

The original documents are located in Box C32, folder “Presidential Handwriting 11/26/1975” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

Does Your Legislation Constitute a Federal Bailout

Q. What do you mean by a bailout and does your legislation constitute a Federal bailout of New York City?

A. What I mean by a bailout is Federal financing which would allow the unsound fiscal practices that the City has engaged in over the past several years to continue. Further, a bailout means that those who should sacrifice because of past financial activities would not be required to do so. In short, the legislation that I am proposing is not a bailout because the American taxpayer will not finance the past and future deficits of New York City.

*Bailout - my team subsidy
continued
for fiscal irresponsibility.
My Plan -*

November 26, 1975

REAGAN BUDGET CUTS

Q. Governor Reagan has said he would cut the Federal budget by \$90 billion rather than the \$28 billion you have indicated you want cut. Do you feel there is more that could be cut from your proposals?

A. I realize that many people would like to cut Federal spending drastically. But we have to be careful in cutting the budget and in reducing taxes to do it in a manner which achieves what we are endeavoring to do -- to reduce the size of government and restore purchasing power to the American taxpayer.

Too large a cut, too soon, runs the risk of so distorting our economy that we will fail in meeting that objective. I believe that the \$28 billion cut in taxes and growth in spending is the first step of controlling the growth of government.

*Suggest he appear
before House & Senate Budget
Committees to explain his recommendations.*

THE WHITE HOUSE

WASHINGTON

November 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: New York City Materials

Two documents in draft form relating to the announcement of your position on New York City are attached. The first is the draft legislation, the New York City Seasonal Financing Act of 1975, prepared and cleared by the Departments of Justice and Treasury, OMB, and the White House Counsel's Office. The second is a Fact Sheet outlining your position, summarizing the proposed legislation, detailing the measures taken by New York officials, providing a section by section analysis of the legislation, and including some likely questions and answers.

Office of the White House Press Secretary

THE WHITE HOUSE
NEW YORK CITY'S FISCAL SITUATION

BACKGROUND

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

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

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

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

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

more

(OVER)

SUMMARY OF THE NEW YORK CITY SEASONAL FINANCING ACT OF 1975

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

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

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

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

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

ACTIONS BY NEW YORK CITY AND NEW YORK STATE

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

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

- a. The three-year Emergency Financial Control Board (EFCB) plan will produce a modest surplus in the City's expense budget by fiscal year 1977-78.
- b. The State Legislature has voted over \$200 million of additional City taxes which will be imposed by the EFCB.

- c. A portion of annual City contributions to the pension systems has been shifted to the employees by legislation. On an annual basis, the savings to the City would be \$85 million and the impact on the employees would be \$107 million per annum.
- d. The City has laid off about 22,000 employees since January 1 and increased taxes over \$300 million this past summer. Additional personnel reductions of over 40,000 employees are contemplated in fiscal years 1977-1978.
- e. A partial wage deferral was imposed this fall.
- f. The City has reduced its subsidy to the City University by \$32 million.
- g. The New York City transit fare has been increased from 35¢ to 50¢.

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

- a. Moratorium legislation has been enacted with respect to \$2.6 billion of City short-term notes.
- b. An exchange offer has been approved by the MAC Board for an exchange of 10-year 8% MAC bonds for the \$1.6 billion of City notes held by the public.
- c. The New York banks and pension systems have agreed to take 10-year 6% City securities as part of the moratorium in exchange for \$1 billion of City notes.
- d. The New York banks and pension systems have agreed to take 10-year 6% MAC bonds in exchange for \$1.7 billion of MAC bonds bearing higher interest rates and/or shorter maturities.
- e. New York City pension systems have agreed to purchase \$2.5 billion of new MAC and/or City securities over the next three years. This commitment is subject to appropriate trustee indemnification.
- f. MAC has provided about \$3.5 billion of financing to the City, of which \$1.5 billion is refinancing of short-term debt.

The City and State have implemented the following management changes:

- a. Creation of MAC and EFCB control mechanisms.
- b. Extensive management changes are being made in the City, including a new Deputy Mayor for Finance and a new Chief of Planning.

more

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

- a. The EFCB has passed a resolution directing the City to terminate the practice of using, for budgetary purposes, all income of the pension systems in excess of 4% per annum. In the year beginning July 1, 1976, this will result in approximately \$136 million per annum of additional income to the pension systems and a commensurate increase in the City's expenses. The EFCB has also directed the City management to take action and report back within 30 days with respect to termination of the practices resulting in the abuse of overtime in the last year of employment, thereby creating excessive pension burdens on the City.
- b. Governor Carey has directed Mr. Richard Shinn, President of the Metropolitan Life Insurance Company, to report to the EFCB by December 31 on the actuarial soundness of the City pension funds. The EFCB has directed the City to prepare and submit to the Control Board such legislative requests and other amendments as may be necessary as a result of the Shinn study to put the funds on a sound actuarial basis and to have those recommendations to the Control Board no later than January 31, 1976.

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

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

Current estimate of cash deficit 0

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

NEW YORK CITY SEASONAL CASH FLOW NEEDS

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

	Cumulative Needs ; (dollars in millions)		
	<u>FY 1975-76</u>	<u>FY 1976-77</u>	<u>FY 1977-78</u>
July	--	\$1100	\$1041
August	--	1462	1413
September	--	1197	1237
October	--	1585	1293
November	--	1614	1325
December	\$141	2063	1670
January	465	2062	1697
February	775	2017	1645
March	1275 peak	2120 peak	1994 peak
April	941	1528	1369
May	596	1103	996
June	0	0	0

*Bail
out*

*Bailed
themselves
out*

[11/26/75]

THE WHITE HOUSE
WASHINGTON

Jim -

Copies of the President's handwriting
given to Jim Shuman with the President's
Briefing Book for 11/26/75

Trudy