHMOND. Ms. Impellizzeri, I sympathize with you 100 percent. As you know, all four of you educators, again, there's no government in the world that doesn't support its postsecondary educational system because we know for a fact that postsecondary education, by and large, is far too expensive for any private individual to afford. It must be supported by government. Just like moderate income housing, it just doesn't exist unless it has government support.

This administration, on the other hand, thinks that the Congress will continue to reduce student aid. I can assure you that there are many Members of Congress—in this case it's quite bipartisan—that are very much against the Draconian reductions in student aid the President wants and I think we'll probably come to some reasonable compromise on it. But still we fully understand how important it is. Even if a family makes $50,000 or $60,000 a year now, there's no way a young person can go to school without some type of aid, and we certainly sympathize with you and thank you for your testimony.

Mr. Clark, it's always a pleasure to see you.

STATEMENT OF EDWARD A. CLARK, PRESIDENT, BROOKLYN CENTER, LONG ISLAND UNIVERSITY

Mr. CLARK. Thank you, Congressman Richmond, and I have only a few pages if I may be permitted to read it I won't lose the thread of my argument.

Representative RICHMOND. Very good.

Mr. CLARK. First, let me say that I totally agree that we must reverse the disastrous course our country has followed for over a decade. For we have as a nation been trying to consume more than we produce, which is impossible; and we have been willing to grant to the Federal Government ever more of the power to decide who should consume what, which is unwise. We must spend less, govern each other less, and produce more. Specifically, we must reduce our tax burden without accelerating our inflation, and therefore we must reduce our Federal expenditures.

But we must not forget in our haste to reduce expenditures that our objective is to promote the common good, and we must not equate that common good with any reduction in expenditures. I do not believe that the hastily planned and ill considered reductions and changes in the student financial aid programs promote the common good. For the reductions, which represent a miniscule percentage of the Federal outlays are so leveraged as to produce a disastrously concentrated effect on those students who are now just able to afford college, and an even more concentrated effect on their colleges, whose fiscal stability has already become so dangerously sensitive to enrollment. Further, since the effect will concentrate so nicely on the privately supported colleges, many of which will close, the ultimate effect of the reduction in Federal outlays will be to transfer more of the cost of higher education to the taxpayer—albeit as a State taxpayer instead of a Federal one.

The time allotted makes any lengthy exposition on my argument inappropriate, but perhaps an example drawn from LIU's experience will illustrate its several points.

Last year 2,700 Brooklyn Center students received $3.5 million in Pell grants.

Representative RICHMOND. So that's an average of $1,200?

Mr. CLARK. Yes. This year we estimate, because the year is not over, 2,100 will receive $2.7 million in Pell grants, so it's a precipitous drop.

Representative RICHMOND. Not counting for inflation?

Mr. CLARK. Yes; not counting for inflation. But I want to give you an example of a particular kind of student you will see and it's much worse than anybody would think from just——

Representative RICHMOND. How many students do you have at the Brooklyn Center?

Mr. CLARK. 7,000.

Representative RICHMOND. How many would you say are working their way through college?

Mr. CLARK. Many of them.

Representative RICHMOND. 7,000?

Mr. CLARK. Many of them, yes. We have a lot of adults too, not adults in adult education in the traditional sense, but mothers and people who go back and become nurses or health assistants, so they are true students.

Representative RICHMOND. You'd say most of them work, wouldn't you?

Mr. CLARK. Yes. Let me say that I estimate our undergraduate enrollment is down somewhat this year, but something is wrong with the notion that last year's seemingly minor changes in the Pell grant formulas would leave us relatively unscathed. To see what was actually going on we reviewed the actual calculations of aid for several categories of students. The results are startling overall and in some cases mind-boggling. Take a typical independent student, of whom we have many in Brooklyn because of the circumstances of our population.

Suppose that in the tax year prior to the 1980–81 academic year the student earned $6,000 and that in the following year he earned $6,600. Because of his $600 raise and the changes in the grant formula, his Pell grant award dropped by $476. Since his Federal and local taxes went up by $131, he now appears to be worse off by $7. However, that would ignore the fact that his New York State TAP aid went down $180 because of his raise, so he is actually worse off by $187. Add to that LIU's inflation mandated tuition increase of $550 and the student is short $737, even if he is able to apply all of the increase in his take-home pay from the evanescent raise to his tuition costs. How could any policymakers interested in providing incentives to individuals and to the private sector of the economy work such sudden havoc? Obviously, as David Stockman admits, although probably thinking of other things, they didn't "think it all the way through" and they "didn't add up the numbers."

