The original documents are located in Box 23, folder "New York City Finances (1)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

[May 1975]

Jim C.

The statement on N.Y.C. is excellent. Is there a way of adding a sentence or two on the fact that a one-shot bailout doesn't solve the problem — but only delays it?

Alan G.

Feli

Ag. Cutting

[May 1975]

(3) Limiting the Federal government's participation to seasonally secured loans or guarantees for a limited term.

(4) Removing any Federal presence in the operation of the affairs of the City.

(5) Demonstrating that New York can take care of its problems through its own resources.

This is a compromise which I believe is wise and sound under the circumstances. I compliment the officials who have worked to achieve it. I am convinced that it was possible only because the Administration made clear that a Federal bail-out was unacceptable. We can now look forward to a rejuvenated New York City again assuming its leadership role among the cities of our country.

~~CONFIDENTIAL~~

Determined to be Administrative Marking
Date 5/4/81 By [illegible]

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

May 1, 1975

MEMORANDUM FOR: Jim Falk
Domestic Council

FROM: Robert A. Gerard, Director
Office of Capital Markets Policy RAG

SUBJECT: New York City Financial Situation

I understand that Mayor Beame will be meeting with the Vice-President to discuss financial assistance for the City. I have been participating in meetings of a staff level working group (list of members attached) attempting to develop a fiscal improvement program designed to restore the City's access to the public securities market. The following is a summary of the activities of that group and of other relevant events concerning the City.

I. Borrowing Requirements

By May 15	$650-750 Million
By June 11	$750-850 Million

Total through end of FY 74-75 — $1.5 Billion

July 1 - August 8	$2.0 Billion

Total Borrowing through August 8 — $3.5 Billion

II. Condition of the Market

The City's bankers have advised that even under the best conditions -- i.e. presentation by the City of a credible balanced budget for FY 75-76 -- the City could raise no more than "a couple of hundred million" in May. The bankers are even more pessimistic concerning the market's response to future offerings.

General
Title

III. City's F.Y. 75-76 Budget

The financial community finds the Mayor's recent pronouncements on the budget not credible, and even if true, inadequate. They find much gimmickry and little substance in the $240 million cut announced by the Mayor last week (for example, a reduction of $67 million in debt service was included on the impossible assumption that the City would satisfy the bulk of its short term borrowing needs by issuing securities which did not require debt service payments until FY 76-77). Equally disturbing is the attitude of the City officials. They appear unwilling to recognize the need for radical measures on the expenditure side, instead contending that the State, the USG and the banks should come up with whatever additional funds the City requires.

~~IV. Impact of a Default~~

There is little doubt that a default by NYC would have a substantial psychological impact on the municipal market and the capital markets generally. NYC accounts for 25% of the short term tax-exempt market; its total outstanding debt is $12-13 billion. A default on even a single note issue would severely reduce the market values of all NYC securities, if it did not close the market entirely.

On the other hand, the cataclysm threatened by some City officials and some bankers is unlikely. NYC banks hold approximately $1.25 Billion of NYC securities, slightly more than 1% of their total assets. To the extent a default created liquidity problems for one or more banks, the Fed would undoubtedly step in with loans. There could be serious hardship to individual investors who need to convert to cash, but, if the City took proper measures, it would be short lived.

A default could trigger the kind of radical fiscal action by the City which is required. Such action could induce the banking community -- probably with the blessing of the Fed -- to provide the City with the cash to cure the default and conduct its affairs until enough tangible evidence of progress exists to return to the public market.

V. The City's Requests

Mayor Beame is likely to make two types of requests: a direct bail-out in the form of a loan, guarantee or securities purchase and a request for increases in Federal social program payments.

Bail-Out

USG financial aid in any form would require legislation. Both for reasons of equity and for political reasons, such assistance would have to be offered to all local governments. Such action would have two types of adverse fiscal impact. First, it would be extremely expensive for the USG. Perhaps more importantly, it would lessen existing pressures for fiscal restraint at the local level (Detroit, for example, recently laid off approximately 25% of its municipal work force).

Moreover, such aid in any form would increase the burden on the capital markets. We would be unable to avoid the fact that the markets would be subject to the pressure -- in one form or another -- of new USG borrowing equivalent to the amount of the aid provided. This would adversely affect the borrowing programs of all other issuers.

Social Program Payments

The City contends that USG should bear a greater portion of its welfare and medicare load on the theory that NYC attracts the indigent from all parts of the country. We have not discussed this issue with the City in any detail.

Attachment

ATTENDEES

Elmore Patterson, Chairman, Morgan Guaranty Trust Company and Chairman of the Financial Community Liasion Group.

Peter Goldmark, New York State Budget Director.

John Lanigan, Deputy Budget Director - New York City.

William Scott, 3rd Deputy Controller - New York City.

Robert Gerard, Office of Capital Markets - U.S. Treasury.

Peter Sternlight, Vice President, New York Federal Reserve Bank.

Richard Adams, Senior Vice President, Chemical Bank.

David Barry, Senior Vice President, Manufacturers Hanover Trust Company.

Richard Kezer, Vice President, First National City Bank.

Jean Rousseau, Merrill Lynch, Pierce, Fenner & Smith Inc.

Charles Sanford, Executive Vice President, Bankers Trust.

Frank Smeal, Executive Vice President, Morgan Guaranty Trust Company.

David Grossman, Senior Vice President, Chase Manhattan Bank, N.A.

Thomas G. Labrecque, Executive Vice President, Chase Manhattan Bank, N.A.

Clunb[illegible]
FYI
File
New York City

THE WHITE HOUSE

WASHINGTON

May 15, 1975

MEMORANDUM FOR: JAMES CANNON

THROUGH: MAX FRIEDERSDORF M.F.

FROM: VERN LOEN VL

SUBJECT: Mayor Abe Beame and Governor Hugh Carey

You asked me to find out the subject of their conversation with the Speaker after their White House visit the other day.

They met jointly with the Speaker and Senator Mansfield in regard to the City of New York's cash flow problems. The objective was to mount Congressional pressure on the Fed and the White House to take action to address the City's financial problems.

As nearly as I could gather, the Speaker and Senator Mansfield dodged the issue by referring them to the Banking and Currency Committees which have jurisdiction over the Fed. Governor Carey quoted the President as saying that "no New York bail-out" bill could pass the Congress.

Attached is a wire story concerning this matter.

UP-139

(NEW YORK)

WASHINGTON (UPI) -- NEW YORK CITY CONGRESSMEN RECEIVED NO ENCOURAGEMENT IN A MEETING WEDNESDAY WITH CHAIRMAN ARTHUR BURNS OF THE FEDERAL RESERVE THAT THE FED WOULD HELP THE CITY OUT OF ITS FISCAL EMERGENCY.

