The original documents are located in Box 16, folder "Intergovernmental Emergency Assistance Act - P.L. 94-143" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

My Turn

John V. Lindsay

Speaking Up for New York

By writing this, I am breaking a rule I imposed upon myself almost two years ago. When I retired from public life and headed abroad for a year's sabbatical, I was determined that I would stay out of my successor's hair in New York's City Hall. I still feel that way, but now, after listening on a regular basis to the gratuitous comments that the President of the United States continues to drop around the country and even abroad about New York City, I finally resolved to say something—on that subject at least.

There are other matters on which I will keep my silence. From the time we ran against each other for mayor in 1965, Abraham Beame and I have had many differences—in style, in approach to issues to be confronted (including the buck), in our relationship to the banks, and in the choice of people for Cabinet posts and staff. In my opinion, New York did not have to lose investor confidence. But all of that recedes under the current blunderbuss attack of the President.

Mr. Ford talks sweepingly of New York's mismanagement, as if he had a history of competence in the field of management. More on that in a moment. But in passing, I recall with some irony that Standard and Poor's, the demigod of the business world in measuring municipal fiscal prudence, raised the credit rating of New York City during my last month in office (December 1973), based on its own careful, independent examination of the fiscal management of New York. Moody's, Standard and Poor's competitor for caution, had done the same exactly twelve months earlier.

APPALLING INSENSIBILITY

And I noted a recent Congressional committee's report pointing out that for comparable services New York's cost of doing business is roughly the same as that of most large American cities. But that is not what is really important to me now, any more than is the knowledge that weaknesses, mistakes and mismanagement in frontline city government have long been there and still are.

What *is* important is the appalling insensibility of the leader of our country to such a major part of American life as the American city. One would hope that such myopia is only confined to this one critical aspect of America and its history. Mr. Ford has never faced a large and diverse constituency. A safe and homogenous Congressional district is hardly the school of hard knocks.

Twenty-five years in the marbled cocoon of the House of Representatives can be a far more isolating experience than that of the average person trying to "make it" in almost any neighborhood in America today. And being on the Committee on Armed Services for most of that 25 years is worse than confinement in a cocoon—it's being sealed in a tank, unless one is to adopt the unsafe and uncomfortable course and ask hard questions of the Pentagon and its management, its uses, and abuses. Enormous cost overruns of taxpayer-funded contracts, millions in waste, to say nothing of Vietnam and other exorbitant junta alignments and adventures, were none of Mr. Ford's critical concern for waste, mismanagement or policy; from him, we got only unquestioning and uncritical support.

MEDIOCRE CABINET

Neither has Mr. Ford run anything in his life—has he ever met a payroll? Such credentials may be all right, even in the Federal government, which doesn't actually run *that* much and still has inherited a half-decent Federal bureaucracy. But this holds true only if the Chief Executive surrounds himself with men and women who know the meaning of public productivity and have a sense of programs and their relationship to people. But the President fails the test of leadership on that score, too. I would judge his Cabinet to be among the most mediocre in American history; one or two seem to stand slightly taller than the rest, but they, too, lack a real understanding of what people everywhere are all about.

New York City has been the nation's incubator for more than a century. Through its efforts, almost alone, a new middle class has time and again been raised and introduced into the mainstream of America as wave upon wave of new immigration, always America's new poor, hit the Statue of Liberty city. New York became, necessarily, a city-state unlike anything in the world, and in the process bore burdens the rest of America was not yet ready to shoulder. Worse, the cost of much of those burdens—such as the unworkable Federal welfare program—was then thrust upon the city by Federal and state laws. New York's burdens grew far beyond those of other cities. New York was the place to which the millions of different people came, sanctioned under Federal law, looking for a better life.

RANK PARTISANSHIP

New York is *still* the Big Apple, because it still represents change and creativity. It's a bit battered at the moment, almost worn out, but it has made its generous contribution to the country in more ways than Americans realize, including many who "made it" throughout our land and who had been helped up the rung and set on their way by the old city. Do we always despise those we ought to love the most?