Things will get worse, and very rapidly, if the President's revised funding request of $2.19 billion for Pell grants in fiscal 1982 is sustained, or for that matter, even if the Senate Appropriations Committee level of $2.37 billion is adopted. The rules proposed by the Secretary of Education to be consistent with the current funding level would mean that even the lowest income families would be assessed over four times as much of their so-called discretionary income as they are now. Thus, a family of four with an income of $15,860 would get nothing under the proposed rules whereas even in this reduced year the same family would get $946.

What have most of our students been doing? They have been borrowing to the hilt. We now estimate that our undergraduates will have borrowed almost $2 million more through the guaranteed student loan program this year than they did in the previous year. Next year the already enacted income cap and the 5-percent origination fee will close that option for several hundred of our students—any elimination of the in-school interest subsidy would have disastrous consequence.

Although I have illustrated what is happening by reference to LIU's experience, the matter is of the gravest consequence to all of Brooklyn's institutions and to most of its students. In the 1980-81 academic year, 29,800 of the boroughs' college students received a total of over $29 million in Pell grants, the average award being about $1,250 in the privately funded colleges and $900 in the public. Since under the new rules proposed by the Secretary families who got $900 this year can wind up with nothing next year, it requires no great imagination to predict dire consequences if the rules should be approved as suggested.

In assessing the overall economic consequences to the borough it is vital to understand that the effect will fall disproportionately on the privately funded colleges, already struggling to survive. It is not crying wolf to project that some will collapse if the precipitous changes in financial aid policy are adopted as planned by the President.

What should be done? It is vital that Pell and other grant programs be funded to at least the level of the House Resolution. It is also essential, however, to give the Secretary some the statutory changes he requests to avoid transferring the available money away from those students who need it most critically. Thus, the maximum grant should not exceed 50 percent of the student's cost of attendance—the authorization law said 60 percent—and the liberalized cost of attendance provisions of the 1980 education amendment should be eliminated or deferred.

Neither can we afford the elimination of the in-school interest subsidy for CSL's. Such a change would also work an abrupt and unfairly concentrated hardship on students and their colleges.

If we believe in the need to reduce taxes and Federal expenditures, how can we ask for an exception for student aid programs without agreeing that every program should be an exception? The very logic of the question is of course faulty, but, in addition, I hope that my remarks have at least illustrated successfully that student aid programs are already an exception in the negative sense; the miniscule amount of the Federal budget to be saved in student aid will do little good for the economy as savings, but by this sudden and sharply focused effect will do great harm to just those individuals and institutions struggling the hardest to be productive.

[The tables attached to Mr. Clark's statement follow:]

Table I. Fiscal 1982 Estimated Federal Outlays.

National Defense	$188.1 billion
Payments to Individuals	$335 billion
Operations and Grants	$104 billion
Interest on Debt	$ 76.5 billion
Total	$703.6 billion

1981 Appropriations	
Pell Grants	$ 2.6 billion
Guaranteed Student Loans	$ 2.6 billion
Other	$ 1.2 billion
Total Student Aid	$ 6.4 billion

Source: July estimates Congressional Budget Office

Table II. Borough of Brooklyn 1980-81 Pell Grant Awards

	No. of Students with Awards	Amount of Award
4 Public Institutions	23,260	21,013,448
5 Private Institutions	6,600	8,288,128
Total	29,860	29,301,576

Average Pell Award Per Student with Award

Public Institutions	981
Private Institutions	1256

In Public Institutions 45% of students attending have awards.

In Private Institutions 35% of students attending have awards.

Source: Various Financial Aid offices

Appendix I. The 1980-81 and 1981-82 Pell Grants for a Single Independent Student whose 1980-81 Adjusted Gross Income was $6000.

WORKSHEET C

CALCULATION OF 1980-81 ELIGIBILITY INDEX FOR INDEPENDENT STUDENTS WITH A FAMILY SIZE OF ONE

1.	Student's adjusted gross income in 1979.		6,000	1
2.	Student's total non-taxable income in 1979.		+ 0	2
3.	One-half of the Veterans Educational Benefits that the student will receive between July 1, 1980 and June 30, 1981.		+ 0	3
4.	Annual adjusted income (lines 1+2+3).		=6,000	4
5.	Student's Federal income tax paid for 1979.		- 427	5
6.	Effective income (line 4 minus line 5).		=5,573	6
7.	Family size offset.	3850 7		
8.	Unusual medical expenses.	+ 0 8		
9.	Total offsets against income (lines 7+8).		-3,850	9
10.	Student's discretionary income (line 6 minus line 9).		=1,723	10
11.	Standard contribution from income. (If line 10 is positive, multiply it by .75; if line 10 is negative, enter 0.)		1,292	11
12.	Student's net assets.		0	12
13.	Standard contribution from assets. Multiply line 12 by .33.		X .33 0	13
14.	Offset against asset contribution for negative discretionary income. (If line 10 is negative, enter it as a positive number, otherwise enter 0).		0	14
15.	Contribution from student assets (line 13 minus line 14). If result is negative, enter 0.		0	15
16.	Student's Eligibility Index = the sum of lines 11 and 15.		1,292	16

