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MEETING WITH PRESIDENT/MAYORS
Wednesday, September 24, 1975
3:30 p.m.

Cabinet Room

THE WHITE HOUSE

WASHINGTON

September 23, 1975

MEETING WITH THE EXECUTIVE COMMITTEE
OF THE U.S. CONFERENCE OF MAYORS

Wednesday, September 24, 1975
3:30 p.m. (30 minutes)
The Cabinet Room

From: Jim Cannon

I. PURPOSE

To fulfill the request of Mayor Landrieu (D), New Orleans, President of the U.S. Conference of Mayors, to discuss the New York City financial situation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

Mayor Landrieu has generally been supportive of your Administration and was recently elected the President of the U.S. Conference of Mayors. In making this request to meet with you, he indicated that the Executive Committee would be seeking your support for some kind of Federal assistance of a sufficient magnitude to prevent New York City from default.

They are not likely to be unanimously in favor of direct Federal assistance to New York City, although we expect all of the Democratic members of this group to take a unified stand.

In our discussions with Mayor Landrieu, he has indicated that they would likely raise several points:

--Special legislation for New York City as well as other cities in the form of a direct loan or guarantee may be proposed by the Mayor's Executive Committee. This loan would in their minds be similar to the assistance given Lockheed.

--They may propose new legislation creating Federal insurance for municipal bonds. They may also suggest further involvement by the Federal Reserve System above and beyond its present lending activities in order to assist cities in need.

It is our understanding that Mayor Beame will meet with the New York State Congressional delegation at noon today and may present a specific legislative proposal to aid New York City.

A number of the members of the Executive Committee were present on July 10 at a White House meeting to discuss General Revenue Sharing. At that time, at the urging of the Mayors, Secretary Simon indicated that we would take another look at the pending countercyclical fiscal assistance legislation. Thereafter, you reviewed a decision paper and decided not to change your position. That decision has not yet been publicly announced. Under that Bill, New York City would receive an additional $137 million which is not sufficient to solve the City's problems.

B. Participants

See Tab A.

C. Press Plan

To be announced with pictures taken at the beginning of the meeting. Moon Landrieu and Ralph Perk to brief the press in the Press Briefing Area after the meeting.

III. TALKING POINTS

-- It is recommended that you open the meeting reviewing with those present the fact of your previous meetings with Governor Carey and Mayor Beame jointly and separately, along with other leading officials of the State of New York who have been working on the solution to the City's financial problems.

-- At my last meeting with Governor Carey, I expressed concern and requested Secretary Simon and Bill Seidman to monitor the New York City situation.

-- When I met with Mayor Beame and Governor Carey in May, I made certain suggestions for a solution, and I am encouraged by the fact that there is a joint City and State effort to avoid a default.

-- I understand the Emergency Board is to submit a financial and program plan designed to solve the problem of investor confidence in mid-October.

-- In all these meetings, my position has been that the Federal government should not provide assistance such as direct loans or loan guarantees. A rough estimate of direct and indirect Federal outlays to New York City for FY '76 is approximately $3.5 billion.

-- I know that you gentlemen as Mayors of America's major cities are deeply concerned about this problem and while we may not agree on the correct course of action to take, I share your concern.

-- I understand that you have some ideas which you wanted to express to me, and I would ask Moon Landrieu to open the meeting and give us his thoughts.

PARTICIPANTS

A. Mayors - U.S. Conference of Mayors, Executive Committee

President
Moon Landrieu (D), Mayor of New Orleans, Louisiana

Vice President
Kenneth A. Gibson (D), Mayor of Newark, New Jersey

Past Presidents
Joseph L. Alioto (D), Mayor of San Francisco, California
Henry W. Maier (D), Mayor of Milwaukee, Wisconsin
Jack D. Maltester (D), Mayor of San Leandro, California

Trustees
John J. Buckley (D), Mayor of Lawrence, Massachusetts
Richard Hatcher (D), Mayor of Gary, Indiana
William McNichols (D), Mayor of Denver, Colorado
Ralph J. Perk (R), Mayor of Cleveland, Ohio
Carlos Romero Barcelo (R), Mayor of San Juan, Puerto Rico
George M. Sullivan (R), Mayor of Anchorage, Alaska
Kevin H. White (D), Mayor of Boston, Massachusetts