I had hoped the President would have somehow gained some understanding of this, particularly as I had spent seven years in Congress and knew and liked Congressman Gerald Ford. So it is sad to see rank partisanship on the part of President Ford, when it is neither necessary nor called for, and routine politics at work as if the world and the country had never changed, or learned hard lessons. In today's world, and in today's groping America, it is such a waste! And so old and hackneyed! Perhaps a pragmatic political argument can be made for a strategy of running against New York and the inner cities of America, but I find it debasing; it reflects an insensitivity to the urban problem that can only be based on bad information finding a ready home in a house void of any personal or gained knowledge. This I find the most frightening and disheartening of all. I'm sure this country can do better.

Lindsay, mayor of New York from 1966 through 1973, is now practicing law in the city.

Thomas P. O'Neill, Jr. (D-Mass.)

Will this require legislation? Yes. I'm delighted at the President's action. I won't be critical. "I'm in Cape Cod and don't expect any calls but if he does he'll say that the President has done the right thing and thank God for the action."

Peter W. Rodino, Jr. (D-N.J.)

Spoke with Francis O'Brien, A/A - Rodino will probably have a reaction but don't know what that reaction will be until he sees the fact sheet on the President's statement.

Thomas L. Ashley (D-Ohio)

He talked to Seidman and wants fact sheet this afternoon and hopes that's understood so he can coordinate the necessary legislative action. Ashley bill put onto the Senate calendar to avoid filibuster. If he has to start with new language or bill then something has to be done to keep the number of the bill, understand the legislative situation and act accordingly. He talked to Burns and says Ford exposing himself a little on direct loan -- politically he's exposed himself on direct loans and budget implications. There also may be problem because this doesn't discourage other cities as the Ashley bill does by setting conditions so onerous that they wouldn't consider it. This smacks of direct bail out and people will shake their heads. He'll make no commitment until he sees the fact sheet and language of the bill. Bill Seidman told him that Ed Schmults of the Counsel's office is to meet with him on Friday, November 28.

John J. McFall, (D-Calif.)

Is this going to require going back to Committee with new legislation? Hope not, we should be able to work something out legislatively. Glad its worked out this way and hope we can work out the legislative situation next week.

Norman F. Lent (R-N.Y.)

Could not be reached.

Amendment offered by Mr. Stanton to H.R. 10481

Strike all after the enacting clause and insert in lieu thereof the following:

SHORT TITLE

SECTION 1. This Act may be cited as the "New York City Seasonal Financing Act of 1975".

FINDINGS AND DECLARATIONS

SEC. 2. The Congress makes the following findings and declarations:

(1) It is necessary for the city of New York to obtain seasonal financing from time to time because the city's revenues and expenditures, even when in balance on an

J. 62-335

annual basis, are not received and disbursed at equivalent rates throughout the year.

(2) At the present time the city is or may be unable to obtain such seasonal financing from its customary sources.

(3) It is necessary to assure such seasonal financing, in order that the city of New York may maintain essential governmental services.

DEFINITIONS

SEC. 3. As used in this Act:

(a) "City" and "State" mean the city and State of New York, respectively.

(b) "Financing agent" means any agency duly authorized by State law to act on behalf or in the interest of the city with respect to the city's financial affairs.

(c) "Secretary" means the Secretary of the Treasury.

LOANS

SEC. 4. (a) Upon written request of the city or a financing agent, the Secretary may make loans to the city or such financing agent subject to the provisions of this Act, but in the case of any loan to a financing agent, the city and such agent shall be jointly and severally liable thereon.

(b) Each such loan shall mature not later than the last day of the fiscal year of the city in which it was made, and shall bear interest at an annual rate 1 per centum per annum greater than the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the maturities of such loan, as determined by the Secretary at the time of the loan.

SECURITY FOR LOANS

SEC. 5. In connection with any loan under this Act, the Secretary may require the city and any financing agent and, where he deems necessary, the State, to provide such security as he deems appropriate. The Secretary may take such steps as he deems necessary to realize upon any collateral in which the United States has a security interest pursuant to this section to enforce any claim the United States may have against the city or any financing agent pursuant to this Act. Notwithstanding any other provision of law, [the Secretary may, to any extent provided in] Acts making appropriations, may provide for the with- -ing of hold any payments from the United States to the city, either directly or through the State, which may be or may become due pursuant to any law and offset the amount of such withheld payments against any claim the Secretary may have against the city or any financing agent pursuant to this Act.