"HE COULDN'T HAVE BEEN MORE BLEAK," REPORTED REP. JAMES SCHEUER, D-N.Y., DURING A BREAK IN THE CLOSED MEETING.

THE CONGRESSMEN WANTED TO DISCUSS WITH BURNS THE POSSIBILITY OF A FEDERAL RESERVE LOAN TO NEW YORK CITY TO TIDE IT THRO

U

G

H

ITS CASH

FLOW PROBLEM THRU JUNE 30.

NEW YORK MAYOR ABRAHAM BEAME HAS SAID THE CITY NEEDS $1.5 BILLION TO MEET ITS PAYROLLS, PAY DEBTS BECOMING DUE AND MEET NORMAL EXPENSES OVER THE NEXT SIX WEEKS.

THE FED COULD MAKE A LOAN UPON THE APPROVAL OF FIVE OF ITS SEVEN GOVERNORS. IT HAS NOT MADE ANY SUCH LOANS SINCE 1936.

SCHEUER SAID BURNS SAID NEW YORK COULD FILE AN APPLICATION BUT HE DID NOT WANT TO AROUSE FALSE HOPES OF FAVORABLE ACTION.

"HE SOUNDED AS THOUGH HE WISHED WE DIDN'T KNOW THE FED EXISTED," THE CONGRESSMAN SAID.

HE SAID BURNS REPORTED HE DID NOT KNOW WHAT IF ANY DECISION PRESIDENT FORD HAS REACHED ON ENTREATIES FROM BEAME AND NEW YORK GOV. HUGH CAREY FOR EMERGENCY FEDERAL AID. FORD TOLD OFFICIALS FROM NEW YORK TUESDAY HE WOULD THINK OVER THEIR PLEA AND REACH A DECISION WITHIN 24 HOURS.

UPI 05-14 05:59 PED

THE WHITE HOUSE

WASHINGTON

Confidential Material Attached

May 2, 1975

MEMORANDUM FOR: DICK DUNHAM

FROM: JIM FALK JF

SUBJECT: New York City Financial Situation

As indicated in the memorandum Pat Delaney and I prepared for you the other day, we have now received a more detailed analysis of the New York City financial situation which is attached at Tab A. (Confidential)

The memorandum from Robert Gerard, Director of the Office of Capital Markets Policy is a fairly thorough analysis of the problem and is forwarded for your information.

In the event that you or the Vice President are asked to meet with Mayor Beame, I would suggest that we up-date this information from Treasury at that time.

Attachment

David Burke 5/3 [1975]

Beame

Carey

MAYOR Beame File

David Rockefeller

Spencer, City Bank

Patterson, Morgan

Bankers ~~Ford~~ Carey

Got self cash flow

Wanted All Action Banks

Also w/ Jerry Ford

made it clear that I not making displeasure -

point To Mtg to

Beame + Rocky ~~Rockefeller~~ problems

city funds

What they hope to show.

working behalf —

Pres & ~~[illegible]~~ VP

"New York City
can't face May 15"

Real crunch.
~~[illegible]~~ Emergency
~~going down~~

Mayor and Gov to
tell our story —
import that could happen —

Abe has to submit budget
that is

Needs

750 5/15

750 6/15

There is no market

Absent something of that nature —

city Box U.D.C.

~~favorite~~

Crisis is immediate

Fed govt -
direction to Fed Res

Task Force Interim Rpt

city faces conditions its never met before.

Wednesday, Ideal day

can we do ~~these~~ record

~~Before~~

call you

5/7/75
J.C. Partee
(Title?)

Possible economic consequences

A default on its note issues by New York City probably would not have significantly adverse effects on the national economy, assuming that the City is permitted to continue to meet payrolls and other current expenses. An austerity program undoubtedly would be forced upon New York City, and the resultant cutbacks over time in current activities would tend to increase the already substantial unemployment problem in that area. Some other hard-pressed communities and governmental entities, adversely affected by increased investor sensitivity to the risk factor in tax exempt securities, might also be compelled to curtail some activities for lack of financing. But the scale of these direct impacts would be very small relative to the overall economy.

Potentially more damaging to the economy would be the possible psychological effects of a New York City default. Banks and other lenders might tighten up on their credit standards generally. Consumers, confronted with this new evidence of weakness in the financial structure of the country, could become even more cautious in their spending behavior. Markets for stocks and corporate bonds could suffer a reaction, with selective declines in those issues judged to be of doubtful or marginal quality. Such a reaction, if it developed, would obviously weaken the prospects for recovery in business capital spending, construction, and postponable consumer expenditures.

On balance, though, these adverse responses seem unlikely to develop on any appreciable scale. The problems of New York City finances have come to be increasingly widely recognized over recent weeks and months, so that a default would come as no great surprise. The supply of credit is generally abundant and liquidity is available through the banks--and, if necessary,through the Federal Reserve--to cushion shocks in particular markets that might occur. Reassuring statements could be issued regarding the limited exposure to ultimate loss that banks and other institutionsal investors are likely to face with respect to this and other municipal security holdings. Altogether, it should be possible to make it rather quickly apparent to the public that the financial problem of New York City is a localized one, without significant implications for the health of the U.S. economy as a whole.

5/7/75
Alan Holmes

Holmes

Possible market consequences

The possible consequences of a default by New York City on its note or bond obligations are difficult to predict, but it seems reasonable to anticipate that general effects on the credit markets would be confined to New York City's own issues and to other issues regarded as having relatively weak credit standings. It is not anticipated that there would be a widespread collapse of the markets in State and local issues generally.

A major unknown in this analysis is the possible secondary effect that might stem from a significant weakening of confidence in the large New York City banks. The major banks hold sizable amounts of New York City obligations and depositors could be fearful of the consequences of the City banks facing large losses or significant liquidity problems. While this result is a risk, it is by no means a foregone conclusion or even a likelihood. Available information on the exposure of large New York City banks does not suggest that such exposure is a major proportion of capital. On the other hand, one cannot entirely dismiss the possibility of "irrational reactions" in the financial community.

The immediate impact of a default on New York City would be a further accentuation of the quality upgrading that has already been in process, in the wake of continued discussions in the press and financial community about New York City financial problems.

Upgrading of this type was very clear after the UDC's failure to pay off maturing notes in February. The immediate impact then was a sharp drop in prices of UDC obligations, other "moral obligations" of New York State, and to some extent, New York City obligations. On the other hand, New York State general obligations were not affected; nor were the general obligations of other well-regarded issuers. New York City general obligations were affected adversely by UDC's experience because New York City was another issuer that investors had come to regard with scepticism.