Advisory Board Chairman
Lee Alexander (D), Mayor of Syracuse, New York

Urban Economic Policy Committee Chairman
Coleman Young (D), Mayor of Detroit, Michigan

Abraham D. Beame (D), Mayor of New York City, New York

B. Administration

Donald Rumsfeld
Robert T. Hartmann
William Seidman
Alan Greenspan
Jack Marsh
James Cannon
Director of OMB, James Lynn
Undersecretary of the Treasury, Edward Yeo
William Simon
James Falk
Patrick Delaney
Rod Hills
Max Friedersdorf
Ray Shafer

Mr. Delaney

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: Paul H. O'Neill

SUBJECT: Federal Assistance to New York City

About a month ago OMB did a fast survey of Federal grant programs that will provide assistance to New York City in fiscal year 1976. The results of the study are summarized below.

Before using the figures -- if you do -- you should know the caveats that go with them.

° The survey was done hastily to meet a short deadline. Consequently,

  -- only major programs were included, and

  -- the figures are rough estimates.

° The figures do not reflect the fact that Federal assistance is provided in many different ways. For example, some require matching funds while some do not, and some go through States while some go directly to the City. Knowing the effect of changes in the amount of Federal assistance requires knowing how the assistance is provided in any particular case.

° Obtaining solid, reliable figures on aid to specific cities, even large ones, would require a massive, costly study.

The survey indicated that Federal assistance payments to New York City in fiscal year 1976 will be in the vicinity of $3-1/2 billion. The distribution of these funds among programs is expected to be roughly as is shown on the attached table.

Attachment

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Rough Estimate of Direct and Indirect
Federal Grants to New York City
in Fiscal Year 1976
(in millions of dollars)

		Amount
Payments to individuals:		
Medicaid	1,115	
Public assistance (cash)	657	
Food and nutrition	135	
All other	137	
Subtotal		2,044
Education and manpower		408
General Revenue Sharing		263
Transportation (mostly mass transit)		203
All other (community development, waste treatment facilities, debt service contribution to housing authority, etc.)		582
Total		3,500

MEMORANDUM

OFFICE OF THE VICE PRESIDENT

WASHINGTON

Mr. Cannon:

This is from Pat Delaney -- he wanted you to see it as soon as possible.

PRESENTATION TO PRESIDENT GERALD FORD

ON NEW YORK'S FINANCIAL CRISIS

September 24, 1975

STATUS OF NEW YORK CITY AND STATE FINANCING

Financial Plan

New York City is presently operating under a 90-day $2.3 billion emergency financing plan enacted by the State Legislature on September 8, 1975. This plan, which extends the State's financial credit to its own credit limits, consists of the following:

1. $750 million loan from the State to City through purchase of Municipal Assistance Corporation (MAC) bonds.

2. $250 million bank purchase or underwriting of MAC long-term bonds.

3. $1,005 billion purchases of MAC notes by various State and City pension and insurance funds and City sinking funds.

4. $156 million rollover of City securities by commercial banks.

5. $150 million in prepayment of City real estate taxes.

Emergency Control Board

The legislation also established an Emergency Financial Control Board of seven members (the Mayor, the Governor, the State and City Comptrollers, William Ellinghaus (Pres., N.Y. Telephone); Albert Casey (Pres., American Airlines); and David Margolis (Pres., Colt Industries). The Board is empowered to estimate the revenues of the City and approve a financial plan. In addition, the Mayor must present to the Board a revamped three-year budget plan which would be in balance for fiscal year 1978 under an expenditure ceiling of a 2% growth on controllable items.

New York State has now extended itself to the limits of its fiscal capabilities. According to Standard and Poor's "...While its (the State's) maneuvers up to now appear to be within its financial capabilities, any additional efforts most certainly will strain the State's resources, have a compromising effect on its fiscal integrity and jeopardize its double-A high grade credit rating." It praised the State's "heroic attempts" to stave off default, which "should be well appreciated by all."

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Timetable

The State financing plan carries through November 30th. From then on the City must reenter the market on its own. We have a cash now need of $400 million for December, $1.36 billion in January, with an additional $1.82 billion needed in notes issued before the end of this fiscal year.