BEOG AWARD $476.00

WORKSHEET C

CALCULATION OF 1981-82 ELIGIBILITY INDEX FOR INDEPENDENT STUDENTS WITH A FAMILY SIZE OF ONE

1. Student's adjusted gross income in 1980.			6,600	1
2. Student's total non-taxable income in 1980.			0	2
3. One-half of the veterans educational benefits that the student will receive between July 1, 1981 and June 30, 1982.			0	3
4. Annual adjusted family income (lines 1+2+3).			=6,600	4
5. Student's Federal income tax paid in 1980.			526	5
6. Effective family income in 1980 (line 4 minus line 5).			=6,074	6
7. Family size offset.	3,850	7		
8. Unusual medical expenses.	+ 0	8		
9. Total offsets against income (lines 7+8).			3,850	9
10. Student's discretionary income (line 6 minus line 9).			=2,224	10
11. Standard contribution from income. (If line 10 is positive, multiply it by .75; if line 10 is negative, enter 0).			1,668	11
12. Student's net assets.			0	12
13. Standard contribution from assets. Multiply line 12 by .33.			x .33 0	13
14. Offset against asset contribution for negative discretionary income. (If line 10 is negative, enter it as a positive number, otherwise enter 0.)			0	14
15. Contribution from student assets (line 13 minus line 14). If result is negative, enter 0.			0	15
16. Student's Eligibility Index = the sum of lines 11 and 15.			1,668	16

PELL AWARD . $0.00

Appendix II. The 1981-82 Pell Grant for a Dependent Student Whose Family Has Four Members and a Gross Adjusted Income of $15,860.

WORKSHEET A

CALCULATION OF 1981-82 ELIGIBILITY INDEX FOR DEPENDENT STUDENTS WHOSE PARENTS HAVE NO FARM OR BUSINESS ASSETS

1.	Parents' adjusted gross income in 1980			15,860	1
	a. Amount earned from work by father.	15,860	1a		
	b. Amount earned from work by mother.	0	1b		
1.	Parents' total nontaxable income in 1980 (including student's Social Security benefits).			+ 0	2
3.	One-half of the veterans educational benefits that the student will receive between July 1, 1981 and June 30, 1982.			+ 0	3
4.	Annual adjusted family income (lines 1+2+3).			=15,860	4
5.	Parents' Federal income tax paid for 1980.			1,370	5
6.	Effective family income in 1980 (line 4 minus line 5).			=14,490	6
7.	Family size offset (Table 1).	7,700	7		
8.	Unusual medical expenses.	+ 0	8		
9.	Employment expense offset.	+ 0	9		
10.	Unreimbursed elementary and secondary school tuition and fees.	+ 0	10		
11.	Total offsets against income (lines 7+8+9+10).			7,700	11
12.	Parents' discretionary income (line 6 minus line 11).			= 6,790	12
13.	Standard parental contribution from income. (If line 12 is positive, multiply it by .105; if line 12 is negative, enter 0.)			x.105 713	13
14.	Parents' net assets.			0	14
15.	Asset reserve.			—25,000	15
16.	Available parental assets (line 14 minus line 15).			0	16
17.	Standard contribution from available parental assets. (If line 16 is positive multiply it by .05; if line 16 is negative, enter 0.)			x .05 0	17
18.	Offset against asset contribution for negative discretionary income. (If line 12 is negative, enter it as a positive number; otherwise enter 0.)			0	18

WORKSHEET A (continued)

