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[1976]

She is an interesting  
combination of social "liberal"  
now become economic  
"conservative".

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~~Vide~~ CONSERVATIVE POPULIST



THE WHITE HOUSE  
WASHINGTON

February 5, 1976

*Suby  
MPC*

MEMORANDUM FOR:

BOB GERARD *JMC*

FROM:

JIM CANNON

This is our understanding of the impact of the proposed New York State budget on the City of New York.

Attachment



IMPACT ON NEW YORK CITY OF GOVERNOR'S BUDGET CUTS

New York City '76 Fiscal Year  
(Ends June 30, 1976)

Cut in Revenue Sharing	\$52.5 million
Cut in Sewage Plant	<u>4.4 million</u>
TOTAL:	\$56.9 million

New York City '77 Fiscal Year  
(Ends June 30, 1977)

Revenue Sharing Cut	\$86.0 million
Education Aid	29.3 million
Health	1.8 million
Drug Addiction	3.8 million
Probation	1.0 million
Housing Code Enforcement	<u>1.2 million</u>
Subtotal:	\$123.1 million

Less Two Increases:

Medicaid	\$4.7 million
Foster Care of Children	<u>7.0 million</u>
Total:	11.7 million
	<u>-11.7 million</u>

TOTAL: \$111.4 million



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# New York State's Debt Problems

By JAMES RING ADAMS

ALBANY, N.Y.—Is New York State going the way of New York City?

The question weighs heavily on this capital's financial officials as they hurry to conclude a highly complicated series of negotiations to arrange the state's annual short-term "spring borrowing."

New York State will have to raise nearly \$4 billion in the three months beginning with April from the financial market or other sources. Financial observers worry that it might not make it.

Although state officials are beginning to project optimism, practically every step of the way is filled with uncertainties. Arrangements for the borrowing hinge on an intricate series of four- or five-cornered negotiations, depending heavily on loans from state employees pension funds.

Progress reports late last week indicated that the 11 New York Clearing House banks had tentatively agreed to buy \$1 billion of the state's short-term notes for their own accounts. With state pension funds ap-

proportionately willing to take them, the state is still sound, since its total revenue for the year will exceed its short-term debt by two-and-a-half times. This figure, however, is a low point for the last 12 years; over that period the average backing has been twice as high.

These figures for "full faith and credit" borrowing, though, exclude the most pressing problem of all—the state's "moral obligation" agencies. One of these autonomous bodies, the Urban Development Corporation, actually went into default briefly, and

*Although state officials are beginning to project optimism, practically every step of the way is filled with uncertainties.*

providing off its notes out of tax revenues rather than directly from new borrowings.

The new short-term debt that must be issued each year, however, has substantially increased, to \$3.66 billion this year. State Comptroller Arthur Levitt argues that

The maneuvering on the moral obligation agencies, however, is only the opening round. Mr. Levitt must also convince investors that his own short-term borrowing is as legitimate and soundly based as he says it is.

The bulk of the borrowing, some \$2.5 billion, will cover the customary state aid to localities for education, social services, and the like. Because of local aid payments, Albany disburses 47% of its yearly expenditures in its first quarter, but it collects only 17% of its revenue in the same period. The borrowing for this purpose is at the same level this year as last, although it's up from \$1.4 billion in fiscal '75. (In fiscal '72 and '73, this short-term borrowing hovered around \$2 billion.)

## Two Bulky Items

The total spring borrowing this year, however, has been swollen by two additional items, a deficit in the current budget and aid to New York City. The spring borrowing includes nearly \$800 million needed to cover an advance to New York City that was first given as emergency aid last

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CLARK JR.

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only—reason for er, was a handful ojects. The Berk-an to acquire e and the Pittsfield

HIGHLIGHTS OF THE SENATOR PROXMIRE HEARINGS  
ON NEW YORK CITY

April 1-2, 1976

Secretary Simon

The Secretary was the most optimistic of all speakers. He said that there was a "reasonable prospect" that the City would repay its \$1.26 billion loan by June 30, 1976 and he had a degree of "cautious optimism" about the City's ability to reach its three-year goal.