Clearly, a default on a New York City obligation would sharply cut prices on all New York City debt. Other cities that are known to have financial problems--such as Newark, Detroit, Philadelphia--would also come under pressure. However, the ability of well-regarded issuers to sell debt probably would not be impaired. Demand for very high grade issues probably would increase.

FOR IMMEDIATE RELEASE MAY 13, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
JAMES T. LYNN
DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET
HUGH L. CAREY
GOVERNOR OF THE STATE OF NEW YORK
AND
ABRAHAM D. BEAME
MAYOR OF THE CITY OF NEW YORK

THE BRIEFING ROOM

4:07 P.M. EDT

MR. NESSEN: I have two pieces of business, first, before I introduce everybody.

There have been some queries about the Reuters story that I think you know about, concerning a Navy reconnaissance plane being hit by gunfire. Let me just say the story is essentially correct, and I cannot go any further than that.

We are preparing a statement by the White House by the President on the sustaining of his farm bill veto. We should have that for you shortly.

To report on the meeting about New York City's financial problems, we have the Mayor, Mayor Beame, Governor Carey, and Director Jim Lynn.

Gentlemen?

GOVERNOR CAREY: Thank you, Mr. Nessen.

On behalf of the people of the State of New York, I deeply appreciate the warmth and understanding which was shown by the President, as the Mayor indicated the purpose of our visit. The extent to which the President listened and inquired about the problems we face was such that we felt encouraged to this degree:

The President had said that he will look at this problem for 24 hours and then respond to us. This, I think, is an indication that he is doing this to give proper consideration to all the matters which were addressed in his presence with his advisers for more than an hour and 40 minutes.

MORE

During all of this time, the President showed very definite and deep interest in the solution of the problems we face in New York City, and that is encouraging to me, on behalf of the people of the State of New York.

MAYOR BEAME: I want to add to what Governor Carey said that my own feeling that I was very much impressed with the fact that the President showed an interest and concern to try to help, and that various matters came up for discussion.

He talked about certain possible options, which he wants to consider, and that as the Governor indicated, that we expect to hear within the next 24 hours. I was pleased that he had an open mind.

MR. LYNN: I have nothing to add here, but will answer some questions, if they have some.

Q Are you going to stay here the 24 hours?

GOVERNOR CAREY: No, we have an appointment immediately with the leadership on the Hill. We are going there right now because part of our suggested solution would involve the understanding of the Congress on what would be required here.

Q Governor, what options are we talking about?

GOVERNOR CAREY: A variety of options the President is considering. I think it would be premature to discuss those until the 24 hour time has elapsed.

Q Are they the same options which were rejected by Secretary Simon?

GOVERNOR CAREY: I think it is correct to say that contrary to what spokesmen for the President had indicated, his mind was not made up, his mind was not closed, he listened and then took the matter under consideration for the 24 hours forthcoming. So, that is contrary to the notion that the President and the Administration position was such that there was no hope.

Q Mr. Lynn, you wanted to say something?

MR. LYNN: If I might on that subject, the context of this meeting is that Secretary Simon -- speaking on behalf of the Administration -- had made the statements that he gave with respect to there not being Federal assistance in the offing as to this matter.

MORE

The President, however, upon the request of the city and the State, agreed to listen personally to the position of the city and the State. He has, as the Mayor and the Governor have said, listened, and I think it was a good give and take discussion of trying to bring out the facts very fully.

It is a situation where having listened -- I know the President well -- he likes to mull this kind of thing over, consider everything he heard carefully before he makes up his mind.

Q Mr. Lynn, does this mean that the President's position may change, that the Administration's position may change now?

MR. LYNN: I think what we will have to do is wait and see what the President comes up with. I can say this to you, that one of the concerns that the President expressed -- and I think there was general agreement about -- was that New York City's problems in this regard did not arise overnight. These are problems that have been in the making for years, that solutions, therefore, are not arrived at instantaneously.

However, it is a very good lesson, I think, with respect to cities and States throughout the country, that all of us, whether it is the Federal Government or local governments, have to keep our expenditures in line with our expected revenue.

The President is very familiar with this problem in his efforts to hold the Federal budget down to a reasonable deficit. $60 billion is a big deficit. We are trying to hold it against bigger deficits.

MORE

Q Is he going to visit the sins of past city administrations on the present citizens and Mayor of New York?

MR. LYNN: I think that is begging a question of whether he is visiting the sins one way or another. I don't think I ought to get into that.

GOVERNOR CAREY: We hope that by tomorrow, Mr. Lynn, he won't be a sinner, he will be a saint. (Laughter)

MR. LYNN: All I can say is that the President was deeply interested in the steps that the city and the State intend taking in this regard, deeply interested in those steps, and I would guess that there will be further conversations amongst representatives of the city and the State, and members of the administration, in the hours and period immediately ahead.

Q Mr. Mayor, is it save to assume that you did not hear today any legal doubletalk or specious arguments?

MAYOR BEAME: I think we heard from the President, what we would hope that he would say, that his mind is open, he is going to consider this, all the facts that were stated, and we hope that the decision will be favorable.

Q Mr. Beame, without disclosing the various options mentioned by the President, obviously you are talking to the Congressional leadership. Are you talking about things that need Congressional --

MAYOR BEAME: That was one of the areas discussed.

Q How about the area of the Federal Reserve?

MAYOR BEAME: There were various areas discussed.

Q Did the President give you any suggestions for perhaps trimming your own expenses even more?

MAYOR BEAME: I explained very clearly to the President exactly what we were doing in New York and I sincerely hope I made an impression upon him.

Q What role did the Vice President play in the talks, Mr. Mayor?

GOVERNOR CAREY: He attended and was very well informed on the subject matter.

MAYOR BEAME: The Vice President knows the situation in New York and we hope that he will be helpful.

MORE

Q Do you think you got a better reaction than you expected today?

GOVERNOR CAREY: I have known the President for 14 years. I have known him to be a fair-minded man and one who makes firm judgments based upon the facts, and we are relying on that.

MAYOR BEAME: As far as I am concerned, I am glad that he had an open mind and that he didn't give us an answer right off the top of his head. He wanted to listen to what was said and he listened carefully. I sincerely hope that is going to be the way we --

Q Did he say he would get back to you tomorrow?

MAYOR BEAME: I beg your pardon?

Q In 24 hours. Did he say he would get back to you personally tomorrow?

MAYOR BEAME: He said he would let us know tomorrow, within 24 hours.

