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THE PRESIDENT HAS SEEN

THE VICE PRESIDENT  
WASHINGTON

Agenda for the  
Meeting with the President

Thursday, September 30, 1976, 2:00 p.m.

1. Political
2. Air Transportation
3. Science and Technology
4. New York
  - a. September 20 report; TAB A
  - b. September 27 report; TAB B
    - The good news this week: The City's 1975 - 76 deficit is significantly below the estimated \$1,051 million;
    - The bad: Some City police in civilian clothes and on their off-duty time are picketing and harassing the Mayor, the Police Chief, and many citizens because of wage and work schedule problems. A police strike is a real possibility, but the odds favor a peaceful settlement, probably by the weekend.



## SUMMARY

1. Felix Rohatyn proposes Federal guarantee of Municipal Assistance Corporation Bonds.
2. State Housing Finance Agency (HFA) gets back into the market with public \$149 million bond sale.
3. The Municipal Assistance Corporation (MAC) repays State loan of \$250 million.
4. Federal Environmental Protection Agency (EPA) turns down City application to proceed with construction of two large sewage treatment plants.
5. Mayor Beame proposes 52 community districts within the City to replace the present 62 community districts.
6. City and Unions making progress toward finding productivity savings to finance a City Employee Cost-of-living salary adjustment.
7. City "White Paper" on Medicaid "scandal" in preparation.
8. Arbitrator recommends 4.5% wage increase for non-professional voluntary hospital workers.

## Summary of New York City Debt Situation

1. As of June 30, 1976, total City and MAC debt, including debt service for all bonds and all unfunded short-term debt, is estimated at \$18 billion.

2. New York City's debt service payments (including MAC) are scheduled to be high for the next few years, and then decline, as follows:

<u>Years</u>	<u>Billions of Dollars</u>
1976 - 77	\$2.5
1977 - 78	1.9
1978 - 79	2.7
1979 - 80	1.6
1980 - 81	1.2
Average 1981 - 82 through 1985 - 86	0.9
Average 1986 - 87 through 1990 - 91	0.3

3. The City's deficits, actual and estimated, are:

	<u>Amount</u>
Cumulative up to June 30, <u>1975</u>	\$3,000 million
Fiscal year 1975 - 76	968 million
Fiscal year 1976 - 77 (estimated)	686 million
Fiscal year 1977 - 78 (estimated)	0

4. Governor Carey has charged Felix Rohatyn of the Municipal Assistance Corporation with recommending ways to improve the City's economic condition. Rohatyn believes that one important way is to reduce the tax burden, which means lowering the heavy debt-service load during the next 4 years.

5. Specifically, Rohatyn proposes a Federal guarantee of MAC bonds which would enable MAC to refund present bonds with bonds of longer maturity and thus cut debt service for the next 4 years by \$200 million per year. This would ease the City's tax burden and help to spur the economy.

September 22\* Weekly Report on New York City

1. Felix Rohatyn Proposes Federal Guarantee of Municipal Assistance Corporation Bonds

- A. In a surprise move and speaking only for himself, Felix Rohatyn of MAC has proposed a Federal guarantee of MAC bonds; Governor Carey has subsequently endorsed this proposal.
- B. The proposal's real purpose is to stretch out the repayment schedule of present City and MAC bonds, at lower interest rates, in order to cut debt service costs for the City and thus enable it to speed its economic recovery.
- C. Rohatyn believes the heavy debt-service load during the next three to five years - together with other unavoidable expenditures - will do permanent harm to the City's economy; for that reason, he urges spreading out the load over a longer period.
- D. Rohatyn's proposal reflects the following combined City and MAC debt service expenditure projections (figures current as of June 30, 1976):

<u>Years</u>	<u>Billions of Dollars</u>
1976 - 77	\$2.5
1977 - 78	1.9
1978 - 79	2.7
1979 - 80	1.6
1980 - 81	1.2
Average 1981 - 82 through 1985 - 86	0.9
Average 1986 - 87 through 1990 - 91	0.3

- E. A Federal guarantee of City bonds was turned down by the Congress in 1975; Rohatyn's current proposal represents only a technical change, i.e., a Federal Guarantee of MAC bonds, in the proposal Congress had rejected.