LIMITATIONS AND CRITERIA

SEC. 6. (a) A loan may be made under this Act only if the Secretary determines that there is a reasonable prospect of repayment of the loan in accordance with its terms and conditions. In making the loan, the Secretary may require such terms and conditions as he may deem appropriate to insure repayment. The Secretary is authorized to agree to any modification, amendment, or waiver of any such term or condition as he deems desirable to protect the interests of the United States.

(b) At no time shall the amount of loans outstanding under this Act exceed in the aggregate $2,300,000,000.

(c) No loan shall be provided under this Act unless (1) the city and all financing agents shall have repaid according to their terms all prior loans under this Act which have matured, and (2) the city and all financing agents shall be in compliance with the terms of any such outstanding loans.

REMEDIES

SEC. 7. The remedies of the Secretary prescribed in this Act shall be cumulative and not in limitation of or substitution for any other remedies available to the Secretary or the United States.

FUNDING

SEC. 8. (a) There is hereby established in the Treasury a New York City Seasonal Financing Fund to be administered by the Secretary. The fund shall be used for the purpose of making loans pursuant to this Act~~; and to pay any expenses incurred in the administration of this Act~~. There is authorized to be appropriated to such fund the sum of $2,300,000,000. All funds received by the Secretary in

All income from loans and investments made from the Fund shall be covered into the Treasury as miscellaneous receipts.

the payment of principal of ~~or interest on~~ any loan made under this Act shall be paid into the fund. Moneys in the fund not needed for current operations may be invested in direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof. After all loans made pursuant to this Act have been repaid, ~~and all administrative expenses in connection therewith have been paid,~~ the balance of the fund shall be returned to the general fund of the Treasury.

(b) The Secretary is authorized to sell, assign, or otherwise transfer from the fund any note or other evidence of any loan made pursuant to this Act to the Federal Financing Bank and, in addition to its other powers, such Bank is authorized to purchase, receive, or otherwise acquire the same.

INSPECTION OF DOCUMENTS

SEC. 9. At any time a request for a loan is pending or a loan is outstanding under this Act, the Secretary is authorized to inspect and copy all accounts, books, records, memorandums, correspondence, and other documents of the city or any financing agent relating to its financial affairs.

TERMINATION

SEC. 10. The authority of the Secretary to make any loan under this Act terminates on June 30, 1978. Such termination does not affect the carrying out of any transaction

(c) There are authorized to be appropriated such sums as may be necessary to pay the expenses of administration of this Act.

entered into pursuant to this Act prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States arising out of any loan under this Act.

[COMMITTEE PRINT]

DECEMBER 2, 1975

94TH CONGRESS
1ST SESSION

H. R. 10481

AN ACT

To authorize the Secretary of the Treasury to provide seasonal financing for the city of New York.

Amendment of Mr. Brown of Michigan to the substitute offered by the gentleman from Ohio, Mr. Stanton to HR 10481

On page 3, line 13 and 14, strike "the Secretary may, to any extent provided in";

And, on line 14 after "appropriations" strike the "," and insert: "may provide for the";

And, on line 15 strike "hold", and insert: "holding of"

(So that the first part of the 3d sentence of Sec. 5 shall read as follows:

"Notwithstanding any other provision of law, ~~the~~ Acts making appropriations ~~may~~ provide for the withholding of any payments from the United States to the city (et seq —)

10-21-75

letter

15

To: Hon. John Rhodes
" Bob Michel
Albert W. Johnson
J. William Stanton
Garry Brown
Chalmers Wylie
Rousselot
McKinney
Conlan
Geo. Hansen
Schulze
Gradison
Hyde
Kelly
Grassley Fenwick

NEW YORK

Who's to Blame for The Fix We're In

By Ken Auletta

"...The roll-overs, false revenue estimates, and plain lies that have robbed taxpayers of billions... people have gone to jail for less..."

On October 7, 1965, William F. Buckley, then a candidate for mayor, warned, "New York City is in dire financial condition, as a result of mismanagement, extravagance, and political cowardice. . . . New York City must discontinue its present borrowing policies, and learn to live within its income, before it goes bankrupt." Judging by the reaction, one would have thought Buckley had proposed to drop the atom bomb on Israel.