19. Contribution from parental assets (line 17 minus line 18). If positive, enter on line 19. If negative, enter on line 19a, and enter 0 on line 19.	19a	0 19
20. Contribution from parental income and assets (line 13 plus line 19).		713 20
21. Multiple student adjustment: multiply line 20 by multiple student rate (Table 2).		x 100% 713 21
22. Net assets of student (and spouse).		0 22
23. Student's (and spouse's) available assets a. If student is married, subtract $25,000 from the amount on line 22 and enter the result on line 23. If the result is negative enter 0 on line 23. b. If student is single enter the amount from line 22 on line 23.		0 23
24. Contribution from student's (and spouse's) assets. Multiply line 23 by appropriate assessment rate (single student = .33, married student = .05).		x .05 0 24
25. Student (and Spouse's) 1980 income (nontaxable income plus taxable income minus U.S. income tax paid).		0 25 x .60 0 25a
26. Student's (and spouse's) 1981-82 estimated income Taxable (June 1, 1981-May 31, 1982) Nontaxable (July 1, 1981-June 30, 1982) Enter total on line 26	26a + 26b	0 26
27. If line 26 is greater than line 25a, enter amount from line 25 here. If line 25a is greater than or equal to line 26, enter amount from line 26 here.		0 27
28. Offset for negative parental income that is not used as an offset against asset contribution. Enter negative amount from line 19a as a positive number on line 28.	28	
29. Standard dependent student offset (single student = 2,650, married student = 3,850).	+ 29	
30. Total offset against student's (and spouse's) income (line 28 plus line 29).		0 30
31. Student's (and spouse's) discretionary income (line 27 minus line 30).		0 31
32. Standard contribution from student income. If line 31 is positive, multiply it by .75 if the student is single, or by .25 if the student is married; if line 31 is negative, enter 0 on line 32.		x 0 32
33. Student's Eligibility Index = the sum of lines 21, 24, and 32.		= 713 33

PELL AWARD $946

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APPENDIX B

REFERENCE TABLES FOR DETERMINATION OF STUDENT ELIGIBILITY INDEX

TABLE 1

Family Size Offsets

Family Size	Dollar Amounts	Family Size	Dollar Amounts
1	3,850	7	11,350
2	5,000	8	12,550
3	6,050	9	13,750
4	7,700	10	14,850
5	9,050	plus $1,150 for each additional family member over 10.	
6	10,250		

TABLE 2

Multiple Student Calculation Rate

Number in Postsecondary Education	Calculation Rate
1	100%
2	70%
3	50%
4 or more	40%

TABLE 3

Employment Expense Offset

Dependent Student		Independent Student with a Family Size Greater Than One	
Both Parents Employed	Single Head of Household	Student & Spouse Employed	Single Head of Household
50% of Lesser Income not to Exceed $1,500	50% of Income, not to Exceed $1,500	50% of Lesser Income not to Exceed $1,500	50% of Income, not to Exceed $1,500

TABLE 4

For Independent Students

Rates to Determine Contribution from Income

Type of Family	Rate
Single Student	75%
Student with Family size greater than one	25%

For Dependent Students

Dependent Student Offset Against Income

Type of Family	Rate
Single Student	$2,650
Married Student	$3,850

Representative RICHMOND. Thank you, Mr. Clark. Mr. Corbie.

STATEMENT OF LEO A. CORBIE, ACTING VICE CHANCELLOR, OFFICE OF STUDENT AFFAIRS AND SPECIAL PROGRAMS, THE CITY UNIVERSITY OF NEW YORK

Mr. CORBIE. My name is Leo Corbie——

Representative RICHMOND. Representing Mr. Goldstein?

Mr. CORBIE. Yes. I'm acting vice chancellor, City University of New York. I'm a last-minute replacement. He was not able to come today so I'll try not to repeat what certainly all of my colleagues have said.

Representative RICHMOND. All of your statement will be part of the official record.

Mr. CORBIE. I'll just try to pick pieces out of it.

Since the Reagan administration took office in January, Federal student aid programs have undergone three cuts: (1) Cuts in the fiscal year budget appropriations; (2) reductions in program ceilings imposed by the Omnibus Reconciliation Act; and (3) further reductions below the reconciliation levels in the 1982 fiscal year appropriations bill.

In short, by the time Congress acted on the administration's March recommendations for cutbacks from the levels established last December, need based student aid programs have been cut $200 million from the 1980 fiscal year levels: $100 million in Pell grants and $100 million in direct loans.

However, the Pell grant program suffered a real cut of $500 million below the figure to maintain all current eligibles in the program—at a cost of $2.85 billion. As a result, the maximum award was cut to $1,670 from $1,800. Further restrictions were imposed on eligibility for the program, which eliminated 150,000 students with family incomes over $25,000.

Thus, the effective cut in need-based Federal student aid for fiscal year 1981 totaled $600 million—$500 million in Pell grants, $100 million in NDSL. In Pell alone, this translates to a $3 million cut in Pell funds for CUNY for fiscal year 1981.

The Reconciliation Act signed by President Reagan on August 13, drastically reduced spending ceilings for our higher education programs for fiscal years 1982, 1983, and 1984: by prohibiting increased funding for most programs, requiring restrictions on Pell grant eligibility and repealing many other provisions on the 1980 education amendments and the Middle Income Student Assistant Act of 1978.