\*There was no report on September 15, 1976.

F. Comment. Rohatyn's proposal does not really involve the abandonment of the City's three-year financial plan, but it would greatly ease the problem of achieving it. If Mayor Beame endorses Rohatyn's proposal, it might be considered carefully by former Governor Carter, who is working very closely with Mayor Beame and who has become quite supportive of the City's problem. But unless the Congress has materially changed its position, it is not likely that the Rohatyn proposal would be approved.

2. State Housing Finance Agency (HFA) Gets Back into the Market with Public \$149 Million Bond Sale

A. On September 16, the state HFA publicly sold \$149 million of State University Construction bonds at an average interest rate of 8.5%; the bonds were rated "A" by Moody's and "AA" by Standard and Poor's.

B. The demand for the bonds was so great that orders for more than \$100 million of additional bonds were turned down.

C. This is the first time that HFA has "gone to market" since August 1975.

D. Comment. HFA's return to the public market with this large volume of bonds selling at competitive rates is quite significant. (Actually, HFA itself was never in financial trouble; but it had been kept out of the market as a result of the crisis brought on by the problems of New York City and other agencies.)

3. The Municipal Assistance Corporation (MAC) Repays State Loan of \$250 Million

A. On September 14, the Municipal Assistance Corporation repaid to the State a \$250 million loan which had been obtained by MAC on behalf of New York City in the Fall of 1975.

B. This is the first of three \$250 million repayments to liquidate the total State loan of \$750 million.

- C. The second payment will be made by the State Comptroller's "deducting" the amount owed (a second increment of \$250 million) from regular State-aid payments to the City.
  - D. Comment. Despite some rumors to the contrary, there never was any real doubt about MAC's ability to meet its September 14 repayment. But State and City officials admit that detailed arrangements have not yet been worked out for the final November repayment.
4. Federal Environmental Protection Agency (EPA) Turns Down City Application to Proceed with Construction of Two Large Sewage Treatment Plants
- A. Lacking capital appropriations for sewage-plant construction, the City has asked EPA approval of plans under which bankers, through private sale of bonds, or the contractors, through the purchase of bonds, would provide part of the City's one-sixth share of the \$540 million total cost of the two projects - one in Brooklyn, and one on Staten Island.
  - B. EPA found legal bars to the City's proceeding in this manner and suggested an alternative -- the earmarking of necessary amounts of the Federal "pay back" monies on prior pure waters projects.
  - C. An initial review indicates that this may not be possible under present State law; an Attorney General's opinion is being requested.
  - D. Comment. If, in fact, State law does prohibit the use of Federal "pay back" funds, the City will be "stumped." But the City is determined to find a way, if at all possible, and is continuing its discussions with EPA and with Senator Buckley, who is a member of a subcommittee that is attempting to reconcile House-Senate differences concerning a bill making omnibus amendments to existing pure water legislation. Such a bill might conceivably provide relief for the City, but probably not before 1977.

5. Mayor Beame Proposes 52 Community Districts within the City to Replace the Present 62 Community Districts

- A. Under the revised City Charter, responsibility for "monitoring" important City services, including parks, welfare, highways, sewers, housing, health, sanitation, and police, is to be delegated to community boards throughout the City.
- B. The proposed 52 Community Boards will have a major responsibility for monitoring the providing of most "direct" City services except fire protection; the present 62 district boards, which have operated "on paper" for 8 years, have no real power.
- C. The Mayor's proposed 52-district layout will be the subject of public hearings, after which some changes presumably will be made before the district boundaries become final on January 1, 1977.
- D. Comment. The literal delegation of even "monitoring" authority to 52 district boards, each of which will have a district manager and a "cabinet" composed of senior departmental officers, could create problems for the Mayor at a time when tight control of City fiscal affairs will remain necessary in order to enable the City to reach its goal of solvency by July 1, 1978. This proposal could create another difficult challenge for the Mayor and his top staff.