Apparently the Secretary has been impressed by the City's cutting out more than 44,000 jobs, coming up with a new three-year financial plan, submitting every required report on time, and developing a new top-level management team (Zuccotti, Axelson, and Kummerfeld) in City Hall and Ives and Clifford in the City Comptroller's Office).

The Secretary warned that even though a battle was apparently being won, a long war remains. He specifically cited such problems as the Health and Hospitals Corporation; Transit; Employee benefits, (especially pension funds); welfare; and City University as well as factors beyond the City's control, such as unemployment, inflation, and State and Federal aid.

Governor Carey

The Governor had no doubt as to the City's ability to repay its Federal loan by June 30, 1976.

Governor Carey's statement reflected reasonable confidence that the City would also be able to balance its budget by 1978-79 assuming continuation of progress to date and barring major unforeseen developments.



The Governor was generally satisfied with progress but conceded that not all plans had worked out as expected but that alternative ways were being substituted to make sure the overall 1978 goal was reached.

The Governor put much emphasis on:

1. The Basic economic problems of New York and the other northeastern states and how they could markedly affect New York City's financial plan.
2. The importance of welfare being nationalized -- to deal with a nationwide problem -- which would also "solve" much of New York City's problem.

#### Mayor Beame

The theme of Mayor Beame's statement was that the Federal loan would, without question, be repaid on time and that unless the City got some bad breaks, there was reasonable assurance that the City would make its goal of a balanced budget by fiscal 1978-79.

The Mayor repeatedly made clear that the progress to date (firing 44,275 people, for example) indicated that the City would achieve its 1978 goal. "We have no discretion," he said, "we must do it."

In the questioning, the Major conceded that some planned savings were lagging but he insisted that the City would catch up -- and would make other savings where necessary to compensate for slippages.

Under close questioning the Mayor conceded that "rich" employee benefits were an important problem. He said he was handicapped in making major savings (pensions are constitutionally guaranteed, for example) but he would attempt to negotiate other savings in other employee benefits.



Many, many other points were made in the two and one-half hours the Mayor was on the stand.

Elmer Staats, U.S. Comptroller General

Elmer spent much of his time in raising questions about factors which may make it difficult for the City to "make" its 1978 goal. The Chairman tried to get him to say that the City's chances of reaching its goal were "poor" but Elmer conceded only that consideration of the City's plan should realistically include all factors, favorable or unfavorable.

Among Elmer's important points were these:

1. Can the City handle the big problems it will have after June 30, 1978 (debt service, employee demands, and so forth)?
2. Will the wage freeze hold?
3. Will additional pension contributions be needed?
4. What economic developments may threaten the City's plan?

Sidney Schwartz, Arthur Levitt's Deputy for New York City

Although I did not hear Schwartz, I have his statement. In it he claims that the City is not on schedule with its 1975-76 revenue collections or savings. His statistics are convincing -- and at least some of them may be right. Abe Beame believes that the City will keep "on line" -- and be on schedule by June 30, 1976.



Schwartz does not seem to be convinced that the City will make its 1978 goal because it is behind schedule now and he believes that there are many risks in the 1976-77 and 1977-78 financial plans.

City Club (Joel Hartnett and Burton Marks)

The City Club's statement, which I have but did not hear, is somewhat intemperate and not really constructive.



THE WHITE HOUSE  
WASHINGTON

April 6, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR : JIM CANNON  
FROM: JIM CONNOR *JEC*  
SUBJECT: New York City

The attached notebooks were returned in the President's outbox with the request that they be returned to you.

Attachment  
Report on New York City 3/24/76  
Report on New York City 3/17/76



THE PRESIDENT HAS SEEN.....