Q Governor, if the President's answer is no, can the State of New York and will the State of New York bail out the city?

GOVERNOR CAREY: The State of New York is limited in what it can do because by its constitution it must have a balanced budget. The State has a gap of its own. These matters are realized by the Mayor and will be made clear to the President. That is why we are here.

MAYOR BEAME: One of the things I want to emphasize, we are not asking the Federal Government for money for additional aid. We are not asking for revenues to balance our budget. We are merely asking for a bridge that will enable us to improve the possibility of cash flow in the market.

Q Mr. Mayor, do you leave the White House as gloomy as you were when you arrived?

MAYOR BEAME: I didn't know I looked gloomy. I was asked how I felt. I said, "I am always optimistic."

Q Are you as optimistic now as you were when you came in, or more so?

MAYOR BEAME: Well, I think we had a very nice conversation.

MORE

GOVERNOR CAREY: I think the length of time that the President gave us to explore all possible avenues of assistance speaks for itself. It was a lengthy and very helpful meeting in getting an understanding directly to the President of conditions that we face in New York State and New York City.

Q Mr. Mayor, if the President, on reflection, says, "There is nothing I can do to help the City of New York with your cash flow," what happens to the City of New York then?

MAYOR BEAME: Why don't you ask me 24 hours from now?

Q What is the President's major objection or what is the reason, Mr. Mayor, right now why the Federal Government, particularly the Federal Reserve, will not be able to extend either further credit to the banks right now so they can be able to underwrite city securities, increase the money supply or to directly buy city paper right now?

MR. NESSEN: We ought to let Jim Lynn probably state the Administration position.

MR. LYNN: As I said in my opening remarks, the meeting was held in the context of there being an Administration position of not being willing to go to the Congress and seek authority to allow Federal guarantees of the debt.

There were a number of reasons for that position. One is a belief that there are fundamental problems that need to be thoroughly addressed by the city, itself, with respect to its expenditures, with respect to its revenues, its programs. There has been a good deal of discussion, we are aware, in New York at this point.

I should say the President today was very firm in his statement, without making any commitments whatsoever -- except to get back to the people -- that he wanted to see whatever proof could be provided him that the city is taking the kind of steps that are necessary to pull it out of the difficulties that it is in now; not just short-term, but intermediate term and long-term, because many of these problems are not problems of just today, as I think the Mayor would agree, these are problems that must be addressed with all three perspectives in mind.

A second problem that the Administration has had has been the idea of using Federal credit capacity, which is credit that is used generally across the whole country for people in all of the States, people in all of the cities, to solve the problems of one city.

MORE

A third reason that we have had problems in this respect is the precedent effect: that if we do something for New York City, we know very well that there could be arguments made -- no matter how strong arguments might be made the other way that New York is unique--that there are other cities that also ought to be aided, and we would end up not just with the billions we are talking about here, but many more for other places.

MORE

Q Mr. Lynn, was the President satisfied that if the City of New York should default, for example, by not being able to get the needed cash flow, that it would not have a devastating effect on the banking industry right now?

MR. LYNN: I don't think I ought to comment with respect to the meeting with the President. I can say to you that based on the information that I have seen both as to the nature of New York's problems itself, as well as some knowledge of the banking community, I do not believe that it would have a serious effect on the other cities or States.

Q Did the President make any specific suggestions on what the city could do for itself, such as in the area of subway fares and university charges, tolls and so on?

MR. LYNN: I don't believe that it would be appropriate at this meeting to get into the details of the give and take. I can say to you -- and I believe the Governor and the Mayor would agree with me -- that the meeting hit on a number of specific points with respect to specific things, but also general directions.

I should repeat once more what the President said was in connection with his making his mind up in making a decision in this matter, that he would like to have as much evidence as possible as to both the realism and the dedication to solving these problems on the expenditure side, as well as on the revenue side.

Q Mr. Beame, what evidence are you going to present to the President within the next 24 hours if that is part of this agreement to demonstrate longer term austerity measures?

MAYOR BEAME: I presented all of the facts that I think the President should have known and some of it, of course, he was acquainted with, some of it he may not have been acquainted with, and there was some information they sought from us.

We submitted that to the President's man -- I think it was Dick Dunham, who has that information -- so that so far as I am concerned, he has all the information.

I do want to make one point, and I am sure that Jim Lynn didn't necessarily try to put it in that context alone rather firmly.

MORE

One important point I want to make with respect to this question of precedent is that there is, to my knowledge, no other city in this country which has been faced with a cash boycott, and therefore, from that point of view, I don't believe this is a precedent, but that was something among other things which was discussed.

GOVERNOR CAREY: I want to make one comment. I don't want to say anything to attribute to the President what he said because that is custom that we do not, but I do want to make it specific because Mr. Lynn brought up the point, or at least said in response to a question that there was no finding that I heard on the question of what a default would mean across the country in terms of its impact upon municipal bond markets.

This matter was discussed. I think it is unfortunate we are talking in these terms because we are here to avert that. My finding is that that would be unthinkable in the credit markets of this situation as an elected official, and we are here to express the clear-cut warning that the very notion that the City of New York would go into default when it has credit, when its credit is sound, is something that should not be discussed because it must not happen.

Let me say further that it is not a question of supplying information. The laws of the City of New York and of the State of New York require that the city have a balanced budget and the State have a balanced budget, and we will be standing behind that budget.

That is the best guarantee we can give the people.

MR. NESSEN: Thank you, gentlemen.

END (AT 4:22 P.M. EDT)

my City

Jack Marsh

President 5/14/75
1 pm. meeting

6 pm ~~West Coast~~

informed of decision

ue

3 pm

6 pm

✓ - W/O under tax bureau

P - To some extent .

FOR IMMEDIATE RELEASE MAY 14, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TEXT OF THE LETTER FROM THE PRESIDENT
TO THE MAYOR OF NEW YORK CITY
THE HONORABLE ABRAHAM BEAME

Dear Abe:

The purpose of this letter is to respond to your and Governor Carey's request to me for my support for Federal legislation which would enable the City of New York to use the credit of the United States for a period of 90 days and in the amount of $1 billion.

As you and Governor Carey explained it to me, this 90-day period would enable the City to bridge the period needed for the New York State Legislature to act upon your request for increased taxing authority and subsequently enable you to submit, and the City Council to adopt, a balanced budget for the fiscal year beginning on July 1, 1975.

I was deeply impressed with the problems you and the City Council must face in the next few weeks in meeting the financial problems of the great City of New York. I was also deeply impressed with the difficult steps confronting you to eliminate the extraordinary imbalance between current revenues and current expenses. However, it was also clear that the City's basic critical financial condition is not new but has been a long time in the making without being squarely faced. It was also clear that a ninety day Federal guarantee by itself would provide no real solution but would merely postpone, for that period, coming to grips with the problem.