Finally, on October 6, the House approved a fiscal year 1982 appropriations bill for the Education Department which would fund need based student aid programs at $130 million below the ceiling set in the Reconciliation Act. How this reduction will affect our programs in terms of dollars is not yet known, since the House bill differs from the Senate and the administration's recommendations recommend the severest cuts of all. The House bill eliminates 500,000 middle income students from the Pell program, and would pay the neediest students a maximum Pell grant of $1,100. The Senate bill would eliminate 600,000 currently eligible students from Pell and would pay the neediest a maximum Pell grant of $1,800. The administration recommends a 12 percent cut below its original recommendations for student aid programs. This would award the neediest Pell grant recipient a maximum award of $1,670. Since it costs $1.6 billion to fund students with family incomes of less than $10,000—over 1.5 million students—the administration's appropriations of only $2.187 billion leaves only marginal funds to distribute to those students above the poverty level.

SIGNIFICANCE OF FEDERAL AID CUTS FOR 1982–83 TO CUNY

On October 16, 1981, the Department of Education [ED] issued a notice of proposed rule making [NPRM] with a family contribution schedule for Pell grants which would result in loss of eligibility for approximately 20,000 CUNY recipients at $22 million, if we assume that 1982–83 will reach a level of approximately $10 million. Of the recipients that will be lost, 15 percent are dependent students and thus additional competition for campus based funds will be generated.

In the preamble of the NPRM, ED proposes an alternate schedule which would require a number of legislative changes to implement. The alternate schedule results in loss of eligibility for about 1,500 recipients at $10 million.

Representative Simon has introduced his version of a family contribution schedule which calls for an increase of $100 in allowable cost for education but a discretionary income taxing schedule which is a bit more restrictive than the ED alternative. This proposal results in an increased award of $50 for our needier students but results in a loss of approximately 2,000 CUNY students and a net loss of $3 million in grants.

All three schedules tend to affect our dependent student population more severely than our independent student population. (The effects on CUNY cited above are tentative and will probably change.)

Our greatest concern is the $170 million reduction in support of Pell, as proposed by the administration. The family contributions schedule discussed above was tailored to fit this reduced level of appropriation.

Also under consideration is a proposal to consolidate the campus-based student financial aid programs in the future. It is felt that a consolidation would be politically difficult to achieve for the following reasons:

(1) Each of the three programs currently have hold-harmless provisions built into the authorizing legislation. Congressmen would be unlikely to agree to any modification which would cause their States to lose money.

(2) Program participants view the consolidation efforts as another way of setting them up for bigger cuts in the program since it will only require one piece of an appropriation act to cut the funding as opposed to three.

(3) The fate of the revolving NDSL fund on campuses would be a controversial topic, since they amount to about $500 million of cash flow per year. The schools would like to keep them, but there would be a faction that would like to have the schools send that amount back to the U.S. Treasury. At CUNY the annual collections amount to approximately $2.5 million.

In summary, there is a growing trend on the Federal level to reduce funding for student financial aid along with other social services programs. Your awareness and active support, and that of students and faculty for student aid is essential to maintain the programs at their present levels.

Thank you for this opportunity to voice CUNY's concerns about the Federal student aid cuts.

Representative RICHMOND. Thank you, Mr. Corbie.

Mr. Lee, it's always a pleasure to see you. Have you something new to tell us?

STATEMENT OF J. OSCAR LEE, MEMBER, BROOKLYN BOROUGH PRESIDENT'S ADVISORY PANEL ON EDUCATION

Mr. LEE. I have a short statement.

My name is J. Oscar Lee. I am a member of the Brooklyn Borough President's Advisory Panel on Education and serve as a volunteer working with several institutions of higher education. Currently, I am a member of the Community Council of Medgar Evers College of the City University of New York and of the boards of visitors of the Brooklyn Center and the college of pharmacy at Long Island University. Formerly, I served as a member of the board of higher education of New York City and the board of trustees of Benedict College, Columbia, S.C.

I was asked to make a brief statement on the impact of these current governmental policies or rules on students and the impact of the increased cost of educational loans on students and their families. While the effects of these policies are being felt in the current school year, we won't know the full effect until the next school year, 1982–83.

We have talked about the Pell grants. Let me capsulize my concern quickly. The maximum Pell grant has been cut from $1,750 a year to $1,670 per student per year. Also rules for eligibility are being changed; $80 may not seem like much of a cut, but I know students in the City University who would be precluded from from registering and going to school if they were missing $50.

Representative RICHMOND. And we also have to take into account a 10-percent inflation cut. So it's more than $80.

Mr. LEE. Absolutely. Now the other point I want to raise is the even more serious proposal to reduce the Pell grants even further in connection with the 12-percent cut in Federal budget levels set by the administration in the spring of this year.

