



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-185522

January 18, 1979

[Milestone Monitoring System For New York City]

The Honorable W. Michael Blumenthal
The Secretary of the Treasury — AGC 38

Dear Mr. Secretary:

As you know, New York City is facing the potential of large operating deficits in fiscal years 1980, 1981, and 1982. The most recent plan approved by the Financial Control Board projects a revenue/expenditure gap in 1982 of over \$1 billion, which is a conservative estimate as it does not allow for any wage increases over present levels. The City plans to close these gaps and balance its annual budgets through a series of Federal, State, and City actions involving both revenue increases and expenditure cuts, but State officials have raised questions as to the achievability of some of these actions.

The current situation is similar to the one the City faced in late 1975, at the beginning of its first financial plan. At that time, City and State officials agreed that the best approach to balancing the budget was to list in detail all the required gap closing measures, and then to devise a monitoring system which would permit the Control Board and other interested parties to track the City's progress.

The monitoring system that was designed was relatively simple to use. A series of milestone target dates was established. Whenever those dates were not met, it was obvious that other action would be required if the desired results were to be achieved on schedule. For example, in one of its early savings programs the City planned to increase revenue from its midtown tow-away program by \$1 million. Contracts had to be signed with private tow truck operators by the end of March 1976. To meet that date the contracts had to be prepared by January 14th and ready for approval by the City's attorneys, the Comptroller's office, the Emergency Financial Control Board, and others at various dates during February and March. If any of those interim dates were missed, the savings projection would be jeopardized and another action might be required, such as compressing the remaining dates or possibly substituting another savings program.

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This system was actually implemented and used successfully for several months. In the summer of 1976, however, City officials decided to abandon the system of monitoring by milestones. They argued that a system of quarterly budget allotments would be better.

We discussed the quarterly budget allotment system with City officials, and we had some reservations about how effective it would be. We believed that an effective system should provide an early warning when things were going wrong so that corrective action could be taken. The quarterly allotment system, in our opinion, could not provide that early warning.

This concern, in addition to a concern about the accounting system upon which the allotments would be based, led us to object to the abandonment of the milestone monitoring system in an October 22, 1976, letter to Secretary Simon. We pointed out that the Executive Director of the Emergency Financial Control Board and the Special Deputy State Comptroller for New York City were essentially in agreement with us and we urged the Treasury Department to look into the matter. The Department subsequently advised us that it had decided budget balancing progress could be adequately tracked on an overall basis without monitoring specific gap closing measures.

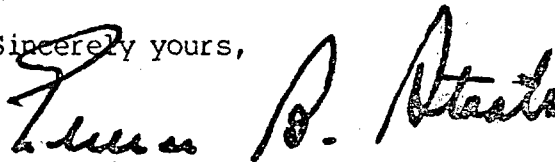
In view of the urgency of the City's current situation and the need for an early warning system which will trigger substitute gap closing actions when necessary, the issue of a milestone monitoring system has again surfaced. The Special Deputy Comptroller for New York City, with the support of the Financial Control Board staff, has called for reinstating a milestone monitoring system.

We strongly support that position. Further, we believe that the milestones set by the City, and reports on monthly progress against those milestones, should be made public. We have taken this position because we believe that the ultimate objective of all the parties concerned--getting the City back into the credit markets on its own--is fundamentally dependent upon renewed confidence by investors. We believe that a milestone system, complemented by monthly reports subject to public scrutiny, would go a long way toward raising the confidence level of investors. In essence, the City has much to gain and little to lose by adding a milestone monitoring system. We therefore urge your support.

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We would be pleased to meet with you or members of your staff to discuss this matter further. I would appreciate being advised of any action you may take.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas P. Atchefs". The signature is written in dark ink and is positioned to the right of the typed name.

Comptroller General
of the United States