For a sound judgement to be made on this problem by all concerned, there must be presented a plan on how the City would balance its budget. This, given the amount involved to accomplish that balance, would require an evaluation of what the City can do through curtailment of less essential services and subsidies and what activities the City can transfer under existing state laws to New York State.

Fiscal responsibility is essential for cities, states and the Federal Government. I know how hard it is to reduce or postpone worthy and desirable public programs. Every family which makes up a budget has to make painful choices. As we make these choices at home, so must we also make them in public office too. We must stop promising more and more services without knowing how we will cover their costs.

I have no doubt that the adoption of sound budget policies would have a substantial and beneficial effect in both short and long term credit of the City of New York.

More specifically, in regard to your request to me for support of Congressional legislation to provide Federal backing and guarantee of City debt, I believe that the proper place for any request for backing and guarantee is to the State of New York. For such "bridge loan legislation", it seems to be both logical and desirable for the State of New York to arrange under its laws a "bridge loan" to the City in the amount that you estimate will be needed during the City's fiscal year.

(MORE)

In view of the foregoing considerations, I must deny your request for support of your Federal Legislative proposal.

I have asked Secretary Simon to follow closely the credit situation of the City of New York over the next few weeks, and to keep me informed.

The Federal Reserve Board, under its statutory responsibilities, will, I am sure, likewise monitor the situation very closely.

Sincerely,

GERALD R. FORD

[May 1975]

NY City

A. Beame's response

I don't think this shows feeling for us at all.

I always thought Nelson was a friend.

This is really a bad move.

I can understand the President having to take the position he does but I can't tell you I like it.

I'm upset about it and I hope you will pass that along to the President and more especially to the Vice President.

THE WHITE HOUSE

WASHINGTON

Dear Abe:

The purpose of this letter is to respond to your and Governor Carey's request to me for my support for Federal legislation which would enable the City of New York to use the credit of the United States for a period of 90 days and in the amount of $1 billion.

As you and Governor Carey explained it to me, this 90-day period would enable the City to bridge the period needed for the New York State Legislature to act upon your request for increased taxing authority and subsequently enable you to submit, and the City Council to adopt, a balanced budget for the fiscal year beginning on July 1, 1975.

I was deeply impressed with the problems you and the City Council must face in the next few weeks in meeting the financial problems of the great City of New York. I was also deeply impressed with the difficult steps confronting you to eliminate the extraordinary imbalance between current revenues and current expenses. However, it was also clear that the City's basic critical financial condition is not new but has been a long time in the making without being squarely faced. It was also clear that a ninety day Federal guarantee by itself would provide no real solution but would merely postpone, for that period, coming to grips with the problem.

For a sound judgment to be made on this problem by all concerned, there must be presented a plan on how the City would balance its budget. This, given the amount involved to accomplish that balance, would require an evaluation of what the City can do through curtailment of less essential services and subsidies and what activities the City can transfer under existing state laws to New York State.

Fiscal responsibility is essential for cities, states and the Federal government. I know how hard it is to reduce or postpone worthy and desirable public programs. Every family which makes up a budget has to make painful choices. As we make these choices at home, so must we also make them in public office too. We must stop promising more and more services without knowing how we will cover their costs.

I have no doubt that the adoption of sound budget policies would have a substantial and beneficial effect on both short and long term credit of the City of New York.

More specifically, in regard to your request to me for support of Congressional legislation to provide Federal backing and guarantee of City debt, I believe that the proper place for any request for backing and guarantee is to the State of New York. For such "bridge loan legislation", it seems to be both logical and desirable for the State of New York to arrange under its laws a "bridge loan" to the City in the amount that you estimate will be needed during the City's fiscal year.

In view of the foregoing considerations, I must deny your request for support of your Federal legislative proposal.

I have asked Secretary Simon to follow closely the credit situation of the City of New York over the next few weeks, and to keep me informed.

The Federal Reserve Board, under its statutory responsibilities, will, I am sure, likewise monitor the situation very closely.

Sincerely,

Gerald R. Ford

The Honorable Abraham D. Beame
Mayor of New York City
New York, New York

File

MEMORANDUM

May 30, 1975

TO: The Vice President
Honorable Warren M. Anderson
Mr. Ellmore C. Patterson

FROM: George L. Hinman GLH

RE: The New York City Crisis

Ann
Take up with Jim & Dick & Wed.

In the face of the Mayor's intemperate charges of non-support and non-cooperation, shouldn't the figures on what the Federal government, the state and the banks have done and are doing for the City, be given more emphasis?

The average citizen has the impression that you have all turned your backs on the city and done little or nothing for it. This impression has been assiduously cultivated.

As we know, your support sustains the city. It represents a very large proportion of its budget (1/3 to 1/2?). Is it $3 billion of city debt that the banks have taken?

You're all taking a bum rap because these appalling figures have just not been gotten across to the public.

They should have been set out in the first sentence of the President's letter to the city.

THE WHITE HOUSE

WASHINGTON

July 14, 1975

MEMORANDUM TO: JIM CANNON

FROM: R. L. DUNHAM

SUBJECT: New York City and other City Problems

Attached is a draft memo for you and Secretary Simon to send to EPB on New York City.

The memo is:

1. Informational.

2. Proposes a Review Group to monitor the problems, financial and programmatic, of all cities.

3. The Review Group would be composed of: Treasury, HUD, Labor, HEW, as well as you and Bill Seidman.

Questions

1. Is a joint EPB-Domestic Council group okay?

2. Is a general urban areas review group okay in preference to a New York City review group?

Agree ________

Disagree ________

Discuss ________

If you agree, this subject is scheduled to be discussed at the EPB meeting on Friday.

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: William E. Simon
Secretary of the Treasury

James M. Cannon
Director, Domestic Council

SUBJECT: New York City Financial Problem

Purpose

The purpose of this memorandum is to bring you up to date on the New York City fiscal problem and the changes that have occurred since the President met with Governor Carey and Mayor Beame on May 13, 1975.

Because it is very likely that the Federal government will be forced to become involved once again in the problem and asked to participate in the solution, we propose that a joint Domestic Council-Economic Policy Board Review Group be established to monitor the situation and to deal with urban problems in general. We also propose that the EPB immediately establish a liaison with the N. Y. Municipal Assistance Corporation.