The Department of Education proposes to accomplish this cut through a new eligibility formula. Deborah Rankin of the Times has this to say:

> The new formula would mean that a family of four with one child in college would not qualify for aid next year if its adjusted gross income exceeded $15,860. It is estimated that the present reductions, along with the proposed ones, if enacted, would reduce the number of low and middle income students eligible for Pell grants by about 30 percent, roughly $750,000.

It should be pointed out also that the proposed new eligibility formula will probably affect eligibility qualifications for campus-based Federal aid programs such as the national direct student loan program, the college work-study program, and the supplemental educational opportunity grant program.

I think that anyone interested in financial aid to students needs to look very carefully at the new proposals and to work as hard as they can to see that these kinds of inequities are not perpetuated.

I'm told that the new 12-percent cut will probably not affect guaranteed student loans and auxiliary loans. Let me just say a word about them if you don't mind, sir.

As of October 1, 1981, interest rates were increased from 9 to 14 percent, as you know, on both guaranteed student loans and auxiliary loans to assist students. Also, for the first time, there is an origination fee which is a 5-percent charge on the amount of the loan. Both the origination fee and the high interest rates on both types of loans may present problems for students and parents. Let me mention one of them.

The auxiliary loans to assist students permits parents to borrow up to $3,000 a year. However, installment payments on the loan must start 60 days after it is made. The cost of the loan, high interest and the origination fee, along with the rising cost of living, will place the family under increased financial pressure. This will be an important consideration for many families with limited financial resources.

One of the effects of the further cut of 12 percent in the Pell grants will be an increased family contribution. This will certainly penalize lower middle and low income families. In some cases, the student's family may be able to make an additional sacrifice to make higher education possible. In other cases, the increased cost will make higher education impossible.

One other thing, just to conclude, in recent years loans of $2,500 were available to any graduate or undergraduate student regardless of family income. The one exception to that was that an independent student could borrow an additional $500, making his amount $3,000. I'm told that is cut out under the new regulations.

As you know, since October 1, 1981, students from families earning more than $30,000 a year will have to show need to receive a guaranteed loan. The U.S. Department of Education is in the process of devising rules and regulations to determine such needs. There is no hard data on the effects of these regulations, but estimates of competent observers suggest that as many as 1 million students or a third of the current borrowers may be eliminated from the guaranteed student loan program.

I would like to say that, as you in Washington know so well, you can pass any law you want, but those who promulgate it or write the rules will determine its effect. Now I would think that the Members of Congress need to look very carefully at the rules that are being promulgated in connection with these loans to be sure that there are no inequities.

The impact of this situation on students, parents, and the colleges is revealed in an article which appeared in the New York Times, Sunday, October 11, 1981, entitled "Colleges Seek To Replace Loan Funds Cut by U.S." After indicating that the full extent of the problem will not be known until the next school year, the article goes on to say:

> Already, however, colleges report substantial losses. Columbia University, for example, estimates the Pell grant loss this year at $200,000 and the reduction of the guaranteed loans at $3 million.

I may say to you that it is important to look at this because the income that is lost is income in tuition and student fees. I'm told by one president of a private college that tuition income runs 70 percent of that college's income. For our community colleges, public colleges, it is not as high. Let me take the community colleges. Certainly the major sources of income there are State funds, municipality or county funds and tuition funds. So that when we get these kinds of cuts in the income of our institutions of higher learning, we are weakening a system that has been admirable in serving the citizens of this Nation.

Finally, in the period ahead, students and parents will increasingly face the dilemma of the rising cost of higher education on the one hand and the decreasing availability of financial aid to students on the other. Colleges will face the uncertainties regarding financial aid to students. However, while the students from the extremely low income groups have some protection, the vast majority of students and institutions, private and public, will be affected severely. A few colleges have been successful in devising short-term plans for replacing the lost funds, others have not been able to do this. Educators indicate that a long-term viable program for providing financial aid for students is absolutely necessary. This is a challenge to the U.S. Government and to the States. Thank you.

Representative RICHMOND. Thank you, Mr. Lee. And here in New York City, we realize we've become totally a service economy. A service economy requires college graduates and requires college graduates with a good quality education. And if New York City is to continue to be the great city it is, we must have a constant supply of good college graduates and that's what we have to look to you for.

I can assure you that we will do everything we can. Again, the Northeast-Midwest coalition of Congress are 100 percent behind the student aid program, but as I said, you've got many more people in Congress that are more interested in saving money and you've got many, many colleges farther west that are quite solid financially, particularly some of our state institutions, and those Members of Congress have entirely different problems.

I think in the matter of student aid we will probably fare somewhat better than we have on housing. I think every Member of Congress has children trying to go to college and every Member of Congress has severe financial problems when you figure he or she makes $60,000 a year and has to maintain two residences and spend a lot of money on extra things that other citizens don't have to.

On the student aid program, I don't believe it will be cut by the additional 12-percent cut.