MAJOR CHANGES IN NYC BUDGET AND MANAGEMENT

At the last White House meeting, it was suggested that New York City should raise the subway fare and institute tuition at the City University. Although neither of those actions are within the power of the Mayor, both have been acted upon. In addition, other major steps have been taken at the direction of the Mayor to institute changes over a short period of months that would normally take years to accomplish.

1. There has been a $1 billion cut in services in this year's budget, of which $400 million is due to layoffs.

2. There has been a wage freeze instituted for all employees.

3. There is a firm commitment to a ceiling on expenditures with no increases in taxes.

4. A new Mayor's Management Board has been established to recommend changes in the City's administrative process and to develop greater productivity. The Board is composed of major corporate executives and chaired by Richard Shinn, President of Metropolitan Life Insurance.

5. A Temporary Commission on Long Term Financing has been established by the Mayor, composed of leading experts in urban policy and financing, to develop methods of financing for the City in the future.

6. There is under way a major reorganization of City agencies, including dismantling of the so called "super" administrations, and in some cases the elimination of entire departments.

7. A new accounting system is being implemented to conform to the State controller's Manual.

8. Items appearing in Capital budget appropriations for operating expenses are being shifted back to the regular operating budget.

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9. The Metropolitan Transit Authority has raised the fare to $.50, more than a 43% increase.

10. Although the Board of Higher Education has voted to retain a free tuition policy, the equivalent City tax levy funds for the City University has been cut $32 million by the Mayor. An additional $32 million reduction takes place from State funds because the aid program has a matching requirement.

11. In addition, a new Deputy Mayor for Fiscal Affairs has been appointed by the Mayor. Ken Axelson, Vice-President of J. C. Penny has joined the City to develop the fiscal plan to be presented to the Emergency Financial Control Board and to be in charge of all fiscal matters for the Mayor.

FUTURE FINANCING PROBLEM

New York City's expense budget for this year and the following two years must, by the new Statelaw, be limited to a 2% growth, except for uncontrollable items, and be in balance.

In spite of all these measures - and according to many, if not most,bankers, financiers, and economists - no matter what additional cutbacks are instituted, there is a grave question as to whether New York City will be able to reenter the public market in December or January.

Therefore, Federal legislation is needed for the City to be able to market its securities on its own.

Even if the City was compelled to default, and for the sake of discussion it had no adverse affect on the country's economy, New York would still have to finance necessary payments for minimum daily expenses for police, fire protection, education, health and other vital services. Therefore, the Federal government would be faced with the same decision after a default, as it faces today. Since there is at least the possibility that a default by the City and State will have an adverse economic

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effect on the nation's recovery program, and since the Federal government will in any case be faced with the same need for financial support for the City, it is logical and practical for such intervention at this time. Waiting until after a default by the City and possibly the State, would compound the overall problem and probably require a larger Federal role than would be necessary at this time. Clearly that was the case with the Penn Central, where bankruptcy not only did not solve their problems but required federal loan guarantees several months later. In addition, the Federal government is still supporting the financing of the rail system.

Presented today are two proposals which would provide the City with the necessary support. Each contains strict limitations concerning application for assistance and would therefore be directed only to those cities, counties, states and businesses which are vital to our economy and cannot obtain credit from the private sector, or from a higher level of government.

OUTLINE OF PROPOSED LOAN GUARANTEE LEGISLATION

New York City needs some kind of guarantee for its notes and bonds in order to reenter the financial markets-whether it be the tax-exempt or taxable market. One possible solution would be a Lockheed-type loan guarantee for which legislation is necessary. Any such bill should include the following points:

1. It would be beneficial for the rest of the tax-exempt market to have such guarantees only for taxable obligations (such as contained in the Housing and Community Development Act of 1974). This would prevent New York from being placed in a position superior to other local governments remaining in the exempt market. It would also close a significant tax shelter, i.e. MAC bonds at 11% tax free. Finally, it would provide relief for a "tight" tax-exempt market by removing for a period of time, its largest borrower.