*GRY*

March 17, 1976 Report

on

New York City



## SUMMARY

1. Semipermanent "Moral Obligation" Agency solution worked out.
2. Agreement reached on Governor Carey's 1976-77 Executive Budget.
3. Abe Beame gets "tough" with City University.
4. New Plan to close added gap of \$297 million delayed.
5. Slow Progress being made on City Equalization and Assessment Problem with Dick Wiebe, Chairman of the State Board of Equalization and Assessment.
6. Governor Carey gives Rohatyn and Elish of MAC (Municipal Assistance Corporation) a tax structure assignment.
7. Kinzel Pension Reform Program draws fire.
8. In Summary. Repaying the Federal loan by June 20, 1976, should not be a problem. The chances of the City reaching its goal of a balanced budget by July 1, 1978, without new State and/or Federal aid are about one in three or four.



March 17 Report on New York City

1. Semipermanent "Moral Obligation" Agency Solution Worked Out

- A. On March 15th, the Assembly voted the last of the bills in the Agency package that were necessary to stave off default as of that date. According to Dick Wiebe, the weekend story about agreement having been reached was probably planted by Carey's budget director to force a reluctant Stanley Steingut to act on Monday.
- B. But a major part of the Housing Finance Agency housing part (up to \$500 million) of the package involving HUD remains to be finally negotiated. Discussions are continuing and progress is reported. To "save" the program, agreement should be reached by April 15th and must be reached by June 30, 1976.
- C. When agreement with HUD is reached, further legislation and probably state appropriations will be required.
- D. The legislative package "capped" the borrowing ability of the moral obligation agencies: Battery Park City, for example, was cut from \$700 million to \$285 million.
- E. Comment. Arthur Levitt is supremely happy and believes that he is finally being vindicated.

2. Agreement Reached on Governor Carey's 1976-77 Executive Budget

- A. Agreement has been reached by Anderson, Steingut and Carey on an involved package of changes in the proposed 1976-77 Executive Budget.



B. Briefly, the changes include:

New cuts in State purposes	\$114 million
New cuts in capital and debt service	44 million
New nontax revenue (increased balances, better collection, earlier seizure of abandoned property)	92 million
	<hr/>
TOTAL	\$250 million
Net increase in State aid (including \$116 for education)	\$175 million
New surplus	<hr/> 75 million
	\$250 million

- C. The net effect of this is apparently to restore for New York City up to \$51 million of Carey's \$55 million proposed 1975-76 cut, and up to \$115 million of his proposed \$139 million 1976-77 cut (these figures are subject to audit because there are new cuts in some other state aid such as drug addiction and City University).
- D. No adjustment was made in revenue estimates.
- E. Comment. The further cuts and estimated savings as well as expected added revenue may not all be genuine; it will be a miracle if they produce the full amounts needed to finance the restorations. For example, cutting \$114 million in State purposes and only cutting out 2700 jobs, half of which are reported vacant, just does not "add up."
- F. If everything moves according to present plans, final action on the budget should occur this week - well ahead of my March 29th date of last week.

3. Abe Beame Gets "tough" With City University

- A. Abe took the bull by the horns last week and put a ceiling on monthly City University expenditures in this year. Furthermore, he said the City would not support the 10 four-year "Senior" Colleges of City University after June 30, 1977.
- B. Apparently Abe realized that City University matters were getting out of hand and that a major part of his plan to close the "new" gap was in jeopardy.
- C. On a full year basis, turning over the Senior Colleges of City University would reportedly save the City \$140 million per year (this is not an "audited" figure and is subject to revision).
- D. Both authorizing state legislation and appropriations would be necessary to "give" City University to the State; it would not happen as a default just because the City gave it up.
- E. The State Board of Regents will strongly oppose combining City University with State University.
- F. State University Trustee probably will oppose two State Universities.
- G. In my opinion, one possible solution would be a City-State University, with tuition, State financed but operated on contract by the City.
- H. Comment. The changes, thus, appear good that City University will at last get tuition and that the University will go to the State.