Background

The fiscal problems which now beset New York City result at least in part from circumstances which are common to most major cities throughout the nation and in part from conditions which are peculiar to New York. It is true, of course, that the fiscal and/or management mess in New York City is considerably more pronounced there than in many other major cities, but it is also true that many of the symptoms lie just below the surface in other major cities. Boston, for example, has considerably increased its borrowing in the last few years also to cover deficits.

If, therefore, a Federal role in the solution to the New York City problem becomes necessary, the pattern of such a role will create a precedent for Federal relationships with other cities, and it will be extremely difficult, if not impossible, to confine any such role uniquely to New York City.

New York City-New York State Action

Since the May 13 meeting, both the City and the State have taken some action toward resolving the crisis.

(1) The State established the Municipal Assistance Corporation to sell $3 billion of long term debt which will replace an equivalent amount of New York City short term debt and thus solve the immediate (until September 30) cash flow problem.

The Corporation, in addition, has some oversight powers in regard to the management of the City budget.

(2) The State has provided $330 million of new taxing authority to help alleviate the FY 1975-76 City operating budget problem.

(3) The adopted City budget does provide for some cutbacks of personnel and some reduced services.

In May the problem was three-fold:

(a) An inability to borrow in the public market resulting in inadequate cash to meet payrolls, other operating expenses and debt service.

(b) The failure to present a budget for FY 1975-76 that was balanced and perceived to be credible.

(c) A long term imbalance between revenues and expenses due in large part to fiscal mismanagement, but also due to structural weaknesses in the City's economy, such as shift in the mix of population from middle class to underprivileged, unionization, extensive city services, etc.

Even though some tentative steps have been taken by the City and State, basic financial problems still face the City. They have been only slightly postponed.

These financial problems can be broken down chronologically:

- -- First, there is the question whether the Municipal Assistance Corporation (Big MAC) will be able to raise the additional $2 billion required to meet the City's cash flow requirements through September 30.
- -- Second, the City itself must borrow from $4 to $5 billion in the short term market between October 1 and the end of the fiscal year.
- -- Finally, there is the broader question of market access for both short term needs and capital improvements for future years.

I. MAC's Market Access

Two factors lead to concern about MAC's ability to raise $2 billion in August and September. There continues to be resistance to any security -- and particularly a security not bearing the full faith and credit pledge -- carrying the words New York. This resistance was reflected in the rather lukewarm response to MAC's first $1 billion offering; it will be compounded with respect to later issues by the sizeable quantities of MAC's debt already in the market.

Moreover, the fact that the state legislature must annually appropriate funds to meet MAC's debt service obligations is another source of concern. Unlike the typical "moral obligation" bond which requires a legislative appropriation only in the event the primary revenue source backing the debt is inadequate, MAC's enabling legislation requires annual legislative action merely to provide MAC with access to the money in the debt service fund specifically earmarked for debt service. Investors are naturally concerned that future political considerations -- even ones totally unrelated to MAC's activities -- may block or delay payments on MAC's debt.

Despite these very real problems, the consensus is that MAC will be able to market the additional $2 billion in August and September. It is likely, however, that the borrowing cost for these issues will be even higher than 9+% net interest cost of the first issue. Since MAC's debt service expenses directly reduce the City's revenues, these high borrowing costs are a basis for concern.

II. The City's Market Access

Even after MAC's $3 billion "contribution" is subtracted, the City's total short-term financing needs during the period October 1, 1975 - March 1976 will amount to approximately $4-5 billion. These amounts are required primarily to refund outstanding short-term debt and to finance the $1.6 billion capital budget (including some $700 million in operating expenses). Such capital financing must be done in the short-term market since, even under the most optimistic assumptions, there is no likelihood of the City having access to the long term market this year.

The ability of the City to raise these funds in the public market depends almost entirely on Mayor Beame's actions over the next 45-60 days. If his conduct is responsive to the market's judgment that

-- the payroll is too large;
-- wage and benefit levels are too high; and
-- the range of services is too broad --

then a market should exist in October. If not, another source of outside funds must be found or the City will default not later than late November or early December.

To quantify the budget picture, prior to late June, the City could identify approximately $11.95 billion in FY 75 - 76 revenues. Limiting expenditures to that level through lay-offs alone would have required a reduction in the City work force of approximately 50,000 employees.

Immediately prior to June 30, state legislative leaders granted the City $150 million in taxing authority. Again, looking only at the lay-off potential, this increase reduced the required lay-offs to 30,000.

Finally, on July 3, the legislative leaders agreed to increase the new taxing authority to $330 million. When taken with a possible $55-60 million increase in state aid to education, and additional state and Federal matching funds occasioned by the revenue increases, the "final" revenue level could be in the range of $12.35-12.40 billion.

Along with the general "flexibility" that exists in the budget, */ this revenue level would permit the Mayor to rescind all lay-offs in the uniformed services (police, fire, sanitation), leaving only some 4-8 thousand layoffs in the clerical, education and health areas. And Victor Gotbaum, president of the largest non-uniformed municipal union, has proposed, in return for rescission of all lay-offs in his area, that his members take their 1975-76 contracted wage increases in the form of new City short-term debt. Mayor Beame has tentatively rejected this proposal.

This analysis has focused on lay-offs largely because the City has not suggested any alternative approach to expenditure cuts -- e.g., wage freeze, tuition charges at the City University, etc. And it is becoming more clear that the Mayor, if left to his own devices, will avoid any meaningful reductions in expenditures through lay-offs or other means.

Simply stated, inattention to the expenditure side in the next few months -- irrespective of whether a "balanced" budget is presented -- will result in the continued unavailability of the public market in October and beyond. The market has made the same judgment we have -- namely that the City spends too much. Until the City cuts its spending level significantly, there is little likelihood of market access.

A fair question, however, is if the City in fact balances its budget, is the market's judgment too harsh? The fact is that the City's budget for FY 75-76 and later years is far from balanced in any meaningful sense. In evaluating the City's budget, the following factors, among others, must be considered:

- -- the City is continuously refunding a cumulative short-term borrowing load (created by past deficits) of at least $2 billion.
- -- some $700 million of operating expenses are in the capital budget (the MAC legislation requires that this practice be phased out over ten years).

*/ e.g. Approximately $200 million of the amount budgeted for debt is allocated to interest on notes maturing prior to September 30 and on notes which would have been issued by the now defunct Stabilization Reserve Corp. Assuming that MAC pays the interest on the maturing notes, all of these funds will be available for other purposes.

-- the City includes as budget revenues all employee pension fund earnings in excess of 4%, more than $100 million in FY 75-76, yet the pension funds are seriously underfunded.