It took a decade for Buckley to appear "responsible." He was bucking the sixties, the Age of Good Intentions, when candidates solemnly promised to outspend their rivals. New ideas. New programs. That's what we wanted. An unwitting spokesman for the age was Mayor Robert F. Wagner, who, in his last budget message, in 1965, declared: "I do not propose to permit our fiscal problems to set the limits of our commitments to meet the essential needs of the people of the city."

Consistent with that curious fiscal philosophy, New York City persisted in an ambitious—and compassionate—effort to care for those less fortunate by taxing those who could afford it. Today, 14 per cent of our citizens are on welfare. We support nineteen municipal hospitals, free tuition at the City University, open enrollment, day-care centers, foster homes—and we have an assortment of more than 25 different taxes. We have conducted a noble experiment in local socialism and income redistribution, one clear result of which has been to redistribute much of our tax base and many jobs out of the city.

The city's now overwhelming credit crisis is primarily a symptom, not a cause, of a deeper economic malaise, whose roots reach back three decades and encompass a series of city, state, and even federal decisions. This is a piece about those decisions, a chronicle of the people and events that cumulatively pulled us into our predicament.

To pinpoint the most important of these decisions, I interviewed more than 40 public officials, labor leaders, businessmen, bankers, and students of city government. My question was always the same: What were the key events and decisions that led to the city's present fiscal crisis? After sorting through these responses, and assisted by a research associate, Robert Sullivan, I waded through old budgets, Board of Estimate minutes, press releases, newspaper clips, state laws, books, and pamphlets. Then, when I had narrowed the choices, I did more interviewing.

In time, twenty critical decisions seemed to me to be the key events that let New York into financial ruin. The criterion for selection was not merely a "bad" or a "good" decision as such, but also those that opened the door for later abuse.

There are those who stress that New York is primarily the victim of social forces beyond its control. They will be disappointed in what they find here. Sure, there are general villains in plenty: the migration since World War II which brought 2 million blacks and Hispanics (largely poor) to the city and the departure of 2 million primarily white residents (largely middle income); the loss of one out of ten jobs in the last five years; inflation; taxes; racial polarization; anti urban bias; even the invention of the automobile. Not to mention such nondecisions as insufficient federal and state aid and the failure to engage in effective economic planning.

But to blame everybody is to blame nobody. There are particular villains in this story. If there is a single common thread weaving through these many decisions, it would be what is called "politics." And since "liberal" politicians have dominated city government these many years, it is they who are more guilty than others. The roll-overs, false revenue estimates, and plain lies that have robbed taxpayers of literally billions through excessive borrowing to cover up excessive fraud . . . people have gone to jail for less.

If the principal actors who have guided our city's destiny these last several decades—Wagner, Rockefeller, Beame, Lindsay—seem the chief villains in this piece, it must be remembered that they could not have accomplished all they did without a supporting cast of state legislators, borough presidents, City Council members, and city comptrollers.

Add to this list promiscuous bankers, voracious labor leaders and their members, and—by no means least—the press, because it was too preoccupied with gossip, too lazy, or assumed its readers were too dumb or too bored to bother with detail. Finally, there is the press's audience, the public, which all too often lived down to the press's low expectations.

So, this is a story not only about what our "leaders" did—and how—but about what we did to ourselves.

OMB statement re New York City legislation | 11/14/75
Delivered to Comte 11/14/75 a.m.

The Administration opposes enactment. The Administration does not feel that federal assistance should be provided to prevent a default by New York City. There appears to be no legitimate reason for American tax payers to underwrite past deficits of that city. To do so would weaken restraints on government spending at the state and local level. It would also have an adverse effect on all costs of government borrowing.

McKinney, Stewart B (R-Conn.)

Cited the article in the Wall Street Journal this morning - said it spells out the situation pretty well. In all practicality, don't see how the State or City can get up much more. He feels that the compromise bill should be signed by the President.

Hutchinson, Edward (R-Mich)

He is reading it now but if you want his reaction -- it's negative.

Stanton, J. William (R-Ohio)

He wrote a Dear Colleague letter to members of the Comte and took it with him this morning to Banking and Currency Comte.

"Dear Colleague:

"Due to the weekend and the early Monday morning meeting of the Committee, I regret that this is the only way I can convey some of the knowledge of the New York situation to you.

"First, I personally believe John Rhodes' intervention into the legislation was very premature and poorly handled. To my knowledge, he did not consult with a single minority member of the Committee. Secondly, he may have undermined the President's desire to force the State and City to do more for themselves, before any commitment is given from the federal government.