4. New Plan to Close Added Gap of \$297 Million Delayed

- A. A complete plan to close the gap was not submitted to the Emergency Financial Control Board on March 12 as expected; a progress report was made.
- B. Another progress report was submitted to the Board on March 15th.



C. It will likely be another two weeks (around April 1) before final revisions are agreed upon. The reasons are real: (1) some tough major decisions have to be made, and (2) the City is, in effect, adopting a two-year budget.

D. Comment. Some of these cuts will raise good questions as to whether the City can and will "take" the lowered levels of service that will result.

5. Slow Progress Being Made on City Equalization and Assessment Problem with Dick Wiebe, Chairman of the State Board of Equalization and Assessment

A. The City finally is getting "on the ball" to provide Wiebe and his people with better information on property assessments.

B. Wiebe is not convinced that the City will be able to give him enough "good" information this week when they go to Albany to enable the Board really to help the City.

C. The City has reintroduced the rate-freeze legislation which it wanted last year but did not get.

6. Governor Carey Gives Rohatyn and Elish of MAC (Municipal Assistance Corporation) A Tax Structure Assignment

A. Carey has asked Rohatyn to make a thorough study of the City's tax structure to find out what changes could be made to help keep business and jobs in the City.

B. Major helpful proposals may come out of this project, but I would not "bank" on it.

7. Kinzel Pension Reform Program Draws Fire

A. At the March 15th public hearing on the Kinzel proposal, everyone but union representatives endorsed the plan - even Paul O. Dwyer.

- B. Even with the endorsement of the Times - and increasing public support, passage of the program does not seem likely in 1976.
  - C. Comment. Only with a well organized public "educational" program to force the Legislature and Governor to cut, could approval be expected in 1976.
8. In summary. Repaying the Federal loan by June 30, 1976, should not be a problem. The changes of the City reaching its goal of a balanced budget by July 1, 1978, without new State and/or Federal aid are about one in three or four.

THE PRESIDENT HAS SEEN....

Handwritten initials or signature, possibly 'MM' or 'AM', written in dark ink.

March 24, 1976 Report

on

New York City



SUMMARY

1. State gets "Endorsement" of financial plans from three Federal agencies.
2. Arthur Levitt's short term note sale is going well.
3. Restoration of New York City's State aid cuts in the executive budget may increase pressure for restoration of Federal cuts.
4. Progress slowed on HUD negotiations in connection with the moral obligation agency "Package".
5. Transit Authority union negotiations apparently making but little progress on wages -- the major issue.
6. Miscellaneous one-liners.

MARCH 24 NEW YORK CITY REPORT

1. State Gets "Endorsement" of Financial Plans From Three Federal Agencies

- A. In response to an inquiry from Senator Javits, three Federal agencies (Federal Reserve Board, Federal Deposit Insurance Corporation and the Comptroller of the Currency) gave a measure of endorsement to the short-term State notes that Arthur Levitt is now attempting to sell.
- B. Despite published reports, these endorsements were all something less than wildly enthusiastic "blessings", as follows:
- (1) Arthur Burns said "...assuming a successful completion of the total financing program, obligations of the State and (its) four agencies would have the characteristics of eligible investment securities" and would be acceptable for bank investments.
  - (2) Early, of FDIC, said no New York State issues are considered speculative or below investment grade.
  - (3) Smith, Comptroller of the Currency, said that no New York State obligations are considered to have "lower than investment-grade ratings".
- C. Comment: The net effect of these is to give Arthur Levitt a useful "endorsement", especially in his selling campaign with out-of-state banks.

2. Arthur Levitt's Short-Term Note Sale Is Going Well

- A. Arthur told me on March 23 that his note sale, both in state and out of state, was making "very good progress indeed".
- B. Despite newspaper stories to the contrary, the Bank of America did not "lay down conditions" such as a guarantee against a moratorium, a restatement of a prior claim on revenues, and an earmarking of taxes. Such questions were raised at lower echelons but as of now, Arthur anticipates that no action will be requested on any of these.