-- the City includes as budget revenues all real estate tax liabilities, yet the delinquency rate grew to 7% in FY 74-75 -- the total delinquent amount may be as high as $500 million.

-- historically, the City's budget revenue estimate has substantial overestimated state and federal aid payments as reflected in the large, but incorrect, "receivables" shown in the City's annual statements.

-- historically, the City's budgets have shown estimated revenues on an accrual basis and expenditures on a cash basis; this practice has the general effect of overstating revenues and understating expenditures.

-- in FY 76-77 and beyond the City's sales tax revenues will be reduced by substantial amortization requirements on Big MAC debt.

Clearly, nothing the Mayor does in the next two months will alleviate all of these conditions. But the market is not asking for overnight miracles. What could reopen the market is an expenditure level of $12.1 - 12.2 billion and the application of the remaining "new money" (some $300-350 million depending upon the size of the cuts and the precise amount of the net interest savings referred to in the footnote above) to certain highly visible corrective steps. For example, the City could establish a reserve against tax delinquencies, leave all or a portion of the "excess" pension earnings in the funds, re-establish its "rainy-day fund" (a general reserve against contingencies), or remove a portion of the expense items from the capital budget.

Frankly, as implied by the above discussion, there is little indication that the City government, left to its own devices, is prepared to take such steps. It would appear that only the state -- through MAC -- is in a position to place any effective pressure on the City. MAC's ability to provide meaningful direction for the City is in turn dependent upon its awareness of the problems and its willingness to incur the political risks involved. At present, MAC has no staff and the Board itself is fully occupied with the problem of raising its own funds. Accordingly, at least on the basis of MAC's actions to date, there can be little optimism that MAC will provide the needed guidance.

Demands for a Federal Role

The key to restored access to the public market is the steps the City itself takes to restore market confidence. However, if the City is unable to sell its securities in the fall, we will again be confronted with demands for some form of Federal financial assistance to avoid a default. Moreover, at that time, a default would appear even more undesirable than it did in the spring. A default at any time would have long term adverse effects on the City's credit. However, in the spring it was at least possible that a default could have served as a catalyst for effective remedial action at the state or local level. The intervening months have served to lessen the catalytic potential of a default in at least two respects.

First, the City's failure to act over the intervening months will detract from the credibility of any action it might take on its own. Second, the formation of MAC has virtually exhausted the options available at the state level. In short, the market is likely to conclude that since the City and MAC were unable to take the necessary steps during the six month "grace" period they received, there is little reason to derive confidence from whatever hasty actions they may take following a default.

In addition, any demand for Federal involvement will probably be accompanied by a showing that some of the problems that New York City faces can legitimately be placed at the Federal doorstep. Mayor Beame has already begun to use argumentation to that effect. If a major crisis occurs, such argumentation will be accelerated. For example, the City can legitimately argue that the problems of illegal aliens and policing the United Nations are Federal responsibilities.

Recommendations

1. It is recommended that a joint Economic Policy Board-Domestic Council Review Group be established to monitor and study the problem of cities or major urban areas.

By generalizing the study to include all major urban areas, we can continue to monitor closely the New York City situation, yet avoid the political problems inherent in any direct attempt to pressure the City toward fiscal reform.

The agenda of such a Review Group could include:

-- Review of Federal fiscal initiatives that may be proposed such as:

(a) Federal Insurance for Municipal debt.

(b) Federal Guarantees of Municipal debt.

(c) Federal purchase of Municipal debt.

-- Review of existing Federal powers in the event of a major default in New York or any other city:

(a) Federal Reserve action.

(b) Use of the Disaster Relief Act of 1974.

-- Review of existing and potential Federal programs which may impact on the City's finances:

(a) Illegal alien problem.

(b) Cost of United Nations police.

(c) Public Assistance and Medicaid Administration.

(d) Improvement or speed up of Federal cash flows.

(e) Narcotics control.

(f) Scholarships and/or tuition assistance.

(g) Review of other Federally mandated standards and programs.

-- Review and consideration of direct or indirect Federal involvement in financial management improvements:

(a) Mediating or reviewing labor relations.

(b) Accounting improvements and reform.

(c) General management improvement assistance.

2. At the same time, recognizing the limited amount of time available before another crisis develops in New York City, it is recommended that the EPB establish a liaison with MAC with the objective of action by MAC to force the City to take reform measures.

As indicated above, any direct Federal moves in this direction would be counterproductive. Nothing would play more into the hands of the unions and the City Administration, which could claim -- to a highly responsive audience -- that the Ford Administration was threatening and bullying the City into actions designed to harm the low and middle classes.

However, MAC, if it moves quickly enough, does have the power to force changes. While its statutory authority is quite weak, between now and September its ability to withhold cash provides it with substantial leverage. As indicated above, however, to date MAC has not moved in this direction and there is no indication that it has plans to do so. The EPB should consider establishing contact -- probably on a private basis -- with selected MAC Board members and attempt to impress them with the urgency of the situation and the importance of MAC acting while it still has the financial leverage.

INFORMATION

THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: New York City Financial Situation

Here is a status report by Dick Dunham on the financial situation of New York City as it stands today.

This was prepared by Dick in consultation with Treasury officials and Bill Seidman.

Attachment

CC: The Vice President
Secretary Simon
Mr. Seidman

THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM TO: JIM CANNON

FROM: DICK DUNHAM

SUBJECT: New York City Financial Crisis

The purpose of this memorandum is to bring you up to date on the New York City financial crisis.

The central question was and is will New York City go into default, either in August, through the failure of Big MAC to market additional securities for the City, or later in the fall when New York City must market its own securities.

The first test will be on August 4 when the underwriting group headed by Chase Manhattan tries to organize for a sale on August 7. The success or failure of next week's sale is, therefore, the first hurdle.

Since this sale and any subsequent issues of New York City or Big MAC depend primarily on investor perception, as much as the actual accounting facts, the acid test is the credibility of the Mayor's actions to correct the enormous imbalances and accumulated deficits of the City's finances.

City Actions

The Mayor has taken, or is taking, a series of steps which, if actually put into effect, will have both a substantive fiscal effect of restoring balance and also a dramatic effect which will help to restore investor confidence.

The steps announced include a wage freeze, cuts in the City University budget, capital budget cuts, abolition of a few agencies, a $.15 subway and bus increase, and bridge toll increases. The value of these proposals to the current City budget is around $500 million. Whether or not this amount is sufficient to balance the current City budget and/or to restore investor confidence in New York City finances is, of course, unknown.

Two points in regard to these proposals must be kept in mind. First, they must be enacted and implemented by the Mayor and, secondly, the union rank and file and the general public must accept them before their impact can be completely evaluated.