"Over the weekend, I was personally briefed on some of the White House thoughts. Even if one were inclined to vote for some federal help for the city, the President's plan is far less expensive, of shorter duration, and thus much more preferable than the Rhodes-Reuss supposed agreement.

"For this reason and others, I would hope that at least thru this morning's session we will stay united against any change in the President's bill. At the first chance we have I will inform you of all else I know concerning this legislation.

"Many thanks."

THE WALL STREET JOURNAL,
Monday, November 17, 1975

Ford Is Under Pressure to Decide Quickly On $2.5 Billion Rescue of New York City

A WALL STREET JOURNAL *News Roundup*

The Ford administration is under pressure to decide in the next few days whether it will go along with a request for up to $2.5 billion in short-term federal aid for New York City.

Treasury officials and President Ford's economic advisers spent the weekend studying the latest rescue plan, which was presented to them Friday by New York Gov. Hugh Carey and other state officials. There

Some of the tax increases that the legislature is being asked to consider are "highly burdensome to the state," Mr. Carey observed, adding that the prospects of passage would be "enhanced" if federal aid were to be the reward. Warren Anderson, majority leader of the state senate, said flatly that before passage of any tax package for the city or state, Albany lawmakers would

—New language to make clear that the federal board headed by the Treasury Secretary wouldn't engage in day-to-day operation of New York City but only supervise a New York State board. That state board would decide whether the conditions of eligibility for loans were being met.

"In view of the progress made by New York City and New York State in meeting

THE WHITE HOUSE
WASHINGTON

Date Nov. 17, 1975

TO: Max L. Friedersdorf

Neta Brown for
FROM: CHARLES LEPPERT

Please Handle ____________

For Your Information ____________

Per Our Conversation ____________

Other:

Max, I called the Congressmen for Charlie as he was on the Hill with Mr. Marsh on Intelligence. Charlie has not seen the comments - nor has Vern as he was also on the Hill.

November 17, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

THRU: VERN LOEN

FROM: CHARLES LEPPERT, JR.

SUBJECT: Congressional Comments re Legislation on New York City

I have heard from the following Congressmen and quote their comments:

McKinney, Stewart B. (R-Conn.)

Cited the article in the Wall Street Journal this morning (copy attached). Said it spells out the situation pretty well. In all practicality, don't see how the state or city can get up much more. He feels that the compromise bill should be signed by the President.

Hutchinson, Edward (R-Mich.)

He is reading it now but if you want his reaction -- it's negative.

Stanton, J. William (R-Ohio)

He wrote a Dear Colleague letter to members of the Committee and took it with him this morning to Banking and Currency Committee.

"Dear Colleague:

"Due to the weekend and the early Monday morning meeting of the Committee, I regret that this is the only way I can convey some of the knowledge of the New York situation to you.

"First, I personally believe John Rhodes' intervention into the legislation was very premature and poorly handled. To my knowledge, he did not consult with a single minority member of the Committee. Secondly, he may have undermined the President's desire to force the State and City to do more for themselves before any commitment is given from the federal government.

"Over the weekend, I was personally briefed on some of the White House thoughts. Even if one were inclined to vote for some federal help for the city, the President's plan is far less expensive, of shorter duration, and thus much more preferable than the Rhodes-Reuss <u>supposed</u> agreement.

"For this reason and others, I would hope <u>that at least thru this morning's session</u> we will stay united against any change in the President's bill. At the first chance we have I will inform you of all else I know concerning this legislation.

"Many thanks."

<u>Johnson, Albert W. (R-Pa.)</u>

Unable to obtain a statement as he went direct to Committee from his home. In contact with Rick Robb in his office but he has not reported back as of this writing.

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—New language to make clear that the federal board headed by the Treasury Secretary wouldn't engage in day-to-day operation of New York City but only supervise a New York State board. That state board would decide whether the conditions of eligibility for loans were being met.

THE WHITE HOUSE

WASHINGTON

November 17, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

THROUGH: VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Comments relative to the New York City Memo

Attached are comments from Congressmen Conable and Butler. Comments from Congressman Schneebeli will be submitted later today.

Attach.

Rep. Barber Conable, Jr. (R.-N.Y.)