Mr. CLARK. Mr. Congressman, I'd only like to suggest, as Mr. Lee said, that it's essential to look not just at the overall appropriations level because—the 50 and 60 percent, that's where the Northeast people may be different from the Midwest people.

Representative RICHMOND. When it comes to regulations, what I hope all of you will do is examine the regulations and if you feel that they are discriminatory or there's anything we can do to help you, get in touch with us in a hurry and we'll do what we can.

I want to thank you all for coming and assure you that you have our 100-percent support because it's only through you that we can continue to build New York City. We must have a constant supply of college graduates in order to keep New York City going, and you're the ones that have to produce it. Thank you for coming.

The committee stands adjourned.

[Whereupon, at 1:50 p.m., the committee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

Testimony Presented

To

U.S. Representative Fred Richmond, (Democrat) Brooklyn Heights

member of

U.S. Congressional Joint Economic Committee

For

Public Hearing, Held November 13, 1981

At

Borough Hall, Brooklyn, New York
Hosted By:

Honorable Howard Golden, President, Brooklyn, Borough

Submitted By:

Lewis James Carter, III

President, Carter & Associates

&

Senior Officer
International Development Corp, Inc.

November 14, 1981

As a Former National Labor and Manpower director for both the National Urban League and N.A.A.C.P. I've prepared this brief statement regarding the economic and employment problems of Brooklyn, N.Y. specifically, but also utilizing a National and International experience and exposure, as a back-drop to the significant and specific needs of Brooklyn.

Admittedly I'm a fairly new resident of the Brooklyn community but not totally unaware of the economic manpower and employment needs and problems, particularly as it relates to Blacks, Caribbeans, Hispanics and other disadvantaged persons and groups.

I'm particularly pleased that Representative Fred Richmond (Democratic-Brooklyn Heights) as a ranking member of the U.S. Congressional Joint Economic Committe has seen fit to sponsor a public hearing at Borough Hall, Brooklyn, November 13, 1981 dealing with the impact of the Reagan Budget cuts, and have it hosted by Borough President Howard Golden, to discuss and hopefully determine objectives and possible solutions as they relate to the needs of the Brooklyn community. I can only hope that other U.S. congressional members, our two U.S. Senators, N.Y. State Legislators and municipal officials of the City and States will follow suit on this vital priority.

My primary concern regarding this public hearing, is in what manner the particularly high rate of unemployment among black youth and adults will be viewed objectively with a focus on attainable objectives and goals, that tie in with Economic Development plans for the Brooklyn community.

I need not recite the litany of statistical figures (usually under-counted by the U.S. Labor Department) that bears witness to the continous and escalating unemployment rates and problems of the minority Brooklyn community.

Critical, is black and other minority youth unemployment which hovers around 50-60% in the Brooklyn community. In previous testimony, to U.S. Congressman Carl Perkins and Augustus F. Hawkins representing the House U.S. Committe of Education and Labor, I suggested then and suggest now, "that disdavantage youth, particularly Black youth, need an intermediary between youth, schools and industries."

The Black family is often frustrated in advising on employment opportunities with their youngsters because of their own unique problems with an unfavorable economy. Teachers in the elementary and secondary grade have their own set of limitations, and it would be unfair for them to have to attempt to serve the social and economic needs of this particular problem.

Thus a first and preliminary recommendation, is the establishment of a group of citizens from both the private sector, whose primary function would be to (A) link occupational goals with industries and youth and (B) establish and provide a center for advising, teaching and structuring positive (viable) relationship, with local Brooklyn Labor markets. These centers could be located in predominately minority populated colleges. For example, Medgar Evers College.

The need to deal with our youth employment problems, coupled with the impact of the Reagan Administration social budget cuts, will in reality, if not attended to, invite a flagrant social time bomb in our community. The evidences of this are in full view, on a day to day basis, in this community.

I do not and will not argue against the need for reduced inflation rates, nor the need for finding ways to lower interest rates, in the hopes of increasing productivity. But is abundantly clear, the supply side economic of the Regan Administration (which in reality, is all untested concept) works against those in this community, who have the least. And I use the word least in its political and social-economic sense. In that sense, reconsideration of the Alternative Budget plan of the U.S. Black Congressional Caucus, is recommended. Coupled with this devasting adminstrative, fiscal and economic agenda, is a signal that previously upheld affirmative action initiatives, are to be dismantled. This will have a serious impact in the manpower and employment fields. The recent employment gains of minorities and females are in fact, in serious jeopardy.

We know that affirmatives action, in reality represents an attempt to rectify the historical impact of prior discrimination, particularly in the work place. We can not and should not leave to chance, a notion that "good will efforts", will work, particularly in the private employment sector, while the Reagan Administration, is depleting the public service employment initiatives of particularly the U.S. Labor Department.