2. In order to receive guarantees any City would have to meet

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several important criteria, including:

a. Non-availability of credit from the private sector or from the State:

b. Evidence that revenues are sufficient to cover repayment of principal and interest;

c. Evidence that budgets will be balanced by real revenues for a number of years;

d. That only full faith and credit obligations would be eligible for guarantees. This would ensure that the Federal government would have first call on all revenues in the case of a default.

3. There should be the option of providing an interest subsidy for the taxable obligations in order to lessen the burden of debt service costs, a significant part of the City's budget. Previous studies by the Treasury Department show that such a subsidy would actually cost the Federal government less than allowing the security to remain in the tax-exempt market.

4. There should be a clear statement that this in no way endangers the tax exempt status of obligations issued by local governments which are not seeking such guarantees.

OUTLINE OF PROPOSED RECONSTRUCTION FINANCE CORPORATION (RF

An alternative proposal to direct loan guarantees for taxable notes would be the creation of a 1975 version of the Reconstruction Finance Corporatio (RFC). This mechanism, which assisted businesses and local governments during the Depression Era with more than $50 billion in loans and loan guarantee has received much support during the past eighteen months.

Such an RFC bill should include the following points:

1. The program should be for all eligible cities and businesses and not limited just to assist New York City.

2. Such assistance should preferably be in the form of direct cash loans, at a favorable rate of interest, to the applicant. The Treasury Department seems opposed to guarantees of obligations because it would make Federal securities more difficult to market, which is particularly important when the Federal deficit is so large. It is felt that a direct cash loan would be less inflationary since the Treasury would be able to decide when to issue financing for the loan and could apread the payments over a period of time more advantageous to the financing of the Federal debt.

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GERALD R. FORD LIBRARY

is costing. This would contrast greatly to back-door financing whose impact on fiscal matters is difficult to determine.

4. Although the grant of authority to the RFC by the legislation should be broad, it should also be clear in its mandate concerning terms for granting of assistance. Balanced budgets, full faith and credit of the borrower, and other criteria would have to be strictly enforced. If these criteria were strong enough, the number of applicants for assistance would be limited to only those in emergency need of the RFC's help.

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THE VICE PRESIDENT

WASHINGTON

September 10, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: THE VICE PRESIDENT

SUBJECT: Public Forums on Domestic Policy

Attached is the plan for conducting the Public Forums on Domestic Policy, administered by the Domestic Council. The plan proposes:

- One-day meetings in six cities with specific dates and locations listed. (Four additional cities optional.)

- At each Forum, a three-hour morning session would be held with the Vice President chairing. Following the morning session, the participants would divide into four groups along the following major policy areas:

  Social Programs
  Jobs and the Economy
  Resources and the Environment
  Community Development, Transportation, and Housing

- Testimony from solicited persons representing a broad cross-section of opinion and interests.

- The Forums be announced by the President and the Vice President following a Domestic Council meeting during the week of September 22.

Attachment

THE WHITE HOUSE

WASHINGTON

September 10, 1975

MEMORANDUM FOR: VICE PRESIDENT

FROM: JAMES M. CANNON

SUBJECT: Public Forums on Domestic Policy

I. OBJECTIVES

To conduct a series of six or more meetings, geographically distributed, to:

- Outline what the nation is facing with regard to Domestic Programs;
- Obtain public input in the development of Presidential options;
- Assist the President in formulating his legislative recommendations and initiatives to the Congress in the 1975 State of the Union message.

II. FORUM FORMAT

Each Forum will be a one-day meeting, consisting of the following elements:

A. A morning session of approximately three hours would be chaired by the Vice President with Cabinet members and other Federal officials participating. The Vice President would open with introductions and brief remarks. The balance of the morning would be divided into time for a discussion of four major domestic policy areas. Two or three witnesses would be asked to present five-minute testimony on issues relating to social programs, the economy, resources, and subjects of interest to the area such as housing, transportation, etc. Following the presentation of testimony for each segment, the witnesses could be questioned by the Vice President and Federal officials. A portion of the time could also be made available for public participation.

B. Following the morning session, four separate, simultaneous meetings would be held to continue the discussion of the four major policy areas. These would involve:

1. A Cabinet level official would serve as chairman and would be backed up by repsentatives from appropriate Federal agencies, including the Domestic Council.