Still has serious reservations concerning the Federal government's role in such a plan. States that Governor Carey, for instance, is a long way from achieving passage by the New York State legislature of increased state taxes. Upstate New York does not believe it should be made to carry a tax burden to, in effect, pay for New York City's irresponsible fiscal actions. Counsels great caution until, in fact, the State of New York and New York City have in place all programs summarized to be part of the overall plan.

Rep. M. Caldwell Butler (R.-Va.)

With respect to page 2 of the memorandum, 3A "Details of the Plan -- New York City", voices strong reservations as to whether under existing Federal law the New York State legislature can legally pass legislation as referred to in paragraph 2 of 3A. (During conversation the Congressman referred to Section 83 (I) of appropriate Federal statutes). Further, the Congressman believes that spokesmen for the labor unions are protecting bargaining agreements for the benefit of current employees at the expense of all beneficiaries of the pension funds. Questions what guarantees the Federal government will have for repayment of "seasonal financing".

RED TAG

THE WHITE HOUSE

WASHINGTON

November 17, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

THROUGH: VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Comments relative to the New York City Memo

Attached are comments from Congressmen Schneebeli and Waggonner.

Attach.

Rep. Herman Schneebeli (R. -Pa.)

Major concern is what assurances does the Administration have that New York and New York City will actually meet and implement the requisites summarized to be a part of the plan. In addition, wants to know what guarantees will be made to assure repayment to the Federal government for extending "seasonal financing". Basically is opposed to the entire idea of providing Federal assistance to the State or City of New York--would mean in effect that there would be three-tier revenue sharing; categorical grants, revenue sharing as we know it today, and New York City assistance.

Rep. Joe Waggonner, Jr. (D. - LA.)

Believes that reference to reduction of welfare and social services costs is too weak. Strongly urges that the Federal government force upon Governor Carey a change in New York's welfare laws. In addition, have Governor Carey officially request that changes be made in existing Federal laws which would allow states to do more.

FOR IMMEDIATE RELEASE NOVEMBER 19, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I am gratified that the leaders of New York appear to have accepted primary responsibility for solving the financial problems of the City and are proceeding in the direction of a long-term solution in accordance with the State Constitution and laws. I am impressed with the seriousness of their intentions as described by Governor Carey in his letter to Secretary Simon and await further concrete actions by the State and the other parties concerned.

The bail-out bill now before the House of Representatives is irrelevant because it does not address the current situation and I would veto it.

I am convinced that if New York continues to move toward fiscal responsibility, all parties concerned can look forward to a satisfactory resolution despite the current obstacles.

If they continue to make progress, I will review the situation early next week to see if any legislation is appropriate at the Federal level.

In the meantime, should New York leaders fail to implement their intentions, New York City could still be forced into legal default. Therefore, I am asking the Congress once again to enact special amendments to the Federal bankruptcy laws which would ensure that such a default, if it occurs, would be orderly.

# # #

EMBARGOED FOR RELEASE UNTIL 7:31 EST

NOVEMBER 26, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

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

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

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

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

- MORE -

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

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

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

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

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

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

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

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

# # #

SECTION BY SECTION ANALYSIS OF NEW YORK CITY SEASONAL FINANCING ACT OF 1975

SECTION 1. Definitions. This section defines certain terms that are used in the bill. The term "Financing Agent" means any agency authorized by State law to act on behalf of the City with respect to its financial affairs.

SECTION 2. Loans. This section authorizes the Secretary of the Treasury to make loans to the City or a Financing Agent, subject to the provisions of the Act. Loans will mature no later than the last day of the City's fiscal year in which they were issued and will bear interest at a rate of one percent over the cost of the Treasury for comparable borrowings.

SECTION 3. Security for Loans. In connection with any loan, the Secretary may require the City, any Financing Agent and, where necessary, the State, to provide such security as he deem's appropriate. The Secretary may take such action as may be necessary to realize upon any collateral to enforce any claim the United States may have against the City or any Financing Agent. Notwithstanding any other provision of law, the Secretary may withhold any payments owing under any law from the United States to the City, either directly or through New York State, and offset such withheld payments against any claim the United States may have under the Act.

SECTION 7. Inspection of Documents. This section authorizes the Secretary to inspect the books and records of the City and any Financing Agent in connection with loans under the Act.