6. City and Unions Making Progress Toward Finding Productivity Savings to Finance a City Employee Cost-of-Living Salary Adjustment

- A. In June 1976, the Emergency Financial Control Board determined that no City employee cost-of-living salary adjustments would be made during 1976-77 unless they could be financed from newly developed productivity savings.
- B. With the cooperation of employee unions, the City has identified savings from increased productivity which may well make possible an October adjustment for some City employees. The number involved has not yet been estimated.

- C. Comment. Granting a cost-of-living adjustment for any significant number of City employees would have a tremendously favorable impact upon morale. But the documentation and clear proof of the productivity savings which would have to result if the adjustment is to win Emergency Financial Control Board approval may be much more difficult to produce than is generally recognized.
- 7. City "White Paper" on Medicaid "Scandal" in Preparation
    - A. Despite apparent lack of activity on the part of the City in replying to Senator Moss's Medicaid disclosure, the Mayor's Office reports that a "White Paper" outlining the City's plans to deal with the subject is in preparation and will be available early in October.
- 8. Arbitrator Recommends 4.5% Wage Increase for Non-Professional Voluntary Hospital Workers
    - A. Margery Gootnick, arbitrator in the dispute between the voluntary hospitals and 40,000 workers represented by District 1199 of the National Union of Hospital and Health Care Employees, has recommended a 4.5% wage increase for the first six months of 1977.
    - B. Mrs. Gootnick's appointment settled an 11-day strike in July 1976, when both sides accepted compulsory arbitration.
    - C. Comment. The settlement is a reasonable solution to the problem. Neither side is really happy, but the decision is justified by the facts. Yet this wage increase may intensify pressure for similar wage increases in the City hospitals.



## SUMMARY

1. City police picketing reflects a basic problem that could become serious.
2. Progress being made on City's new Financial Management System.
3. City considering plan to cut police time required in court arraignments.
4. Felix Rohatyn's proposed Federal guarantee of Municipal Assistance Corporation Bonds apparently making slow progress.
5. City's 1975-76 deficit less than expected.
6. City's principal employee union keeps promise to accept pay and benefit cuts.
7. New examples of City problems indicate that the drive toward solvency "has only begun."

September 29 Weekly Report on New York City

1. City Police Picketing Reflects a Basic Problem that Could Become Serious

- A. Since September 24, off-duty policemen in civilian clothes have picketed many of the City's 73 station houses and other locations such as the homes of Mayor Beame and Police Chief Codd.
- B. Because the police are picketing on their own time, their action does not constitute a strike. But there have been numerous complaints about the noise and confusion the picketing has caused.
- C. The principal issues are that:
  - (1) The police protest the new work schedules which are to go into effect on October 3; these new schedules would require of each policemen 10 more days of work each year.
  - (2) The police insist upon City approval of an arbitration panel decision giving them 8% and 6% salary increases retroactive to July 1, 1974, and July 1, 1975, respectively. This decision has been upheld by the State Supreme Court and the Appellate Division. The City has taken the case to the Court of Appeals, which will hold a hearing on October 12.
- D. Comment. The City is adamant with respect to the new work schedules. But the Mayor has offered to grant a 6% increase effective September 1, 1975, plus the same cost-of-living adjustment received by other City employees, provided the union withdraw its court action. To date the union has not agreed. A police strike is possible, but not likely. There is about one chance in three that a settlement will be worked out before October 12.

2. Progress Being Made on City's New Financial Management System

- A. Mayor Beame and City Comptroller Goldin have announced the creation of a new "Integrated Financial Management System." It will operate through a new "Financial Information Services Agency" when it "opens up shop" January 1, 1977.