2. Selected individuals, representing a cross section of interests and opinion, would present testimony on pre-determined subjects. Each witness would be allowed up to five minutes for testimony, or to summarize a more comprehensive statement.

3. Total seating for each of the four meetings will be approximately 125 persons. Fifty to seventy-five seats will be reserved for the witnesses and support personnel; the remainder will be available to the general public on a first-come, first-served basis.

4. Vice President will rotate among the four meetings, dividing his time equally.

5. Opportunity for submission of written statements from the public.

6. An informal buffet luncheon for the Federal officials, invited participants, and selected State and local officials, hosted by the Cabinet member who would be serving as chairman, could begin the afternoon sessions.

III. DATES AND LOCATIONS

Tuesday, October 21	Denver, Colorado*
Tuesday, October 28	Kansas City, Mo.*
Tuesday, November 11	Austin, Texas
Tuesday, November 18	Philadelphia, Pa.*
Monday, December 1	Nashville, Tennessee
Tuesday, December 9	Los Angeles or Sacramento, California

* Locations of Federal Regional Offices

ossible additional cities (dates not currently available in Vice President's schedule):

Tampa/St. Petersburg, Florida
Springfield, Illinois
Hartford, Connecticut
Albuquerque, New Mexico

NOTE: The Vice President should not be scheduled to participate in any political activities in conjunction with the Forums.

IV. CONFERENCE ISSUES

The Forums will focus on four major domestic policy areas:

- Social Programs (welfare, health, etc.)
- Jobs and the Economy (manpower programs, inflation, etc.)
- Resources and the Environment (raw materials, agriculture, etc.)
- Community Development, Transportation, and Housing

The issues could vary according to regional interests. Under each general policy area specific issues will receive focus through the scheduling of witnesses. For example, welfare reform can be a discussion issue through scheduling witnesses concerned with that subject for a block of time; the same with health care, etc.

V. PARTICIPANT SELECTION (WITNESSES)

Participants will be selected from recommendations received from: State and local officials; labor, business, consumer groups and similar key constituencies; local Federal officials (Regional Offices); White House lists. Congressional recommendations, though not solicited, will also be considered.

A limited number of witnesses will come from State and local governments in the region covered by each Forum.

Members of Congress from the region covered by the Forum will be briefed on the purpose and plans of the Forum by the Congressional Liaison office. Although not specifically invited to the Forum, Members will be welcome to attend, as observers, and will receive appropriate introductions.

VI. ANNOUNCEMENT STRATEGY

A. During the week of September 22, the Congressional leadership should be briefed at a session with the President.

B. During the same week, the President would call a meeting of the Domestic Council, at which time he describes the program. Immediately following the meeting, the President and Vice President should adjourn to the press room. The President would announce his decision to direct that the hearings be held. The Vice President would brief the press about the purpose and scope of the hearings.

C. It is important that a distinction be made between the Public Forums on Domestic Policy and the White House Conferences on Domestic and Economic Policy. In order to avoid confusion, it is recommended that the White House conferences be suspended during the period when the Forums are scheduled.

D. Cooperation from the departments and agencies represented on the Domestic Council to provide personnel and financial resources for these Forums is essential. It will be necessary to utilize Regional Office personnel in the cities where the Forums will be held.

STATEMENT

Adopted by the Effective Government Steering Committee of the National League of Cities

September 19, 1975

The Steering Committee on Effective Government of the National League of Cities supports the City of New York and New York State in their individual and collective efforts to address their current financial emergency. It is imperative that the public be confident that their cities and states, faced with such problems, will exhaust all measures within their control to solve them.

It is the hope of the nation's cities that the plan devised by New York City and New York State will be successful.

Congress and the Administration should be prepared to assist a municipality to obtain needed credit during a financial emergency only if it is apparent that the municipality and its state government have exhausted all constitutional, legal and fiscal remedies available under their respective authorities. Assistance measures which may be appropriate in a financial emergency, should not be made a permanent feature of Federal policy with regard to municipal bond financing.