SECTION 8. Termination of Authority. The authority of the Secretary of the Treasury to enter into any new loans under the Act will terminate on June 30, 1978. Such termination does not affect the carrying out of any transactions entered into pursuant to the Act prior to that date or the taking of any action to preserve or protect the interests of the United States thereunder.

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

Office of the White House Press Secretary

THE WHITE HOUSE

NEW YORK CITY'S FISCAL SITUATION

BACKGROUND

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

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

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

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

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

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SUMMARY OF THE NEW YORK CITY SEASONAL FINANCING ACT OF 1975

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

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

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

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

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

ACTIONS BY NEW YORK CITY AND NEW YORK STATE

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

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

a. The three-year Emergency Financial Control Board (EFCB) plan will produce a modest surplus in the City's expense budget by fiscal year 1977-78.

b. The State Legislature has voted over $200 million of additional City taxes which will be imposed by the EFCB.

c. A portion of annual City contributions to the pension systems has been shifted to the employees by legislation. On an annual basis, the savings to the City would be $85 million and the impact on the employees would be $107 million per annum.

d. The City has laid off about 22,000 employees since January 1 and increased taxes over $300 million this past summer. Additional personnel reductions of over 40,000 employees are contemplated in fiscal years 1977-1978.

e. A partial wage deferral was imposed this fall.

f. The City has reduced its subsidy to the City University by $32 million.

g. The New York City transit fare has been increased from 35¢ to 50¢.

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

a. Moratorium legislation has been enacted with respect to $2.6 billion of City short-term notes.

b. An exchange offer has been approved by the MAC Board for an exchange of 10-year 8% MAC bonds for the $1.6 billion of City notes held by the public.

c. The New York banks and pension systems have agreed to take 10-year 6% City securities as part of the moratorium in exchange for $1 billion of City notes.

d. The New York banks and pension systems have agreed to take 10-year 6% MAC bonds in exchange for $1.7 billion of MAC bonds bearing higher interest rates and/or shorter maturities.

e. New York City pension systems have agreed to purchase $2.5 billion of new MAC and/or City securities over the next three years. This commitment is subject to appropriate trustee indemnification.

f. MAC has provided about $3.5 billion of financing to the City, of which $1.5 billion is refinancing of short-term debt.

The City and State have implemented the following management changes:

a. Creation of MAC and EFCB control mechanisms.

b. Extensive management changes are being made in the City, including a new Deputy Mayor for Finance and a new Chief of Planning.

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

a. The EFCB has passed a resolution directing the City to terminate the practice of using, for budgetary purposes, all income of the pension systems in excess of 4% per annum. In the year beginning July 1, 1976, this will result in approximately $136 million per annum of additional income to the pension systems and a commensurate increase in the City's expenses. The EFCB has also directed the City management to take action and report back within 30 days with respect to termination of the practices resulting in the abuse of overtime in the last year of employment, thereby creating excessive pension burdens on the City.

b. Governor Carey has directed Mr. Richard Shinn, President of the Metropolitan Life Insurance Company, to report to the EFCB by December 31 on the actuarial soundness of the City pension funds. The EFCB has directed the City to prepare and submit to the Control Board such legislative requests and other amendments as may be necessary as a result of the Shinn study to put the funds on a sound actuarial basis and to have those recommendations to the Control Board no later than January 31, 1976.

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

Estimated cash deficit as of 10/29/75*/	$ 3.95	Billion
<u>Less effect of Carey plan to reduce deficit</u>		
-- New city taxes	$ 100	Million
-- State advance	$ 800	Million
-- Debt moratorium, exchange offer, & restructuring	$2450	Million
-- Employee contribution to pension funds	$ 50	Million
-- Pension fund loans to New York City	$ 550	Million
Current estimate of cash deficit	0	

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

<u>NEW YORK CITY SEASONAL CASH FLOW NEEDS</u>

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

Cumulative Needs
(dollars in millions)

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

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE
COMMITTEE ON BANKING, CURRENCY AND HOUSING
NINETY-FOURTH CONGRESS
WASHINGTON, D.C. 20515

December 1, 1975

Dear Colleague:

As you know, the President last Wednesday evening requested prompt action on a bill to authorize yearly loans (not to exceed $2.3 billion and terminating on June 30, 1978) for the purpose of meeting seasonal financing requirements pending return by New York City to an annual balanced budget.