The economic impact and implication of what is currently going on in the Reagan Administration, will require the best minds of all races and sexes to solve. One point for sure the Federal Goverment, should always maintain a posture, as employeer of last resort, regardless of whatever policy is pursued.

I and many others like me believe that full employment is possible without inflation.

Too few jobs, plus a policy which provides for a high percentage of unemployment is not a viable answer, for Brooklyn, nor anywhere else in this country.

I suggest to Congressman Richmond and Brooklyn Borough President Golden that with proper incentives and development of appropriate capital to and for Brooklyn industry, that economic growth can and will result, which in turn will expand the number of available jobs for our community and create an increase in demand for products and services.

In closing, I propose to you that the economic impact of affirmative action is a partner to the economic problem, to the dilemma, but also to the solution, a solution that can carry a promise of a Brooklyn society and economy that is socially and financially responsive to all the citizens. Imperative, to the formation of objectives and solution to the problem, previously cited, would be the Formation of a Blue Ribbon, bipartisan committee of Brooklyn citizens, representing both the private and public sector that would address the problems of the five panels, that Congressman Richmond has convened, and presents its response in the form of objectives and goals, for all the citizens of Brooklyn, N.Y. I thank you for this opportunity to state these views.

Lewis J. Carter, III
President Lewis J. Carter and Associates
&
Senior Officer
International Development Corporation

STATEMENT OF SISTER GEORGIANNA GLOSE

Brooklyn-wide Interagency Council of the Aging, Inc.

209 Joralemon Street, Room 302
Brooklyn, New York 11201
(212) 643-0500

Member Councils:
Bay Ridge
Bedford-Stuyvesant
Bensonhurst
Borough Park
Brownsville-Ocean Hill
Community District 15
Community District 18
Crown Heights
East Flatbush
East New York
Flatbush
Fort Greene
Park Terrace
Ridgewood-Bushwick
Shorefront
Spanish-speaking Elderly
Williamsburg-Greenpoint

Good Morning

Honorable Members of the Joint Economic Committee: It is indeed a pleasure to have you come to Brooklyn this morning.

I am Sister Georgianna Glose of the Brooklyn-wide Interagency Council of the Aging. The Council is a federation of 15 local community groups who meet monthly concerning the needs and problems of the elderly in their communities. In addition each local council sends 2 representatives to the Brooklyn-wide Council. There is also borough-wide Hispanic Elderly Council. The purpose of our Council, made up of seniors and professionals, is to advocate for and provide the support for networking and linkages of services throughout the Borough.

In the past, all our local councils were deeply involved with planning and implementation of services to the frail elderly under the State Community Services to the Frail Elderly.

Brooklyn is home to 29.8% of New York City's 1.2 million elderly population. Brooklyn's network of councils and local involvement is the most sophisticated for two reasons: first, the ever increasing numbers of Brooklyn elderly and second, the support of our local elected officials in the tasks of advocacy and networking.

We are aware of the general population trend which shows a marked increase in the 75+ category of the elderly. Generally the very old are more frail, more susceptible to disease, more in need of support services and more likely to be isolated in the community.

Today I wish to address two issues related to economic security of the elderly in our borough, city and nation.

First:

A look at the poverty level statistics for the elderly is very deceiving. It appears from these statistics that Americans should be able to comfort themselves with the knowledge that their elders have adequate incomes to afford them shelter, food, medication and clothing. In reality this is an erroneous view. The elderly, especially in New York, face the ever growing burdens of inflation, including high energy, increased food and clothing costs, and communications costs.

It is imperative that the frail, homebound elderly in the community have a link to the outside world; for them a telephone is as necessary as heat and food.

Therefore, the elderly at poverty-level must struggle to make ends meet. Contrary to the present thinking even with all the entitlements the poor elderly do not live in luxury.

Second and even more disturbing, is the trend of the last 4 years which shows up as a marked increase in the numbers of marginal income, or near poor elderly. In real dollars this means that elderly couples live on less than $4,071.00, and single persons must make ends meet on $3,226.00.

As Reagonomics take hold more older people will lose their jobs (Fitle X and CETA have already been cut), changes in income elegibility will make it more difficult to obtain food stamps, medicaid, rent increase exemption, help with energy costs. This marginal poor group of elderly will increase.

The implications are not encouraging -- adequate home care will be out of the reach of most of these people -- The older frail population will face further isolation and neglect.

By and large, older people who can, want to work but what do we offer them? Private industry is not the answer today, unless radical changes in policy are made.

Sadly, however, what we face is sick, frail older people unable to obtain needed supports dying of neglect.

O