The federal and state governments should act to lessen the likelihood of other financial emergencies and reduce the stress on municipal budgets by vigorously carrying out a balanced anti-recession campaign. And for the longer term, the Federal and state governments must do their part to eliminate the underlying causes of many of the financial problems of our cities by developing and implementing a national urban policy that protects the nation's investment in its urban resources.

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1.304 MUNICIPAL BOND FINANCING

A. IMMUNITY OF MUNICIPAL OPERATIONS FROM FEDERAL TAXATION

The immunity of state and local governments and their agencies in the exercise of their legitimate functions from federal taxation is necessary for the preservation of our constitutionally delineated dual sovereignty form of government. Local self-government would not survive if the federal government could arbitrarily influence local policy by penalizing certain local activities through federal taxation while rewarding other activities through tax exemptions. The immunity of state and local activities from federal taxation must be uniform and cannot be challenged.

The immunity of municipal securities from taxation by the federal governments must be maintained. Any ruling by the federal Treasury denying such exemption should be countermanded by the Congress through authorized judicial review.

In addition, the mandatory reciprocal exemption of interest on federal debt obligations from state or local taxation requires similar full exemption of interest on all state and local debt obligations from federal taxation.

B. BROADENING THE MARKET FOR MUNICIPAL BONDS

~~Alternate proposals for the federal government guarantee and/or subsidy of Municipal Bonds -- to induce the issuance of taxable bonds by local governments -- fail to recognize the constitutional rights of states and their legal local instrumentalities to participate in bilateral approval of such subsidy proposals. Such action by the federal government tends to constrict the market for local government securities as investment instruments. Any proposal that adds to the financing costs of local government is adverse to the role of local government in the federal system and restricts its ability to provide responsible local services~~.

The demands for capital improvements at the local government level should not be inhibited but supported by the federal government in the dual partnership required to address the maintaining and rebuilding of the accesses to a better urban life quality. The federal government in its fiscal policy should not tamper with the immunity of local government obligation from federal taxation unless it can guarantee self-determination to local government to act independently on matters of purely local concern.

If alternative financing mechanisms are considered by the Congress, any such mechanisms must offer the same or improved advantages to cities as cities now enjoy through the use of the tax exempt security. Other criteria against which such proposals must be judged include the following:

A. Any new financing mechanism must work within the frame- work of our federal system assuring protection for cities from fiscal or other policy domination by the federal or state governments. It must preserve the ability of cities to act independently on matters of purely local concern.

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B. Any financing mechanism should offer cities at least as much financial advantage as cities presently enjoy by virtue of the tax exempt feature of their securities.

C. The working elements of any financing mechanism must be automatic, irrevocable and enforceable in a court of law.

D. The choice of use of any available financing mechanism must be solely at the option of the user. Moreover, new financing mechanisms must not be viewed as a way to reduce, directly or indirectly, the value of or terminate the tax exempt features of municipal securities; we support Congressional enactment of such financing mechanisms only if the proposal fully meets these criteria and only if the right and option of municipalities to issue traditional tax exempt securities is irrevocably preserved.

E. The administration of any financing mechanism must not subject the user to administrative or other delay that would jeopardize the ability of the user to gain maximum financial advantages in financing costs.

Local governments are strongly opposed to the establishment of "Federal Banks" which purport to sell their own securities and purchase local government bonds, whether or not issued pursuant to a federal grant program. In addition, municipal governments oppose federal government guarantees or insurance of tax-exempt or taxable municipal bonds.

The federal government should not submit the local government authority and its bond issuance procedures to the jurisdiction of the private security regulatory bodies and should enact such legislation as will provide for a broadening of the market for local government tax exempt bonds.

A. Further, Congress should permit regulated investment companies to distribute the tax-exempt interest on local bonds to their shareholders without loss of the tax exemption;

B. Congress should assist in the broadening of the market for local government Revenue Bonds by authorization for commercial banks to underwrite Revenue Bonds.

C. LOCAL FINANCIAL EMERGENCIES

Congress and the Administration should be prepared to assist a municipality to obtain needed credit during a financial emergency only if it is apparent that the municipality and its state government have exhausted all constitutional, legal and fiscal remedies available under their respective authorities. Assistance measures which may be appropriate in a financial emergency, should not be made a permanent feature of Federal policy with regard to municipal bond financing.

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