At the present time, a Committee-reported bill to provide limited assistance to New York City, H.R. 10481, is ready for Floor action and is scheduled for immediate consideration. In light of the President's decision last week and his specific legislative proposal to implement that decision, a substitute to the Committee bill incorporating the Administration language will be offered by the Minority.

In order that you may be fully aware of the contents of the proposed substitute, the attached is submitted for your consideration. If you have any questions with respect to the substance of the substitute or the procedure to be followed, please don't hesitate to contact one of the undersigned.

Sincerely,

Henry S. Reuss
Henry S. Reuss

Bill
J. William Stanton

Thomas Ludlow Ashley

Stewart B. McKinney

Attachment

A BILL

To authorize the Secretary of the Treasury to provide and facilitate seasonal financing for the City of New York.

WHEREAS it is necessary for the City of New York to obtain seasonal financing from time to time because the City's revenues and expenditures, even when in balance on an annual basis, are not received and disbursed at equivalent rates throughout the year; and

WHEREAS the Congress finds that at the present time the City is or may be unable to obtain such seasonal financing from its customary sources; and

WHEREAS the Congress finds that it is necessary to assure such seasonal financing, in order that the City of New York may maintain essential governmental services.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "New York City Seasonal Financing Act of 1975".

Section 1. Definitions.

The words and phrases used in the Act have the following meanings:

(a) The terms "City" and "State" mean the City and State of New York, respectively.

(b) The term "Financing Agent" means any agency duly authorized by State law to act on behalf or in the interest of the City with respect to the City's financial affairs.

(c) The term "Secretary" means the Secretary of the Treasury.

Section 2. Loans.

(a) Upon written request of the City or a Financing Agent, the Secretary may make loans to the City or such Financing Agent subject to the provisions of this Act, provided that in the case of loans to a Financing Agent, the City and such Agent shall be jointly and severally liable thereon.

(b) Each such loan shall mature not later than the last day of the fiscal year of the City in which it was made, and shall bear interest at an annual rate determined by the Secretary at the time of the loan, based upon the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the maturities of such loans, adjusted to the nearest one-eighth of one percentum, plus one percentum per annum.

Section 3. Security for Loans.

In connection with any loan under this Act, the Secretary may require the City and any Financing Agent and, where necessary, the State, to provide such security as he deems appropriate. The Secretary may take such steps as are necessary to realize upon any collateral in which the United States has a security interest pursuant to this section to enforce any claim the United States may have against the City or any

Financing Agent pursuant to this Act. Notwithstanding any other provision of law, the Secretary may, to the extent authorized in Acts making appropriations, withhold any payments from the United States to the City, either directly or through the State, which may be or may become due pursuant to any law and offset such withheld amounts against any claim the Secretary may have against the City or any Financing Agent pursuant to this Act.

Section 4. Limitations and Criteria.

(a) A loan may be made under this Act only if the Secretary determines that there is a reasonable prospect of repayment of the loan in accordance with its terms and conditions as he may deem appropriate to insure repayment. The Secretary is authorized, without regard to Section 8, to agree to any modification, amendment or waiver of any such term or condition as he deems desirable to protect the interests of the United States.

(b) At no time shall the outstanding amount of loans hereunder exceed in the aggregate $2,300,000,000.

(c) No loan shall be provided under this Act unless: (i) the City and all Financing Agents shall have repaid according to their terms all prior loans under this Act which have matured, and (ii) the City and all Financing Agents shall be in compliance with the terms of any such outstanding loans.

Section 5. Remedies.

The remedies of the Secretary prescribed in this Act shall be cumulative and not in limitation of or substitution for any other remedies available to the Secretary or the United States.

Section 6. Funding.

There are authorized to be appropriated such sums as may be necessary (1) to make loans authorized under section 2 of this Act, and (2) to pay any expenses incurred in the administration of this Act.

Section 7. Inspection of Documents.

At any time a request for a loan is pending or a loan is outstanding under this Act, the Secretary is authorized to inspect and copy all accounts, books, records, memoranda, correspondence, and other documents of the City or any Financing Agent relating to its financial affairs.

Section 8. Termination.

The authority of the Secretary to make any loan under this Act terminates on June 30, 1978. Such termination does not affect the carrying out of any transaction entered into pursuant to this Act prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States arising out of any loan under this Act.