Fiscal Collapse of U.D.C. Was Result Of 3 Wrong Moves, Panel Concludes
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ALBANY, May 26—The financial collapse 15 months ago of the Urban Development Corporation—the first wave in the fiscal crisis that later engulfed the state—was the combined result of overly optimistic assumptions, a lack of management controls and twin mandates for the giant development agency that were contradictory and impossible to meet, a special investigatory commission concluded today.

Orville H. Schell Jr., the chairman of the Moreland Act commission that has spent the last year investigating the U.D.C.'s collapse and its implications for the state's credit, presented the commission's final report to Governor Carey with some mild words of rebuke for the way in which both former Gov. Nelson A. Rockefeller and the U.D.C. management ran the agency.

"Governor Rockefeller and the U.D.C. executives were comparable to boys playing on a beach, building sand castles with their backs to the tide," Mr. Schell said.

He added that his commission's recommendations for major changes in the way in which the state borrowed money were designed to "face the tide in an orderly and constructive manner."

Most of the proposals for reform had been included in the commission's preliminary report two months ago. There was one important revision, however. In its report of March 31, the Moreland commission had proposed a state constitutional amendment to replace the 130-year-old requirement of voter approval for state bond issues with direct approval by the Legislature.

Reaction to this proposal from Governor Carey and other key politicians was negative. In the final report today, the commission proposed that such a change be delayed until the "public authorities control commission," a three-member body the Moreland commission is recommending to coordinate and control state borrowing, has had a chance to prove itself to the public and Legislature.

The new material in today's 285-page report concerns the Urban Development Corporation itself, from the time of its creation in 1968 through its default in February 1975 and ultimate rescue through a loan of $258 million and a direct state appropriation of $200 million last spring.

The U.D.C. was created, the commission observed, with two conflicting goals: to pursue the "socially desirable objective" of building low-income housing, and to do so on the basis of financial self-sufficiency that would not cost the state a dollar of taxpayers' money.

If it was unlikely at the beginning that both these goals could be achieved, other factors—including the management style of Edward J. Logue, whom Governor Rockefeller chose to head the agency—made that prospect all but impossible, the commission concluded.

The report includes a reply that Mr. Logue wrote in December 1971 to his chief financial officer, Robert Moss, who had warned him that the U.D.C. might be committing itself to spend money that it had no realistic prospect of raising.

Mr. Logue replied: "I do not believe there is any evidence to support your conclusion, and I do not propose to go looking for any. We are going to build as much as we can. The need is here now. When, having prudently managed our affairs, we have gone as far as we can go, and we can't borrow any more, that is another day."

Many Warnings Noted

The lengthy chronology cites numerous warning signals during a three-year period before the default that indicated the U.D.C. was running into trouble.

But these signals, including a Federal moratorium on interest subsidy payments, an unfavorable financial opinion by the U.D.C.'s accountants and the gradual closing of the financial markets to the agency's notes and bonds, were either ignored by top stage officials or were met with short-term rescues that did not solve the basic problem.

"The relationship between U.D.C. and the executive chamber was one of cooperation and partnership, rather than one of control," the report says.

The report was critical not only of Mr. Logue and state officials but also of the financial community for eagerly buying the U.D.C.'s securities long after they had become prudent investments. In addition there was criticism of the agency's board of directors for not exercising the oversight required of directors in private industry.

In fact, the first chairman of the board of directors, George Woods, was also a director and former chairman of the First Boston Corporation, a major investment banking concern. Accepted the U.D.C. job only on the condition that First Boston be permitted to act as the senior managing underwriter for the U.D.C.'s bond issues.

Louis J. Lefkowitz, the State Attorney General, ruled that this apparent conflict of interest was not a conflict as long as Mr. Woods did not vote on such matters as the authorization of bond issues.

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