- C. Recently, prices of New York State securities and those of its agencies have improved significantly indicating new confidence in the State's financial ability and lower interest rates -- which means lower costs.
  - D. Comments: Slowly the State seems to be pulling itself up "by its own bootstraps". Arthur Levitt's three-man team (McChesney Martin, Eugene Black and Bill Morton) has been a major factor -- along with the efforts of many others. One unfavorable factor was Governor Carey's statement on March 23 that some of the budget cuts - which he agreed to - were "simply not feasible" and suggested that he might try for further restorations.
3. Restoration of New York City's State Aid Cuts In The Executive Budget May Increase Pressure For Restoration of Federal Cuts
- A. Governor Carey's budget, as finally passed by the Legislature, restored substantially all (at least \$175 million) of the \$199 million cuts for 1975-76 and 1976-77 which were proposed by the Governor.
  - B. With this "success", Abe Beame may renew his plea for restoration of what he claims is a 1976-77 cut in aid of \$163 million in the pending Federal Budget.
  - C. Comment: If there is any disagreement with Abe's figures, it would seem desirable for someone to meet with his staff to try to reconcile them and to point out, if possible, any compensating factors that may help the City avoid their alleged loss of income. Numerous City people will be in Washington during the week of March 29 for the Proxmire hearings.
4. Progress Slowed On HUD Negotiations In Connection With The Moral Obligation Agency "Package"
- A. Last week I reported that progress was being made with HUD to obtain mortgage insurance for between \$400 million and \$500 million of housing projects which would complete the \$2.6 billion Agency "Package".

- B. Temporarily, progress has stopped. Carey's people are confident that agreement finally will be reached. If and when any special assistance is needed, I shall bring it to your attention.
  - C. Comment: This delay surprises the Senate people in New York. They were of the opinion, based on reports from Carey's office, that an agreement had practically been reached with HUD.
5. Transit Authority Union Negotiations Apparently Making But Little Progress On Wages -- The Major Issue
- A. Negotiations continue between the Transit Authority and its unions; little, if any, progress is being made.
  - B. The Governor was asked to have a representative of the Emergency Financial Control Board present at the negotiations. The Governor declined, saying the Board would review the settlement after it was reached.
  - C. Kummerfeld, the City Budget Director, has notified the Authority that no City funds will be available to pay higher wages and that Federal subsidies for transit would be reduced by \$232 million over the next three years. Kummerfeld also pointed out that any negotiated transit wage increases would seriously affect the City's own wage freeze.
  - D. Goldmark, Carey's Budget Director, has notified Yunch that "there is no State money" for any wage increases.
  - E. Comment: The present law permits a deferred wage increase if negotiated with a union but it requires the approval of the Emergency Financial Control Board and cannot become effective before July 1, 1978. The Board may make stringent conditions a requirement: increased productivity and a "surplus" adequate to cover the cost, for example.



6. Miscellaneous One-Liners

- A. Abe Beame has vigorously protested Defense Department announced cutbacks of 1,300 jobs in the metropolitan area of New York and New Jersey.
- B. The Emergency Financial Control Board is scheduled on March 26 to consider a detailed and revised City financial plan to close the new \$297 million gap; a final approval is not likely before April 1.
- C. From 5,000 to 16,000 of the 47,000 children in publicly supported day care programs are expected to be dropped because the income eligibility threshold for a family of four is being dropped from \$12,600 to \$11,411.
- D. Abe Beame has appointed a committee to help the American Stock Exchange develop plans to expand in New York instead of moving to New Jersey.
- E. Based on my talks this week with Ellinghaus and Berger--as well as Beame, Zuccotti, Axelson, Kummerfeld, Schwartz, Wiebe and Kresky--I am slightly more optimistic about the City's ability to "make" its July 1, 1978 goal.