That is, if the Mayor backs down or the City Council fails to enact the wage freeze or if there is a substantial disruption in city services by union member action, investor confidence will not be restored.

August Big MAC Sale

The underwriting group handling the August 7 sale of $1 billion in Big MAC bonds has of this time, Friday p.m., put together a tentative package which will provide the funds needed to cover the August cash flow needs of the City and to prevent default of the large note issue coming due on August 22.

The package includes $250 million by the banks, a $100 million rollover of August notes held by the banks, $120 million State welfare advance, $270 million in State pension fund investments and a $250 million public offering, of which insurance companies and other institutions will take a major part.

This package, however, cannot be characterized as a "successful underwriting" since only half of the issue is new public investment. The balance is an advance, a rollover and a State-controlled investment.

It can, therefore, be characterized as only a postponement, which is desirable, but neither a permanent solution nor an indication of investor confidence. If successful, it will prevent an August default and allow more time to evaluate the City's actions.

Broader Effects of Municipals

Treasury is monitoring and attempting to evaluate the spillover effect of the New York City situation on other municipals. At this time we do not see any other major city experiencing similar difficulties.

Other New York State agencies, including the Housing Finance Agency, may be experiencing difficulty and liquidity problems this month. In large part this is due to the publicity of the New York City situation and also because there is market recognition that a large portion of their cash inflows is from New York City and City projects.

Conclusion

The situation is still serious and tenuous, but there is cause for some optimism because of both the City's actions and the fact that there will likely be a sale of the second Big MAC issue, thus avoiding an August default.

THE WHITE HOUSE
WASHINGTON

August 1, 1975

MEMO TO: Bill Seidman

FROM: Jim Cannon

Bill:

If you have any comments, additions or changes, please let me know before the pouch closes at 3 p.m.

Jim,

Attachment

This looks good to me.

LWS

THE WHITE HOUSE

WASHINGTON

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The situation is still serious and tenuous, but there is cause for some optimism because of both the City's actions and the fact that there will likely be a sale of the second Big MAC issue, thus avoiding an August default.

fyi

THE WHITE HOUSE

WASHINGTON

File

8/06/75

JIM CANNON:

Attached are two copies of the pool report from Belgrade where the President remarked about New York City's future.

J. W. HUSHEN

August 4, 1975

POOL REPORT #8

The President at City Hall

A very brief description of this City Hall room. It is like City Hall rooms everywhere, about 60 by 50, 40-foot high ceiling, the usual collection of marble and lights and red drapes and 100 chairs or so. This is the usual stuff.

After the speech, the President and Kissinger, members of the official U.S. and Yugoslavian parties, went to a room beside the big chamber, and when the pool was admitted, they were seated in a circle. As the pool was admitted, we heard the President saying something about the Mayor of New York City. Then the President said -- and this is quotes -- "They don't know how to handle money."

You have to understand that the only person heard in this dialogue was the President. We could not hear the translation from the Yugoslav to the English. Continuing, the President, in direct quotes, "All they know how to do is spend it." This is to the City Fathers of Belgrade, headed by Zivorad Kovacevic, President of the City Assembly of Belgrade.

I have a request to start all over again. After the President delivered his formal speech, which I understand you heard, he and other members of the official parties went into a rear room, seated themselves in a circle, mineral water and other drinks were brought in. The President took a glass of mineral water. The pool was admitted as the President was saying something about the Mayor of New York City, and then the President said, in a dialogue, "They don't know how to handle money."

Continuing direct quotes from the President, but in this broken conversation, "All they know how to do is spend it. I am sure Belgrade" -- and then he kind of laughed a little bit, and he said -- "I can't say that about New York City." Continuing the quotes, "It has been building up for ten or 12 years. Finally the banks and others just would not finance them. They have been pressing me to give them money, but everybody says no until they get their management straightened out."

One of the Yugoslavian people then said something about how tough it is being the Mayor of a big city, and the President said, "It is a hard, hard job." Then the dialogue kind of lapsed. Among other things he said was, "Do you have a subway system here," and "Are you hemmed in in Belgrade by geographical boundaries?"

I think this is an interesting bit. Laurence Silberman, the U.S. Ambassador, said,"Mr. President, they have a technique for raising money in Belgrade -- overcharging Embassies for purchases." That tactful remark was greeted by the President with kind of a small laugh.

MORE

Then the Yugoslavian people started to talk about their own problems, and the President said such things as, "Blame all your troubles on them." At this point they brought champagne in and nobody really seemed to drink it, but they all got up, they walked out the door to a bus.

The President, instead of getting into his limousine, worked the driveway for about three or four minutes. He got in his car, drove three or four minutes to a square, Terazije Square, a major shopping area. He got out of the car and worked the crowd there for three or four minutes. Then they got into the limousine and in fairly quick speed went to the old palace, where they were when the pool left, awaiting the arrival of Tito.

My information is based upon an English language copy of his speech, which says the address of Mr. Zivorad Kovacevic, President of the City Assembly of Belgrade, and it was given to us there by the Yugoslavians. That ends this pool report.

Larry O'Rourke-Philadelphia Bulletin

# # #

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MORE

Then the Yugoslavian people started to talk about their own problems, and the President said such things as, "Blame all your troubles on them." At this point they brought champagne in and nobody really seemed to drink it, but they all got up, they walked out the door to a bus.

The President, instead of getting into his limousine, worked the driveway for about three or four minutes. He got in his car, drove three or four minutes to a square, Terazije Square, a major shopping area. He got out of the car and worked the crowd there for three or four minutes. Then they got into the limousine and in fairly quick speed went to the old palace, where they were when the pool left, awaiting the arrival of Tito.

My information is based upon an English language copy of his speech, which says the address of Mr. Zivorad Kovacevic, President of the City Assembly of Belgrade, and it was given to us there by the Yugoslavians. That ends this pool report.

Larry O'Rourke-Philadelphia Bulletin

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N.Y. City

AID TO CITIES

Q. Many of the nation's older cities are in serious trouble, with an eroding tax base, and rising costs. New York City is the foremost example. Do you believe the federal government has any responsibility to these cities, and if so, what would you propose doing to help restore their health.

A. The federal government does, of course, have a responsibility for the health and welfare of all the citizens of this country, including those who live within the cities.

The federal government's relationship historically and legally is with state governments. The federal government has and will continue to work with state officials in any legally acceptable and responsible way to help maintain the health of the urban areas.

Specifically, in regard to New York City's financial problems, the Secretary of Treasury and his staff are monitoring the fiscal and monetary implications of New York City's debt financing problems and will continue to do so.

RLD 8/15/75