- B. Essentially the Agency will function as a central computer service unit for all of City government. Its Executive Director will report to a five-man Commission - two members appointed by the Mayor, two by the City Comptroller, and one by those four appointees.
  - C. The objectives of the new Agency are to (a) provide central financial control and thus permit prompt preparation of accurate and reliable City reports and statements, (b) eliminate duplicate and conflicting financial reports, and (c) provide information not previously made available.
  - D. Comment. Creation of the new Financial Information Services Agency will perform no miracles, but it does represent a basic step toward establishing -- for the first time -- centralized financial information and control. While this is not an end in itself, it is an important means of achieving an end, namely modern financial management, which the City, unlike most public and private businesses, has never had.
3. City Considering Plan to Cut Police Time Required in Court Arraignments
- A. Completely separate from the police picketing problem, the City is considering plans to cut down on the time required by police officers waiting in court for their "arrestees" to be arraigned.
  - B. A proposed "pre-arraignment" system would cut down on the waiting time, thus reducing overtime payments and also allowing police officers to return to their other duties. Savings of \$4 million per year have been estimated.
  - C. The courts insist that better police "management" would solve the problem. The City maintains that only a basic procedural change will "do the job."
  - D. Comment. The Mayor will probably prevail with his plan to reduce police officers' time in court. Net savings may exceed the estimated \$4 million if the courts cooperate.

4. Felix Rohatyn's Proposed Federal Guarantee of Municipal Assistance Corporation Bonds Apparently Making Slow Progress
  - A. Rohatyn's proposal for a Federal guarantee of MAC bonds with "stretched out" maturities does not seem to be making much progress.
  - B. While the impact of the stretch-out would cut the City's debt service expenditures during the next few years and thus ease the tax burden upon the economy generally, the reluctance of the Congress to consider such a guarantee in 1975 probably foreshadows the same position in 1976.
  - C. In a related development, Rohatyn has charged that Moody's was unfit to rate MAC's bonds. He based this charge on a letter sent by Moody's President Lockton to a City note-holder. This letter was highly critical of the Governor and the Legislature for enacting the 1975 moratorium bill. Lockton now claims that the letter does not precisely reflect his views, even though it was in fact quite blunt, calling the moratorium bill "one of the biggest fraudulent acts ever recorded."
  
5. City's 1975-76 Deficit Less than Expected
  - A. Now -- nearly three months following the end of the City's Fiscal year -- the City is estimating its 1975-76 deficit at less than \$1000 million,\* compared with an original City Financial Plan estimate of \$1,051 million. (Published reports of a total accumulated deficit of more than \$5 billion by the end of Fiscal 1976 apparently had included estimated amounts by which City-employee pension funds were allegedly under-funded.)
  - B. Comment. The City's achievement is remarkable. Although the figures are still subject to audit, it appears that the City's toughness, together with the constant needling by Arthur Levitt's man, Deputy State Comptroller Sidney Schwartz, has produced a minor miracle.

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\* The exact figure will be announced at 1 p.m., Thursday, September 30.

6. City's Principal Employee Union Keeps Promise to Accept Pay and Benefit Cuts

- A. In accordance with commitments made in June 1976, when the new City Budget was adopted, District Council 37 of the State, County, and Municipal Employees (Victor Gotbaum, Executive Director), has agreed to cuts in pay and employee benefits which will save the City \$15 million. The pay cuts are in entrance-level salaries for new appointees only.
- B. This saving will help to qualify Gotbaum's union members for cost-of-living adjustments. (The Emergency Financial Control Board has determined that no cost-of-living adjustments would be paid unless newly achieved savings were adequate to pay them.)
- C. The savings in benefits will result from such changes as shorter vacations, reduced premium pay rates, reduced welfare fund payments, longer summer hours, and increased payments for meals at City institutions. Savings in pay will result from a 10% cut in entrance-level salaries for new employees only.

7. New Examples of City Problems Indicate that the Drive toward Solvency "Has Only Begun"

- A. State Comptroller Arthur Levitt reported that hundreds of needy New York City students in the SEEK (Search for Education, Elevation, and Knowledge) program at the City University had received about \$1 million in overpayments through their failure to report fully their welfare grants.
- B. Even though housing construction in 1976 is expected to be 58% above that of 1975, it will still barely equal the housing-construction level of 1932, the depth of the Depression.
- C. The Under Secretary of Agriculture has prohibited the State from making any further payments for food or food services in connection with the Summer Children's Free Food program. This program was financed by the U.S. Department of Agriculture but administered by the State Education Department. There have been many charges of bad management, and an investigation is underway.